

Background Guidance on Quality Control by Insolvency Professionals

(...Continue from previous edition)

30. The continuing competence of the personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain and also enhance their knowledge and capabilities. The IP therefore emphasizes in its policies and procedures, the need for continuing training for all levels of personnel and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence. Where internal technical and training resources are unavailable, or for any other reason, the IP may use a suitably qualified external person for that purpose.
31. The performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In particular, the IP:
 - a. Makes personnel aware of the expectations regarding performance and ethical principles;
 - b. Provides personnel with evaluation of, and counselling on, performance, progress and career development; and
 - c. Helps personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the policies and procedures may result in disciplinary action.
32. The size and circumstances of the IP will influence the structure of the performance evaluation process. Smaller IPs, in particular, may employ less-formal methods of evaluating the performance of his personnel.
33. The technological solutions may range across facilities of Records of Default (ROD) from Information Utility (IU), Virtual Data Room (VDR), e-Voting, e-Auction, Insolvency case management, invitation/evaluation of resolution plans, audio/video recordings of meetings/proceedings, e-filing of petitions, data storage services, etc.
34. The size and circumstances of the IP will influence the degree of the adoption of technological solutions.

Assignment of Engagement Teams

35. **The IP should assign responsibility for each engagement to an engagement team. The IP should establish policies and procedures requiring that:**
 - a. **The identity and role of the engagement team are communicated to key members of the Corporate Debtor;**
 - b. **The engagement team has the appropriate capabilities, competence, authority and time to perform the role; and**
 - c. **The responsibilities of the engagement team are clearly defined and communicated to that team head.**
36. Policies and procedures include systems to monitor the workload and availability of IPs so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.
37. **The IP should also assign appropriate staff with the necessary capabilities, competence, and time to perform engagements in accordance with professional standards, best-practices, regulatory and legal requirements.**
38. The IP establishes procedures to assess its staff's capabilities and competence. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the followings:
 - a. An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
 - b. An understanding of professional standards, best practices, regulatory and legal requirements.

- c. Appropriate technical knowledge, including knowledge of relevant information technology.
- d. Knowledge of the relevant industries in which the clients operate.
- e. Ability to apply professional judgment.
- f. An understanding of the IP's quality control policies and procedures.

ENGAGEMENT PERFORMANCE

39. The IP should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards, best-practices, regulatory and legal requirements and as per the Code, Rules and Regulations in this regard.

- 40. Through its policies and procedures, the IP seeks to establish consistency in the quality of engagement performance. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. The matters addressed include the following:
 - a. How are engagement teams briefed on the engagement to obtain an understanding of the objectives of their work?
 - b. Processes for complying with applicable engagement standards.
 - c. Processes of engagement supervision, staff training and coaching.
 - d. Methods of reviewing the work performed, the significant judgments made.
 - e. Appropriate documentation of the work performed and of the timing and extent of the review.
 - f. Processes to keep all policies and procedures updated.
- 41. It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

- 42. Supervision includes the following:
 - a. Tracking the progress of the engagement.
 - b. Considering the capabilities and competence of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement.
 - c. Addressing significant issues arising during the engagement, considering their significance, and appropriately modifying the planned approach appropriately.
 - d. Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- 43. Responsibilities for review are determined on the basis that more experienced engagement team members, including the IP concerned, review work performed by less experienced team members. Reviewers consider whether:
 - a. The work has been performed in accordance with professional standards, best practices, regulatory and legal requirements;
 - b. Significant matters have been raised for further consideration;
 - c. Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - d. There is a need to revise the nature, timing and extent of work performed,
 - e. The work performed supports the conclusions reached and is appropriately documented,
 - f. The evidence obtained is sufficient and appropriate to support the action taken; and
 - g. The objectives of the engagement procedures have been achieved.

Consultation

44. The IP should establish policies and procedures designed to provide it with reasonable assurance that:

- a. **Appropriate consultation takes place on difficult or contentious matters;**
 - b. **Sufficient resources are available to enable appropriate consultation to take place;**
 - c. **The nature and scope of such consultations are documented; and**
 - d. **Conclusions resulting from consultations are documented and implemented.**
45. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the IP's team who have specialized expertise, to resolve a difficult or contentious matter.
46. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the IP. Consultation helps to promote quality and improves the application of professional judgment. The IP seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.
47. Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations.
48. An IP needing to consult externally, for example, an IP without appropriate internal resources, may take advantage of advisory services provided by (a) other IP, or (b) or consultants (c) professional and regulatory bodies. Before contracting for such services, the IP considers whether the external provider is suitably qualified for that purpose.
49. The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of:

- a. The issue on which consultation was sought; and
- b. The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Differences of Opinion

