Institut sertifikovanih računovođa Crne Gore

Institut sertifikovanih računovođa Crne Gore
Institute of Certified Accountants of Montenegro
PIB: 02617927 **Bank account**: 550-7391-26 Podgorička banka

Dear,

Enclosed we send you our comments on the Consultation Paper from May 2011th.
We apologize because we send our answer with delay, given that the deadline was up to September 16, 2011.
The reason for our delay are difficulty in collecting data.
We hope that you will accept our comments.

We did our best to prepare some comments in connection with the paper in public discussion, and we will concentrate ourselves more, on our country's specific problems in the future.

Sincerely,
ICAM

Reasons for Information Risk

As society becomes more complex, there is an increased possibility that unreliable information reaching decision-makers will be conducted. There are several reasons for this: distance from information, the actual bias and motives that conduct the information, the volume of data and the existence of complex exchanged transactions.

Distance from the information. In modern world, it is practically impossible for a decision maker to know enough about the organization with which cooperates from the "first hand". The information obtained from others has to rely on this. Whenever you receive information from others, possibility for the information to be tendentious or non-tendentious is always increasing.

Created prejudices. If the information is obtained from someone whose main goals are no constant with decision makers, information can be with a bias in favor of a person who conducts it. The reason for this may be a valid optimism about future events or internal display designed to influence on users in a particular manner. In both cases, the result is false information. For example, in case of making decisions on the allocation of credits it is possible that the reports will have created bias in favor of one who seeks a loan in order to increase their opportunities to get it. Incorrect information may take the form of directly wrong amount of money or inadequate or incomplete presentation of information.

The volume of data. As organizations become larger, volume of exchanged transactions increases as well. This increasing implies an opportunity for information to enter the documentation inaccurately. For example, if the check was issued by large government agency in order to pay to suppliers, and the bill has entered books in the amount of €2000 or more, it is more than good chance that it will not be disclosed if the agency does not set a reasonably complex procedure to find these types of errors. If a large number of small errors remain undetected, the joint total can be significant.

The complexity of transactions exchanged. In recent decades, exchange of transactions between organizations has increased in its complexity and become more difficult for the proper recording in books. For instance, the correct accounting treatment of pension costs and obligations or the proper way of accounting for foreign operations is a relatively difficult problem. Proper coverage and determination of the results of operations of additional items in different industries or the calculation of lease obligations is another serious accounting problem management faces with.

Reduction of Information Risk

Small companies may find them easier to pay a higher price of the interests than to pay more in order to minimize the information risk. For larger companies, generally it is more practical to increase these prices. There are three basic ways to reduce the information risk:

The user verifies the information. The user visits the participants in the business in order to examine documents and obtain information on the reliability of statement. It is usually not practical because of the cost in time and money. In addition, it would be economically inconvenient for all users to verify the information individually. Some customers prepare their verifications, just in case. For example, they issue proforma invoices and, upon the payment, they issue invoice.

Users share information risk with the management. There is legal precedent which suggests that management is legally responsible for providing accurate information to users. If users rely on inaccurate financial report and as a result produce a financial loss, there is a strong basis for the trial to management.

Difficulties in sharing information risk with management reflect in the fact that users may not be able to collect the fee of their claims in case of loss. If a company is unable to pay the loan due to liquidation - bankruptcy, it is possible that management will not be able to pay users. Users carry out the assessment of possibility that they can lose by sharing various information with management.

Presentation of Audited Financial Reports. The manner of a company to obtain information on which it may rely upon is to have a performed audit by an independent auditor. Such audit information is then used in the decision making process with the assumption that it is reasonably made, accurately and without bias.

Whenever more than one person from those who make decisions use certain types of information, it is cheaper to have one person performing a service of auditing for all users than each user to evaluate the accuracy of the information individually. Considering that the financial reports of the Company have many users, demand for audit is understandable.

Typically, management hires an auditor to provide them with the assurance that financial report is reliable. If financial report is determined to be incorrect, the auditor may be sued by user and by the management that hired him/her. Users sue him/her on the grounds that the auditor had a professional responsibility to make sure that financial information is reliable. Users can also sue the management. Management sues the auditor as an agent who had the responsibility to show management that information was reliable. Auditors have, with no doubt, substantial legal liability for their work.

