Quality Control (ISQC 1)[1] – Quality Management – Issues and Working Group Views

Objective of the IAASB discussion

The objective of this Agenda Item is to obtain the IAASB's input on the Quality Management Approach Working Group's (QMAWG) proposals in relation to the structure and scalability of ISQC 1 as a result of incorporating a quality management approach (QMA). The input from the IAASB on these matters will assist the QMAWG in further exploring the revision of ISQC 1.

Introduction

1. The IAASB's Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, highlighted that one of the key challenges of ISQC 1 is addressing the diverse needs of a broad range of stakeholders, i.e., the need to improve the robustness of the requirements in relation to firms performing audits of listed entities, or entities of public interest, but at the same time addressing the concerns of small-and-medium sized practitioners (SMPs) in relation to the relevance of ISQC 1.

2. Accordingly, in the ITC it was proposed that a new approach, referred to as a QMA, could be developed, to accommodate improvements to the robustness of the standard, while at the same time it would provide the necessary flexibility to facilitate the application of ISQC 1 by firms of all sizes and who perform a variety of engagements, including to a wide range of entities.

Overview of Feedback from Respondents

3. Respondents to the ITC generally supported the IAASB moving forward and continuing to explore the development of a QMA and incorporating it into a revised ISQC 1. However, the IAASB was cautioned that the development of a QMA and incorporating it into ISQC 1 would need to be subject to further consideration by stakeholders given that the ITC had only provided limited information for respondents about the proposed approach.

4. Respondents generally agreed with the IAASB's view that a QMA would likely enhance the scalability of ISQC 1, however indicated that guidance and examples would be necessary to support the implementation of the QMA to demonstrate scalability. In addition, the IAASB was cautioned that revisions to ISQC 1 to incorporate a QMA should not simply result in add-ons to the existing requirements that may result in compliance with the standard becoming more onerous. There were also concerns from regulators and audit oversight authorities that a QMA should not diminish the robustness of extant ISQC 1.

5. A more detailed summary of the feedback from respondents has been included in Appendix A.

[1] International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

Matters Addressed in this Agenda Item

6. This Agenda Item explains the QMAWG's proposals to integrate a QMA within ISQC 1 and is particularly focused on the structure of ISQC 1 and how the scalability principles of a QMA could be encapsulated in the standard, while maintaining the robustness of ISQC 1. The QMAWG has not extensively explored how the proposed requirements and application material in ISQC 1 could be articulated; once these have been further developed, the QMAWG will consider the most appropriate way to present these. For example, it may be determined that a single standard for all firms is appropriate, or that separate standards may be more suitable where the requirements and application material are unique to certain types of firms or include requirements in respect of discrete matters (e.g., a separate standard for engagement quality control (EQC) reviews).[2]

7. The QMAWG notes that there are discrete topics that form part of a firm's quality management which are being explored by the QMAWG and the Quality Control Other Working Group (QCOWG) simultaneously with the QMA, but these topics do not form part of this Agenda Item. These topics include governance and leadership, monitoring and remediation, EQC reviews, transparency reporting, engagement partner performance and rewards, and engagement partner competency and human resources. **Agenda Item 7–A** includes the QCOWG's recommendations in relation to engagement quality control reviews, which would form part of the firm's quality management. In developing their recommendations, the QCOWG took into consideration the deliberations of the QMAWG, in particular as they relate to the section "applying the QMP" discussed in paragraphs 15 and 49–53 of this Agenda Item.

8. The QMAWG recognizes that there are different interpretations of the meaning of the terminology "scalability" and "proportionality." For the purposes of this paper, the term "scalability" has been used to represent both scalability and proportionality, and therefore scalability means:

   - Whether or not the requirement applies to the firm based on its circumstances; and
   - If the requirement applies, the extent to which the requirement can be applied in a manner commensurate with the size and complexity of the firm.

Working Group Recommendations

9. In integrating a QMA within ISQC 1, there are several issues that need to be considered. These issues are interconnected, for example, the key concepts of a QMA determine how the structure of ISQC 1 could be revised. The following sets out the key issues discussed in this Agenda Item:

   (a) *Key concepts:* This section explores the components of quality management and explains how they interrelate. These components would be applicable to all firms and would need to exist in order to achieve effective quality management. The components set the foundation for the revisions to ISQC 1 as these would, in essence, form the new sections within the structure of ISQC 1.