50. **The IP should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the IP and the engagement quality control reviewer. Conclusions reached should be documented and implemented.**
51. Such procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
52. An IP using a suitably qualified external person(s) to conduct an engagement quality control review recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example, by consulting with another practitioner or IP, or a professional or regulatory body

Engagement Quality Control Review

53. **The IP should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached. Such policies and procedures should:**
- a. **Set out criteria against which all engagements should be evaluated to determine whether an engagement quality control review should be performed; and**
 - b. **Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (a).**
54. **The IP's policies and procedures should require the completion of the engagement quality control review before the report is issued.**

55. **The peer-review mechanism is to be considered for adoption, wherever provided by IBBI and/or IPA.**
56. The IP should establish policies and procedures setting out:
- The nature, timing and extent of an engagement quality control review;
 - Criteria for the eligibility of engagement quality control reviewers; and
 - Documentation requirements for an engagement quality control review.

Nature, Timing and Extent of the Engagement Quality Control Review

57. An engagement quality control review ordinarily involves discussion with the IP personnel, a review of the decisions taken and, in particular, consideration of whether the decision taken is appropriate. It also involves a review of selected working papers relating to the significant judgments that the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the decision taken might not be appropriate in the circumstances. The review does not reduce the responsibilities of the IP concerned.
58. An engagement quality control review includes considering the followings:
- Evaluation of the IP's and its team's independence in relation to the specific engagement.
 - Significant risks identified during the engagement and the responses to those risks.
 - Judgments made, particularly with respect to materiality and significant risks.
 - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
 - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

- Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
 - The appropriateness of the decision taken/ conclusions arrived.
59. The engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before a decision is taken.
60. Where the engagement quality control reviewer makes recommendations that the concerned IP does not accept, and the matter is not resolved to the reviewer's satisfaction, the decision should not be taken until the matter is resolved by following the IP's procedures for dealing with differences of opinion.

Criteria for the Eligibility of Engagement of Quality Control Reviewers

61. **The IP's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:**
- The technical qualifications required to perform the role, including the necessary experience and authority; and**
 - The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.**
62. The IP's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise, experience, and authority necessary to perform the role. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement.
63. The IP's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:
- Is not selected by the IP;

- b. Does not otherwise participate in the engagement during the period of review;
 - c. Does not make decisions for the engagement team; and
 - d. Is not subject to other considerations that would threaten the reviewer's objectivity.
64. The concerned IP may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, however, care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the IP or a suitably qualified external person is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The IP's policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.
65. Suitably qualified external persons may be contracted where sole practitioners or small IPs identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small IPs may wish to use other IPs to facilitate engagement quality control reviews. The peer-review mechanism is to be considered for adoption, wherever provided by IBBI and/or IPA. Where the IP contracts suitably qualified external persons, the IP follows the requirements and guidance in *paragraph 47*.

Documentation of the Engagement Quality Control Review

66. **Policies and procedures on documentation of the engagement quality control review should require that:**
- a. **The procedures required by the IP's policies on engagement quality control review have been performed;**
 - b. **The engagement quality control review has been completed before the report is issued; and**

- c. **The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.**

Engagement Documentation

Completion of the Assembly of Final Engagement Files

67. **The IP should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.**
68. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement should be completed. Where no such time limits are prescribed in law or regulation, the IP establishes time limits appropriate to the nature of the engagements that reflect the need to complete the assembly of final engagement files on a timely basis.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

69. **The IP should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.**
70. Relevant ethical requirements establish an obligation for the IP's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the IP's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.
71. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the IP's knowledge, or if it could be permanently lost or damaged. Accordingly, the IP designs and implements appropriate controls for engagement documentation to:

- a. Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - b. Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;
 - c. Prevent unauthorized changes to the engagement documentation; and
 - d. Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.
72. Controls that the IP may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example:
- a. The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.
 - b. Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
 - c. Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during engagement, and collating it at the end of engagement.
 - d. Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.
73. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the IP implements appropriate procedures requiring engagement teams to:
- a. Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
 - b. Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and
 - c. Enable the scanned copies to be retrieved and printed as necessary.
74. The IP considers whether to retain original paper documentation that has been scanned for legal, regulatory, or other reasons.
- Retention of Engagement Documentation***
75. **The IP should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the IP or as required by law or regulation.**
76. The needs of the IP for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the IP's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In general, the retention period is eight years for digital records and three years for physical records in the context of insolvency assignment/engagement.
77. An IP must ensure that he maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his decisions and actions.
78. Procedures that the IP adopts for retention of engagement documentation include those that:
- a. Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time.