Activities of Audit Firm

These companies provide seven comprehensive types of services by categories: audit, review, compilations, special reports, tax services, providing advice to management and accounting and bookkeeping services, and they also perform assessment of capital value.

Audits. Audit of history of cost of financial reports is dominant type of services provided by great general (social) accounting firms. Within the audit of the financial report the other responsible party is the client who makes a variety of reliable steps with his financial reports. Auditor's report gives an opinion on whether these financial reports are in accordance with generally accepted accounting principle. External users of financial report consider the auditor as an indication of reliable evidence for their decision-making aimed at their needs.

Reviews. Many smaller companies want to submit financial report to various users, but do not want to claim a price that is claimed for the audit. This is due to reason for acquiring clients and practice. Review has far less security than the audit. The amount of work that accountants spend providing a service like this is less and therefore the price is less than the cost of review service.

Compilations. The compilation includes the preparation of financial reports by accountants according to documentation or information received by the client. The work performed is of much lower intensity than that used in the preparation of review, so the price is lower as well. Service of compilation does not provide the security.

Special Reports. Accountants may also prepare special reports for clients where the audit is being performed and issue opinions on financial information of another type of financial report or give consent to a contract or a legal regulation, or give an opinion where an accountant apply special procedure of audit of the financial information that is different from financial report. For instance, the auditor can give an opinion on the opening of the new wholesale with warehouse in Podgorica, considering the fact that renting of premises may depend on the sale and wholesaler can seek the opinion of the auditor.

Providing Tax Services. Audit firms provide services that enable their clients to operate with more efficiency. So, in addition to their work, many companies provide services of sale tax, tax planning, as well as other aspects related to taxation. These services are very widespread in countries with a developed tradition of the tax system. Nevertheless, some smaller firms neglect their basic service of audit over the service within the taxation field.

Management Services Advisor. Many audit firms provide certain services that enable their clients to operate effectively. This ranges from simple suggestions from those to improve the client's accounting system to those to help with marketing advice, installation of computer programs and other counseling services. Many large audit firms now have business units that are exclusive in managerial advisory practice.

Accounting and Bookkeeping Services. Some customers may have difficulties to prepare their accounting records. Many small audit firms spend much of their time doing this type of work. In recent years, almost all companies apply electronic data processing by providing services to clients.

The following elaboration gives concrete answers to questions from the proposed material, which has already been quoted as follows:

Questions:

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

Answers:

1. No information is, can or should be an end in itself, but the purpose of each is and must be as versatile, complete, reliable, timely, easier, more productive and fair meeting of any potential interested person with information content.

Segments of accounting information are as follows:
- Accounting information at the level of companies and other economic entities;
- An independent accounting review
- Quality management system of an independent accounting audit.

The aim of quality control of audit is informing on the reliability of the information presented in the audit reports and working papers.
The essence and purpose of the audit is to provide complete, truthful and as multilateral information.

Financial irregularities can cause bankruptcy and closure of companies (e.g. ENRON), and great financial loss for their shareholders, partners, creditors and employees.

The purpose of the audit is to strengthen the reliability of accounting information.

- Now the information is more spread because we have a stakeholders, but it is important that all those who are private property owners want to better protect the property.
- State, in the market economy, is doing everything to strengthen private property as the basis of the entire system.
- The ultimate goal is to have reliable accounting information and to be of use to anyone who is interested in.
- This is the time of IT culture and the Internet as mediums of information.

2. The essence of any information is to be real benefit for somebody as well as one to be really interested in its content.

- The first prerequisite is that somebody is interested in the information because otherwise even the best information is meaningless.
- The second precondition is that the information is reliable and to be transferred in a clear and understandable way as well as relationship between costs and benefit from it to be reasonable (cost benefit analysis).

The purpose of the audit is to strengthen the reliability of accounting information.
Therefore, everything that is worthy for informing, it is worthy for accounting information as well.
It is my duty to point out the essence of what's new and what has emerged from the need of making agreement between Enron and its auditor Arthur Andersen in order to recall the entire information and what is the role of the audit.

3. Who are and why they are potential users of accounting information? I think that should be covered by all users and that changes are necessary for audit of all types of entities:

- Managers and management of economic entities
- Existing and potential investors
- Existing and potential lenders
- Suppliers and other commercial creditors
- Employees of the Company
- Customers
- The Government and its agencies
- Local and General Public

The most comprehensive, most complete and reliable information, especially about the financial position and operating results of companies and other economic entities, in order to make operational and strategic management and all other relevant business decisions, as well as monitoring their implementation.