   (b) *Revised structure of ISQC 1:* This section establishes a proposed structure of ISQC 1, taking into account the components of quality management. In addition, it explains how the existing elements of ISQC 1 would be transposed within this revised structure.

[2] For example, introducing three standards as proposed in paragraphs 66 – 91 of Agenda Item 5–A of the September 2016 IAASB meeting.

(c) *Maintaining the robustness of the requirements:* This section explains how the robustness of ISQC 1 would be maintained in transposing the existing requirements of ISQC 1 into a QMA, and how any new requirements would be developed in such a manner that they ensure consistent and proper application.

(d) *Introducing Scalability:* This section explains how the requirements and application material of ISQC 1 could be developed and articulated in such a way that they are scalable.

(e) *Quality management process specific considerations:* This section explains the attributes of the requirements that could be established in respect of the steps within a QMA, which is helpful in considering the robustness and scalability of the standard and envisaging how a QMA would actually be incorporated in ISQC 1.

(f) *Information, communication and documentation:* This section sets out the initial thinking of the QMAWG regarding the concepts of information, communication and documentation.

Key Concepts

10. The QMAWG considered the key concepts of quality management, taking into consideration the existing elements of ISQC 1 and the proposals in the ITC. In particular, the QMAWG considered how the key concepts of quality management could be translated into components that are interconnected within the overall structure of quality management.

11. The components identified by the QMAWG, which are explained below, would be relevant to all firms and would need to exist in order to achieve the overall objective of ISQC 1. The interconnection of these components within the overall structure of quality management is depicted in the diagram. These components are also further explored throughout this Agenda Item.

(a) *Governance and leadership*: requirements and application material relating to firm leadership exist in extant ISQC 1.[3] However as proposed in the ITC, this element of ISQC 1 requires further enhancement, in particular the incorporation of principles relating to governance, including emphasizing the importance of building a firm culture that embraces quality.

(b) *Organization, culture and strategy that foster quality*: the QMAWG is of the view that organizing the firm and embedding a culture and strategy that fosters quality, as a sub-component of governance and leadership, is critical to effective quality management. This will need to be addressed in ISQC1.

(c) *Information, communication and documentation*: communication and documentation are also currently addressed in ISQC 1, but require enhancement to combine and modernize the requirements, as well as introduce aspects relating to the generation and use of information, that supports the functioning of the firm's quality management. This component is essential to all aspects of quality management.

(d) *The process of managing quality*: this process encompasses the ongoing activities that support a risk-based approach to managing quality in the context of the overall quality objectives. The activities within this process include determining quality objectives, performing an assessment of the risks to quality (referred to as "perform quality risk assessment"), designing and implementing responses to quality risks and monitoring and remediation.

12. In identifying the components, the QMAWG agreed that:

(a) Certain components, such as 'governance and leadership' and 'information, communication and documentation' are foundational components which need to exist in all firms to ensure an effective operation of the quality management process.

(b) Using the term "quality management process" (QMP) throughout ISQC 1 better reflects that determining the quality objectives, performing the quality risk assessment, designing and implementing responses to the quality risks, and monitoring and remediation ('activities within QMP') is a process.

(c) Using the term "quality management" throughout ISQC 1 as an umbrella term to encompass all components that would be addressed in ISQC 1 (including the QMP, governance and leadership and information, communication and documentation) would clearly differentiate all components of quality management from the QMP.

13. Some of the components described above have been amended from how they were articulated and depicted in the ITC, as a result of feedback from respondents and arising from the further consideration by the QMAWG. In particular:

(a) Information, communication and documentation were previously depicted as part of the QMP, but given that they are essential to all aspects of quality management, they have been relocated to an inner circle to reflect it as a foundational element.

(b) Governance and leadership was previously articulated as "leadership responsibility and accountability," but was revised to provide an increased focus on governance.

[3] Paragraphs 18–19 of ISQC 1 address leadership responsibilities for quality within the firm

(c) The activities "design and implement responses to quality risks" and "implement quality control activities" are not always discrete components and accordingly have been condensed into a single activity, "design and implement responses to quality risks."

Revised Structure of ISQC 1

14. The QMAWG considered how ISQC 1 could be structured in a logical way that supports the scalable application of the standard, as well as how the existing requirements of ISQC 1 could be articulated within the revised structure of ISQC 1 (Appendix B provides an overview of the mapping of the extant requirements to the revised structure).