- b. Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed.
- c. Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Ownership of Engagement Documentation

79. Unless otherwise specified by law or regulation, engagement documentation is the property of the IP. The IP may, at its discretion, make portions of, or extracts from, engagement documentation available to stakeholders, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the IP or its personnel.

MONITORING

80. **The IP should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the IP's system of quality control, including a periodic inspection of a selection of completed engagements.**

81. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- a. Adherence to professional standards, best-practices, regulatory and legal requirements;
 - b. Whether the quality control system has been appropriately designed and effectively implemented; and
 - c. Whether the IP's quality control policies and procedures have been appropriately applied, so that reports that are issued by the IP concerned are appropriate in the circumstances.
82. The IP entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the IP to assume that responsibility. Monitoring of the IP's system of quality control is performed by

competent individuals and covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.

83. Ongoing consideration and evaluation of the system of quality control includes matters such as the followings:

- a. Analysis of:
 - i. New developments in professional standards, best-practices, regulatory and legal requirements, and how they are reflected in the IP's policies and procedures where appropriate;
 - ii. Written confirmation of compliance with policies and procedures on independence;
 - iii. Continuing professional development, including training; and
 - iv. Decisions related to acceptance and continuance of client relationships and specific engagements.

- b. Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the IP's policies and procedures relating to education and training.
- c. Communication to appropriate personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
- d. Follow-up by appropriate personnel so that necessary modifications are promptly made to the quality control policies and procedures.

84. The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, including the followings:

- a. The size of the corporate debtor.
- b. The number and geographical location of offices.
- c. The results of previous monitoring procedures.

- d. The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).
 - e. The nature and complexity of the IP's practice and organization.
 - f. The risks associated with the IP's clients and specific engagements.
85. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. Those inspecting the engagements are not involved in performing the engagement or the engagement quality control review. In determining the scope of the inspections, the IP may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the IP's own internal monitoring program.
86. Small IPs and sole practitioners may wish to use a suitably qualified external person or another IP to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.
87. **The IP should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either:**
- a. **Instances that do not necessarily indicate that the IP's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards, best-practices, regulatory and legal requirements, and that conclusions arrived are appropriate in the circumstances; or**
 - b. **Systemic, repetitive or other significant deficiencies that require prompt corrective action.**
88. **The IP should communicate to relevant team members and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.**
89. **The IP's evaluation of each type of deficiency should result in recommendations for one or more of the followings:**
- a. **Taking appropriate remedial action in relation to an individual engagement or member of personnel;**
 - b. **The communication of the findings to those responsible for training and professional development;**
 - c. **Changes to the quality control policies and procedures; and**
 - d. **Disciplinary action against those who fail to comply with the policies and procedures of the IP, especially those who do so repeatedly.**
90. **Where the results of the monitoring procedures indicate that conclusion arrived may be inappropriate or that procedures were omitted during the performance of the engagement, the IP should determine what further action is appropriate to comply with relevant professional standards, best-practices, regulatory and legal requirements. It should also consider obtaining legal advice.**
91. **At least annually, the IP should communicate the results of the monitoring of its quality control system to its team. Such communication should enable the IP and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated should include the followings:**
- a. **A description of the monitoring procedures performed.**
 - b. **The conclusions drawn from the monitoring procedures.**
 - c. **Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.**

92. The reporting of identified deficiencies to individuals other than the relevant team members ordinarily does not include an identification of the specific engagements concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the relevant team members.

Complaints and Allegations

93. **The IP should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:**

- a. **Complaints and allegations that the work performed by the IP fails to comply with professional standards, best-practices, regulatory and legal requirements; and**
- b. **Allegations of non-compliance with the IP's system of quality control.**

94. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the IP organisation. They may be made by personnel or external stakeholders. They may be received by engagement team members or other IP personnel.

95. As part of this process, the IP establishes clearly defined channels for personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.

96. The IP investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the IP's organisation but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small IPs and sole practitioners may use the services of a suitably qualified external person or another IP to

carry out the investigation. Complaints, allegations and the responses to them are documented.

97. Where the results of the investigations indicate deficiencies in the design or operation of the IP's quality control policies and procedures, or non-compliance with the IP's system of quality control by an individual or individuals, the IP takes appropriate action as discussed in *paragraph 51*.

Documentation

98. **The IP should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.**

99. How such matters are documented is the IP's decision. For example, large IPs may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller IPs may use more simpler and informal methods such as manual notes, checklists, and forms.

100. Factors to be considered when determining the form and content of documentation evidencing the operation of each of the elements of the system of quality control include the followings:

- a. The size of the IP and the number of offices.
- b. The degree of authority both personnel and offices have.
- c. The nature and complexity of the IP's practice and organization.

101. The IP retains this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the IP's compliance with its system of quality control, or for a longer period if required by law or regulation.

(The End)