Owner(s) of economic entity was once directly interested in the contents of this information, and eventually its manager, while today potentially interested are also many others (stakeholders), i.e., the existing potential commercial, financial, investment and other business partners, as well as trade unions, employees, the authorities and so on., where the order of their listing is important.

Finally, in many minds there is always fictitious and false dilemma of whether the accounting is primary conducted to meet the needs of private business owners and their business partners, or because of state control, which essentially determines the role and status of the accounting audit.

A special feature of the accounting information of companies and other economic entities as well as to what it is intended.
The question is raised what is role of accounting information?
The role of accounting information is specific as it is a form of business intelligence that should be: comprehensive, timely, complete and reliable and true.
In order to be quality long-term (strategic) and current (tactical, operational), business decisions in companies and other economic entities must be based on reliable and timely data and information.

Questions:

4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor‘s report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor‘s report in the way outlined in Appendix 1 of this Consultation Paper?

5. If the paragraphs in the current standard auditor‘s report dealing with management and the auditor‘s responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

Answers:

4. We share the opinion that some of these options can be achieved within the existing model of financial reporting of entities and the actual scope of the audit of financial statements. However, other options for change are based on the need for supporting change(s) of the current model of financial reporting of entities and/or relevant laws or regulations.

5. Managerial responsibility for financial statements is reflected in the preparation and fair presentation of financial statements presented in accordance with International Financial Reporting Standards. The performance of such internal controls that management determines necessary to enable the preparation of financial statements that are free of material importance, are made due to fraud or error.

In terms of importance, auditors’ responsibility is presented in the statements and views to express an opinion on the presented and reviewed financial statements based on audit carried out. We carry out our audit in accordance with International Standards on Auditing and Assurance. Those standards require that we Comply with ethical codes and principles and that we plan and carry out the audit in a manner that allows us to obtain reasonable assurance whether the financial statements are free from false information of material importance

Financial statements audit involves conducting procedures and proceedings in order to obtain audit evidence on the amounts and disclosures in the financial statements. Selected practices and procedures are based on judgments of auditors, including assessment of the risks of faults of material importance of the financial statements, whether due to fraud or error. Within the purpose of the assessment of audit risk, the auditor considers internal control system and its functioning that is relevant to the preparation and fair presentation of financial statements in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of a legal entity. An audit also includes assessing the adequacy of applied accounting policies and assessment of the reasonableness of accounting assessments made by management, as well as evaluating the overall financial statements presentation.

Questions:

6. Respondents are asked for their reactions to the possibility that the standard auditor‘s report could include a statement about the auditor‘s responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor‘s responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

Answers:

6. We believe that it is necessary to obtain and include a statement of the auditor's responsibilities relating to other information in documents containing audited financial reports in the standard audit report. This is for reasons of security and safety, as well as for the interest of users where audit of financial reports is carried out. It has been suggested that this creates, when it comes to other information, the ambiguity for the reader regarding the auditor's responsibilities in connection with the information presented. On the other hand, it is noted that drawing attention to those, but not to other information of the auditor liability may potentially be confused about the significance and meaning of such information, or imply a greater degree of responsibility for other information in relation to a specified and emphasized information, which must be precisely defined in order to avoid ambiguity in the significance and meaning.

7. What form this statement should have? It is necessary to be prescribed and stated by the International Standards on Auditing. Is it sufficient for the auditor to describe the responsibilities of the auditor for other information in documents containing audited financial statements? The answer to this question is affirmative, but with pre-written statement about the importance of other information by an auditor who shall audit all financial reports. Do you require the existence of an explicit statement about whether the auditor has something to report in connection with other information? That is required by the state auditor's explicit statement on whether the auditor has something to report in connection with other information that is relevant to the implementation of procedures and proceedings of financial reports.

Questions:

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor‘s report on the financial statements.

9. Respondents are asked for their reactions to the example of use of ―justification of assessments ‖ in France, as a way to provide additional auditor commentary.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor‘s report.