Including the Existing Elements of ISQC 1 in the Components of Quality Management

15. The QMAWG discussed the elements "relevant ethical requirements", "acceptance and continuance of client relationships and specific engagements" and "engagement performance," in particular whether, or how, these would be included in the new components of quality management. The QMAWG agreed that these elements should be retained and represented through the application of the QMP, for example, the firm would apply the QMP to "engagement performance." Accordingly, a new section would be introduced, "Applying the Quality Management Process," that would include these elements and would demonstrate how the QMP would apply to each of the elements. The section would require firms to establish minimum quality objectives in relation to each element, as well as minimum responses to quality risks for each of these elements, which would be based on the existing requirements of ISQC 1. This is further explained in paragraphs 49–53 and an example of an element and how this would be rearticulated in the revisions to ISQC 1 is illustrated in Appendix C.

16. The QMAWG also debated how resources, including human resources and other necessary resources such as technology and methodology, could be incorporated into the components of quality management. The QMAWG was of the view that resources are necessary to support the firm's quality management and therefore are foundational, however, resources are also one of the elements to which the QMP should be applied (e.g., the firm may need to establish quality objectives related to having sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements).[4] The QMAWG therefore agreed that, as the requirements are further developed, the QMAWG would give further consideration to the most effective way to integrate resources, potentially as both a foundational component (e.g., as part of 'organization, culture and strategy'), but also as an element in applying the QMP.

Sections of Revised ISQC 1

17. The QMAWG determined that the most appropriate way to structure ISQC 1 would be to follow the manner in which the components and corresponding activities have been organized in the quality management diagram, and include the new section described in paragraph 15 that deals with the application of the QMP to certain elements of ISQC 1. The sections would therefore be set out as follows:

(a) Governance and leadership, including organization, culture and strategy that foster quality.

[4] Consideration to broadening the considerations about resources in an audit engagement to include all relevant resources is also being considered in revising ISA 220, *Quality Control for an Audit of Financial Statements* (see Agenda Item 8-A)

(b) Communication, information and documentation.

(c) QMP:

(i) Determine quality objectives;

(ii) Perform quality risk assessment;

(iii) Design and implement responses to quality risks; and

(iv) Monitor and remediate.

(d) Applying the QMP:

(i) Law, regulation and relevant ethical requirements

(ii) Acceptance and continuance of client relationships and specific engagements;

(iii) Resources; and

(iv) Engagement performance.

18. The introductory section of ISQC 1 would also briefly explain the components and activities of quality management, in order to assist firms in understanding the purpose of quality management and the layout of ISQC 1.

19. Placing the components of "governance and leadership" and "communication, information and documentation" early in the standard would clearly signpost these as foundational components to an effective quality management system.

20. Furthermore, in order to incorporate a QMP into ISQC 1, it would be necessary to establish requirements for each of the activities within the QMP. This is further explored in paragraphs 32–48.

Objective of ISQC 1

21. The QMAWG deliberated whether the overall objective in paragraph 11 of ISQC 1 would remain appropriate in light of the introduction of the concept of 'quality management' explicitly into the standard. The QMAWG agreed that as ISQC 1 is revised, consideration will need to be given to the objective, particularly in respect of any new terminology. However, at this stage, the QMAWG is of the view that the objective remains an appropriate basis from which to revise and develop requirements as relevant.

Matters for IAASB Consideration

In the context of the key concepts and revised structure of ISQC 1:

1. Does the IAASB agree with the proposals of the QMAWG, in particular:

(a) The components of quality management, as depicted in the diagram and explained in paragraph 11, including where they are located within the context of quality management?

(b) Whether the components of "governance and leadership" and "information, communication and documentation" are foundational to the QMP?

(c) The use of the terms "quality management process" and "quality management" to clearly differentiate all components, including foundational components, from those that are activities within the QMP?

2.	Does the IAASB agree with the proposals of the QMAWG as they relate to the revised structure of ISQC 1 set out in Appendix B, including how the existing requirements of ISQC 1 have been articulated within the revised structure?

Maintaining the Robustness of the Requirements

22. Members of the MG, and other regulators, expressed concern regarding how a QMA would be introduced while maintaining the robustness of the standard. Stakeholders across other groups were also apprehensive about the QMA, as they perceived that a QMA could merely be an add-on to the existing requirements.