Answers:

8. Within the purpose of the audit of financial statements, the auditor shall obtain or develop information about key areas of risk of false information of material importance in the financial statements, critical accounting assessments and management decisions, and choice of management and application of accounting policies. An expanded comment on topics such as these in the report of auditors on financial statements ensure greater transparency of the subject, its audited financial statements and conducted audit of financial statements.

9. In many of the presented area and other information, it could be difficult to separate the additional disclosure by the auditor in the context of the discovery of additional audit information on the subject. For instance, information about the auditor's views about critical accounting assessments do not necessarily correspond to the way the information was disclosed by management in its financial statements. This can lead to problems of disagreement in the interpretations and commentaries about the subject as previously described. We believe that we should join the French concepts and models that they apply to them not only statutory but also for other audits and inspections.
This current model of audit reporting was established in France several years ago and has evolved in the context of the law of the country that applies in the corporate reporting and auditing. The auditor is required to include a special part in the audit report on financial statements for the French statutory audit, so called "justification of assessments" where the auditor determines some key areas of financial statements and provides information on audit procedures and proceedings in these additional areas, that are important in the end to provide an adequate audit opinions and audit reports on financial reports.

10. Purpose of connecting views with the discussions on auditors' commentary, is certainly a phenomenon that requires the auditor to publish the insights and perceptions on the subject or the quality of its financial reporting based on the completed work in the aim of financial statements and real and fair presentation of the state of information specified in the report and the auditor's opinion. The auditor is not responsible; he/she should not take responsibility for disclosure on the subject to users of audited financial statements of the subject: it must be the responsibility of management and persons in charge of management and information. This is necessary not only for the existence of clarity about roles and responsibilities of leadership and person responsible for the management and information, as well as auditors, but also for effectiveness and independent audit function. As mentioned earlier, there is a great concern about the possible situations in which users are faced with the challenge of interpreting of revelation on the subject by management and the independent auditor.

Questions:

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

Answers:

11. It is necessary to strive for the kind of detailed reporting of auditors which is currently implemented only for the person in charge of managing of entity. However, since such reports provide details on the subject, audited financial statements and the audit process, it has been suggested that it would be useful to some of this information communicated to the public users of financial statements, as a manner to address gaps in information. Some believe that this kind of detailed reporting may be useful to persons responsible for managing while performing their duties of supervision, regardless of whether the jurisdiction may require reporting by persons in charge of management.

Although different models of corporate governance can be found in different jurisdictions, interactions between persons in charge of the management of entity and the auditor provides a strong foundation for further research to strengthening of corporate governance reporting.

12. An improved model of corporate governance reporting may provide a basis for further reporting to users of audited financial statements.

We agree with comments and opinions based on the presentation diagram 3 for reasons of increased supervision and the role Board of Audit in Corporate Governance would have. It builds on the existing two-way communication and dialogue between the Audit Committee for review (persons in charge of management) and the independent auditor. Under this enhanced model, the Audit Committee would provide users of financial statements with information on their control over the process of financial reporting and auditing. As mentioned above, detailed reporting on the scope of auditors and audit results can serve as a useful input to the report of the Audit Committee.

13. We believe that auditor's opinion on a report made by the persons in charge of management would be appropriate for the purpose of transparency and disclosure of financial reports. Adoption of the presented models will enhance the responsibility of the subject for full and proper disclosure to partners and other users as a matter of good corporate governance, without changing the fundamental role and importance of an independent auditor.

Questions:

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E. 15. What actions are necessary to influence further development of such assurance or related services?

Answers:

14. Regarding the need or potential value of insurance or related services and type of information, there are some examples include the following information on the subject:
• Engagement of Corporate Governance.
• The business model, including its sustainability.
• Company Risk Management.
• Review of nonfinancial information.
• Internal controls and financial reporting processes.
• Business Analysis.
• Key Performance Indicators.

Due to user's expectations to change the audit report, there was also discussion about the continued relevance of the current model of financial reporting, audit of financial statements and the role of independent auditors. It was suggested that the expectations gap and information gap remain, in the absence of the auditor or provided insurance, present in other matters that are considered valuable for the management of the subject as well as for external users of financial reports.

15. Activities necessary to be implemented in order to influence the further development of this type of insurance or other services are related to the proposals and views of the IAASB, which conducts a series of initiatives related to engagements with the assurance of non-financial statements as part of the current work program of standards setting. If answers to this consultation paper provide strong indications that the development of models of insurance dealing with the publication of this kind of information has a high priority among the partners of the IAASB, they will probably be included in the improvement of procedures and caring out the audit of financial reports, which would influence the quality of the reports.

Questions:

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III. 17. Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entity? If not, please explain how they may differ. 18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges and other implications in

each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

19. Are there other suggestions for change to auditor reporting to narrow the ―information gap‖ perceived by users or to improve the communicative value of the auditor‘s report?

Answers:

16. Regarding the problem of identifying the benefits, costs and other implications of potential changes or challenges that are believed to be associated with different options explored in Part III, the following observations about the roles, responsibilities and obligations are provided. It can be said that some options for change may have implications on the borders between the respective roles and responsibilities of leadership and persons in charge of management and auditors with respect to the financial reporting process.

Considering the conduct of the parties to perform the aforementioned roles and responsibilities, some options, for change, may influence the nature or extent of interaction between the various parties in the process of financial reporting. For example, additional comments on the auditor's critical accounting estimates in the financial statements of the entity may affect the degree of interaction between the auditor and those in charge of governance and management when it is considered and discussed how these estimates are presented in the financial statements. It can affect their behavior, either positively or negatively, and, in turn, potentially affect the quality of financial reporting and audit. We believe that the above mentioned has a very important role in the functioning of the system and the quality of financial reporting and audit of financial reports.

17. Considering the statements regarding whether the benefits, costs, potential challenges and other implications of the changes are same for all types of entities or not, we believe that they are similar and that there is no essential difference.

18. We believe that the views of respondents saying that one or other options should be reviewed with the aspect of cost-benefit analysis, without compromising quality auditor's reporting. Some have suggested that additional reporting of auditor, with no change in the current scope of audit, should not significantly increase costs. However, others believe that such additional coverage itself increases the costs. This made some people to suggest that if the auditor is unable to cover any increase in compensation costs, that can create pressure to reduce jobs in other areas, which could have a detrimental impact on the quality of audit of financial reports.

On the other hand, greater transparency on the completed control can not only improve the user's understanding of the audited financial statements, but also affect his/her perception of audit quality and value. For example, if users were informed on areas of audited financial statements that required making significant judgments of auditors, they would probably better understand the auditor's opinion on financial statements as a whole.

19. Regarding the change of the audit report in order to decrease the perceived gap in information by the user or improve communicative value of audit reports, there may be some alternative solutions depending on principles of corporate governance and the role of the Audit Committee, the Consultative Body for Management, Ethics principles and requirements, the Code of Corporate Governance, the role of General Meeting as well as the Commission for the Securities.

Forms of these solutions are presented in the following paper work:

a) Professional standards and investor protection
One of the key features of the auditing profession is acceptance of responsibility to the public. One way for audit firms to demonstrate accountability to the public is to establish a quality control system in accordance with standards adopted by the PCAOB (Public Company Accounting Oversight Board), including those relating to the independence, objectivity and integrity.

b) The company culture, values and code of professional conduct
We must point out that the culture of audit firms and measures of value are important elements of an effective functioning of the system of quality control. Professional high quality work is an important element in establishing adequate culture within the audit firm.
The effectiveness of the established culture of audit firms and measures of value would be meaningless without the proper establishment of communication with business partners, employees and all other entities associated with the audit firm.
Code of Professional Conduct of the audit firms is an important method of management of company's measures of value. Other methods of formal and informal governance, whether it concerns to external or internal for the company, are reinforced by the actual behavior, business strategies and decisions that affect professional strengthening of organizational culture and of the measures of value.

c) The power, authority, responsibility and management
It is also pointed out that the power, authority and responsibility vested in the auditing firm are the result of public trust given to the audit firm to fulfill its social role in relation to protection of integrity of financial reporting which is crucial for the functioning of capital market.
As the highest top of the hierarchy, management of the audit firm can clearly specify that the processes of company management and allocation of power, authority and responsibility in the company are based on recognizing the importance of high quality professional work, standards adopted by the Public Company Accounting Oversight Board, professional values and to protection of investors.