23. The QMAWG is of the view that more explicitly incorporating quality management into ISQC 1, including the QMP, will in itself improve the robustness of firm's quality management because the firm would be required to be responsive to the specific quality objectives and quality risks in relation to the firm.

24. The QMAWG recognizes that the robustness is dependent on the firm properly applying the QMP and agrees with the views of respondents that there needs to be a common understanding of the QMP in order for it to be applied effectively. Furthermore, in noting the concerns of respondents, the QMAWG agreed that the standard would also need to address the risk of an error or omission at the risk assessment stage.

25. In order to address the concerns regarding the robustness of the standard, the QMAWG proposes the following:

    (a) Requirements would be introduced for the firm to: determine quality objectives; perform an assessment of the risks to quality; design and implement responses to those quality risks; monitor the effectiveness of the firm's quality management, and determine the necessary remedial action. These requirements would be supported by extensive application material to clearly explain the requirements and demonstrate their application (refer paragraphs 32–46 for a further understanding of these requirements).

    (b) A new requirement would be introduced addressing the firm's reevaluation of the quality management (i.e., including the foundational components), with the intention of promoting a proactive and responsive approach to quality management and a reevaluation of the firm's quality objectives and quality risks (refer paragraphs 47–48).

    (c) As explained in paragraphs 15 and 49–53, the existing requirements within certain of the elements of ISQC 1 (see paragraph 16 of ISQC 1) would be converted into quality objectives and responses that would apply to all firms unless otherwise indicated. In redrafting the requirements, the QMAWG will evaluate whether they remain fit-for-purpose, i.e., the requirements are sufficiently robust, yet flexible enough to address a variety of circumstances thereby accommodating the evolving needs of firms.

26. The QMAWG will give further consideration to the robustness of the requirements as they are developed, in particular considering the clarity of the QMP in facilitating a common understanding so that it can be applied effectively, and whether the requirements sufficiently mitigate the risk of omissions or errors at the risk assessment stage.

27. While retaining the robustness of the standard, the requirements proposed in paragraph 25 would be established in such a manner as to provide scalability for firms, thereby addressing the concerns of

stakeholders that a QMA would merely be an add-on to existing requirements. The scalability of the standard is further explained in paragraphs 28–31 below.

Matter for IAASB Consideration

3. The IAASB is asked for its views regarding whether the proposals of the QMAWG would be effective in retaining the robustness of the standard.

Introducing Scalability

28. The ITC's key focus regarding the QMA was its value in terms of being scalable to the size, nature and structure of the firm. As discussed above, there were concerns from respondents that a QMA would merely be an add-on to the existing requirements of ISQC 1, and therefore the QMAWG recognized the need for the requirements to be scalable for a wide variety of circumstances.

29. The QMAWG deliberated how the various components could be established in a way that supports scalability, and is still exploring possible ways to achieve this. Nevertheless, the following provides an indication of how scalability could be incorporated into ISQC 1:

    (a) Governance and leadership—the requirements relating to governance could be established on the basis of principles, and it would be up to firm leadership to determine how to implement these principles. For example, the principles could emphasize that the firm establishes and maintains an organizational structure that is commensurate with the size and operating characteristics of the firm and the services the firm provides. In applying this principle, the firm would determine the appropriate organizational structure taking into consideration factors such as jurisdictional laws and regulations governing the organization (e.g., laws applicable to partnerships or that prescribe how a firm should be set up or an audit firm governance code), the size of the firm and other services the firm provides, the geographical dispersion of the firm, etc. However, there would still be minimum requirements addressing the responsibility and accountability of firm leadership, for example, identifying persons with ultimate responsibility for the firm's quality management.

    (b) Information, communication and documentation—as a foundational component, the requirements could be written in the context of being outcome-based, and it would be up to the firm to determine how to achieve that outcome. For example, the outcome for communication could require the firm to communicate matters relating to the firm's quality management to enable the firm's personnel to understand the quality objectives and the importance of their responsibilities. The firm would determine how to achieve this outcome. For example, a firm with a large number of personnel may need to implement various communication mechanisms to capture and communicate information relevant to quality management, whereas a SMP with few personnel may achieve this through less formalized communication mechanisms such as using e-mails.