d) Compensation and rewards
There are good policies and procedures for evaluating and rewarding employees and partners that can ensure that the highest priority is caring out the audit of high quality and performing other related services in accordance with auditing standards adopted by the Public Company Accounting Oversight Board, professional valuation and investor protection.
The factors in audit firms, while considering the possibility of rewarding employees, include the demonstrated independence, objectivity and professional skepticism in the fulfillment of professional responsibilities, especially if it is related to the audit and its related services (engagement on review of financial statements, assurances, contractual procedures and compilations).
The auditing firm can carry out continuous positive activities on harmonization of policies and quality control procedures, through methods that include the assessment of partners and employees as well as remuneration and promotion policies. The company may also establish an adequate framework for non-disciplined requirements necessary to perform

quality audits through punitive measures for cases of non-compliance with the above mentioned policies and procedures for quality control.

e) Risk assessment and quality control
Continuing or periodic assessment of the potential risk of non-compliance with the standards adopted by the Public Company Accounting Oversight Board is of great importance. Analysis and action plan on manner of control of potential risk can be characteristic of any assessment.

f) Personnel Management
The audit firm must ensure to have quality personnel with competencies and professional characteristics necessary to perform engagements in accordance with PCAOB standards and appropriate regulatory and legal requirements. Employing only persons who possess adequate characteristics (that enable them to competently perform the engagement in accordance with the standards, professional values and the public interest) is of great importance.

g) Customer acceptance and cooperation
Control with the aim of client acceptance and continuation of previously established co-operation is of great importance for the quality control system of an audit firm.
Adequate policies and procedures that can ensure that audit firm carries out or continues with exclusively those business engagements with the client where:
• is no doubt on the lack of integrity of audit firm management,
• exists assessment that audit firm is competent to be hired and has adequate resources to perform the engagement.

h) The process of performing the engagement

Performance of the engagement process should be designed in accordance with standards adopted by the Public Company Accounting Oversight Board and adequate regulatory and legal requirements. Such a process requires action by the audit firm that enables the establishment of consistency in the level of quality performance of engagement, based on its employees.
Very often, the above stated is achieved after the creation of written or electronic manuals, software tools or other forms of standard documents. The audit firm must ensure that all team members during the engagement understand the real goal of work they perform, and that the overall activity they perform during the engagement will be subjected to re-control.

i) Consultations and review of the engagement quality
The special influence for an auditor's quality involvement depends on whether:
• an adequate consultation within the audit firm on the basis of issues was carried out,
• a significant part of human resources of audit firm is available to enable adequate consultation,
• the final conclusion of the consultation is adequately documented,
• the final conclusion of the consultation can be implemented.
The audit firm should also ensure that any audit or the engagement quality control (quality re-examination of engagement, as required in accordance with the adopted Sarbanes-Oxley Act of 2002.) is carried out in accordance with PCAOB standards.

j) Supervision and Internal Control
The audit firm must include process of monitoring and internal controls that ensure that the policies and procedures to establish a system of quality control are relevant, adequate, well reviewed, adjustable varying circumstances and operationally efficient.

k) An independent group to examine the possibility of increasing public confidence
This group was created by the IFAC (IFAC) in October 2002, with clearly defined objectives and activities:
- Identification and analysis of loss of public confidence,
- Possible actions that will contribute to increasing the level of trust,
- Producing a series of recommendations based on best practice in the field:
    - business and financial reporting,
    - corporate governance and
    - auditing practices.

- Based on reports from independent group, and in cooperation with the International Audit and Assurance Standards Board (IAASB), the IFAC published the International Standard of Quality Control 1 (ISQ1) -) in May 2003 - Quality control of audit practices, assurances and related services. At the same time the revised ISA 220 (International Standard on Auditing 220) was proposed - Quality control of audit engagements.
- Two standards have been established and implemented with intent to clearly separate levels of responsibility:
    - To define requirements for quality control at the level of firms (ISQC 1 - Quality control audit practices, assurances and related services) and
    - At the level of the individual audit engagement (ISIT 220 - engagement quality control review)

- Standard ISCQ clearly defines requirement that quality control system must provide reasonable assurance and confirmation that the work of audit firm is in accordance with:
    - Professional Standards
    - Law
    - Professional regulation
    - Code of Ethics for Professional Accountants

Quality control system includes the audit firm policies and procedures that directly address the following areas:
- Leadership and responsibility within the audit company
- Ethical requirements
- Acceptance of the engagement, continued business with clients and specific engagements
- Human Resources
- Performance of engagement
- Engagement Quality Control
- Supervision.