    (c) QMP—the requirements would be established on the basis that the firm identifies quality objectives that are relevant to the firm and identifies and assesses the risks of not meeting those objectives (quality risks), by taking into consideration factors such as the size and operating characteristics of the firm, whether it is part of a network, the services the firm provides, and the nature of the entities to whom those services are provided. The requirements for the design and implementation of responses to quality risks would emphasize that the responses need to be commensurate to the risk. Furthermore, the requirements addressing

the firm's monitoring and remediation activities could also emphasize that the nature and extent of the monitoring and remediation would depend on factors such as the size of the firm, the services the firm provides, and the nature of the entities to whom those services are provided. These requirements could also introduce more stringent requirements for certain firms, for example, those that perform audits of financial statements of listed entities (referred to as conditional requirements).

(d) Applying the QMP—this section would include minimum objectives in respect of each of the elements that the firm would be required to implement. The firm would then identify quality risks relevant to the firm, and design and implement responses that appropriately address those quality risks. However, there would also be minimum responses, although these would not impose an obligation on the firm to set out specific policies and procedures (as required by extant ISQC 1); these would instead provide flexibility in the type of response the firm considers appropriate. Furthermore, some of the minimum responses could be established as conditional requirements (e.g., EQC reviews that only apply to audits of listed entities). The section "applying the QMP" is further explained in paragraphs 49–53.

30. Additional emphasis on the scalability of ISQC 1 could be added in various other ways, for example, the application material supporting the requirements could demonstrate the application of the standard in the context of a smaller firm and a larger, more complex firm, e.g., through the use of examples. This would assist in demonstrating the scalability of the standard, and it would also be responsive to the views of respondents that examples and guidance would be necessary to enable the implementation of quality management successfully.

31. In order to emphasize the scalability of the requirements of ISQC 1, the introductory section could explain the concepts of quality management and indicate that the nature and extent of the firm's quality management is dependent on factors, such as, the size and operating characteristics of the firm and whether it is part of a network, the services the firm provides, and the nature of the entities to which those services are provided.

Matters for IAASB Consideration

4. The IAASB is asked for:

   (a) Its views regarding the proposals of the QMAWG with respect to improving the scalability of ISQC 1; and

   (b) Any further recommendations on how to incorporate scalability into ISQC 1.

QMP – Specific Considerations

32. As highlighted in paragraph 25(a), the QMAWG is of the view that new requirements should be introduced in ISQC 1 for the firm to determine quality objectives, perform an assessment of the quality risks design and implement responses to the quality risks, monitor the effectiveness of the firm's quality management, and determine the necessary remedial action. Establishing these requirements is essential to creating consistency across firms and incorporating quality management in ISQC 1. These requirements would also be fundamental to converting the existing elements of ISQC 1 into more scalable quality objectives and responses.

33. Recognizing the views of respondents, application material could be included that further explains how to apply these requirements, i.e., how to implement the QMP including through the use of

examples. As the requirements and application material are developed, the WG will consider whether other forms of guidance outside of ISQC 1, would be helpful or necessary in supporting the implementation of the QMA.

34. The paragraphs below further explain the deliberations of the QMAWG, including possible aspects that could be included in the requirements.

Establish Quality Objectives

35. In developing requirements for this section, it would be important to link the quality objectives at the QMP level back to the overall objective in paragraph 11 of ISQC 1, i.e., the quality objectives would need to contribute towards achieving the overall objective of the firm's quality management.

36. The requirement for the firm to establish quality objectives would also need to emphasize the importance of these being sufficiently clear – that is, appropriately disaggregated or detailed to enable the identification and assessment of quality risks. This would be important given that the identification of quality risks would be based on appropriate quality objectives; appropriate quality objectives would help drive appropriate risk assessment. Such emphasis could be supported by application material that discusses the attributes of quality objectives (i.e., specific, observable, attainable, relevant and timely), similar to those set out in the COSO Integrated Framework.[5]

37. Requirements and related application material in this section would also need to explicitly indicate the scalability of such requirements. For example, the application material could set out the types of factors that may influence the quality objectives that are identified, as well as the process established by the firm for identifying the objectives. Such factors could include, for example, the size and operating characteristics of the firm, whether it is part of a network, the services the firm provides, and the nature of the entities to whom those services are provided. Specific examples to demonstrate how these factors would influence the objectives and the process established by the firm for identifying the quality objectives could be included.

38. The QMAWG is considering using the term "reasonable assurance" within the requirements for the firm to establish quality objectives. Paragraph 11 of ISQC 1 makes use of this term in the context of the firm's overall objective of quality management. The QMAWG had mixed views as to whether this is a necessary consideration when establishing the quality objectives at the QMP level and will continue to debate this point.

Perform Quality Risk Assessment

39. Given that the risk assessment would be based on the quality objectives, the requirements would need to refer specifically to risks that could have an effect on the firm's ability to achieve its quality objectives, and the overall objective in paragraph 11 of ISQC 1.

40. The QMAWG considered the description of this activity in the ITC and the identification and assessment of risk as it is currently described in ISA 315 (Revised).[6] The QMAWG is of the view that, similar to the principles expressed in paragraph 26 of ISA 315 (Revised), the risk would need to be assessed in respect of (i) the likelihood of an event happening, and (ii) the impact if the event does

---

[5] Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework

[6] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

actually occur. Application material would be developed to support these requirements, providing examples of factors that may create risks to the quality objectives and explaining how the likelihood and impact of these risks could be influenced by the size and complexity of the firm, the services it provides, etc. Furthermore, application material and examples could be included that explain how the firm's process for identifying risks may be influenced by, amongst other factors, its size and complexity.

41. The QMAWG had mixed views about whether it would be appropriate to establish a threshold for the risks, in particular, whether there should be a threshold for which no further response or consideration is needed by the firm (e.g., risks which are at an acceptably low level). The QMAWG noted that the notion of an acceptably low level is necessary for the operability of the standard. Others suggested that it would be up to the firm to establish their tolerance level for risks and to determine what is acceptably low in the circumstances of the firm. The QMAWG will continue to deliberate whether or not such a threshold should be established, and if so, how it could be incorporated into the requirements.

42. The QMAWG will continue to monitor the work of the ISA 540 Task Force and ISA 315 (Revised) Task Force as it relates to the identification and assessment of risks, in particular the considerations relating to the spectrum of risks and risk factors that may assist auditors in identifying risks of material misstatement by illustrating the root causes of risks.

Design and Implement Responses to Quality Risks

43. The QMAWG considered how ISA 330[7] could be used to develop requirements and guidance for firms designing and implementing responses at a firm level in response to quality risks.

44. The QMAWG determined that, in order to create the link to the overall QMP, the requirement for firms to design and implement responses to quality risks would need to link back to the requirement to perform the risk assessment. For example, an explicit statement could be included stating that the nature, timing and extent of the policy, procedure or other action needs to be responsive to the quality risk identified. Guidance could be incorporated to emphasize the scalability of the requirements as the responses need to be tailored to the condition, behavior, or other factor that leads to the risk. Application material could explain how the responses would vary depending on the risk, including through the use of examples.

45. The application material could further enhance the explanation of the appropriateness of responses and the scalability of the requirement by:

    (a) Explaining types of responses that firms may implement, e.g., policies, procedures and other actions, and that some of the responses may be manual and some may be automated. This could also highlight that there are certain monitoring-type procedures that firms may put in place that form part of the responses to the risks, for example pre-issuance reviews, but which are separate from the firm's monitoring and remediation

    (b) Describing differences between detective and preventative controls.

    (c) Explaining that one response could address several risks, or that in some cases a number of responses are needed to address a single risk.

[7] ISA 330, *The Auditor's Reponses to Assessed Risks*

(d) Emphasizing the importance of the timeliness of the responses.

Monitor and Remediate

46. The QMAWG has not yet discussed this topic extensively and formulated their recommendations on a way forward. However, requirements and application material would be included to ensure that the effectiveness of the firm's quality management would be monitored by the firm, and the findings from these monitoring activities are considered by firm leadership and used to determine whether remedial action is necessary. In establishing such requirements, the QMAWG will further develop and enhance existing requirements and guidance related to monitoring and remediation, taking into consideration the possible actions set out in the ITC and the feedback from respondents.

Re-evaluate Quality Management

47. Quality management is an ongoing, dynamic process of determining quality objectives, performing quality risk assessments and designing and implementing responses to quality risks. In order to promote this concept and emphasize the importance of firms evaluating their processes, the QMAWG is of the view that it would be necessary to establish a requirement for firms to reevaluate quality management.

48. The QMAWG will further consider whether or not it is appropriate for such a requirement to specify when the firm should reevaluate quality management, for example, arising from changes in the firm's environment and related strategies, the outcome of monitoring and remediation, or otherwise on a cyclical basis. Nonetheless, the QMAWG recognizes that such requirement would need to be sufficiently broad to encompass potential new sources of risk.

Matter for IAASB Consideration

5. The IAASB is asked for its views regarding the QMAWG's proposals to establish requirements related to the QMP, and the necessary attributes of these requirements.

Applying the QMP

49. As discussed in paragraph 15, the QMAWG is of the view that certain elements of ISQC 1 (i.e., "relevant ethical requirements," "acceptance and continuance of client relationships and specific engagements" and "engagement performance") can be re-presented through the application of the QMP. This section would require firms to establish minimum quality objectives and minimum responses to quality risks in relation to each element.

50. In order to demonstrate how scalability could be introduced into the standard, the QMAWG selected certain requirements from the "engagement performance" section in extant ISQC 1 (paragraphs 32–34 and 43–44) and evaluated how the requirements to establish policies and procedures in relation to engagement performance could be translated into minimum quality objectives and responses to quality risks (refer to Appendix C – note that these requirements have not been fully developed, and have been provided for illustrative purposes). In undertaking this exercise, the QMAWG noted the following:

(a) Some of the extant requirements represent objectives, while others are more clearly responses to quality risks.

(b) In relation to the minimum objectives, it would not be necessary for all of the minimum objectives to have corresponding minimum responses, as the firm would be required to identify risks to the quality objectives and establish appropriate responses.

(c) Each of the minimum responses would need to relate to a particular quality objective, i.e., in accordance with the process established in the QMP, the quality objectives are established before identifying responses.

(d) In some circumstances there may be a number of minimum responses that addresses a single quality objective, while there also could be a minimum response that addresses a number of quality objectives.

51. The QMAWG had mixed views about whether or not it would be appropriate to emphasize that the quality objectives and responses are "minimum" quality objectives and responses. While the intention of this would be to emphasize that firms need to do more to identify other quality objectives and responses specific to the firm's circumstances (i.e., "at a minimum"), some members of the QMAWG were of the view that the term "minimum" could be misinterpreted as meaning a baseline beyond which any additional objectives or responses would be unnecessary. Accordingly, the QMAWG will continue to deliberate the appropriateness of using the term "minimum" in the requirements, along with alternative ways to articulate that the firm would still need to establish if any additional quality objectives, risks and responses are required given the circumstances of the firm.

52. In converting the requirements into responses, the QMAWG concluded that, in general, the requirement should refer to "response" in place of "policies and procedures." This would be an important change that will offer greater flexibility for firms to determine the most appropriate response, rather than being prescriptive in requiring specific policies and procedures to be implemented. However, the QMAWG also recognize that in certain circumstances it may be necessary to require the firm to establish certain policies and procedures, as there is no alternative response that would be appropriate. Accordingly, in such cases, instead of referring to "responses" in a more general context, the requirement would indicate that the firm shall establish policies and procedures (e.g., paragraph 33(d) of Appendix C).

53. As the QMAWG further explores how to translate the extant requirements into a QMP, the QMAWG will also consider the continued relevance of the requirements and whether new requirements are appropriate to keep ISQC 1 fit for purpose.

Matter for IAASB Consideration

6. The IAASB is asked for their views regarding how the existing element of engagement performance has been translated into a QMP, as illustrated in Appendix C.

Information, Communication and Documentation

54. The QMAWG discussed the importance of information, communication and documentation to the firm's quality management, including the view of respondents that more focus on communication, both internal and external, is needed. Communication includes having appropriate communication resources (e.g., information systems infrastructure) to provide timely and relevant information to the firm´s leadership regarding the operation of the firm's quality management, as well as to communicate information about quality across the firm.

55. In light of this, the QMAWG recommends that a number of revisions be made to ISQC 1 related to the firm's information systems, communication processes and documentation. Such revisions would include requirements and supporting application material that:

    (a) Ensures a firm identifies, captures, and communicates relevant quality management information in a time frame that enables individuals to carry out their responsibilities and that supports the functioning of the firm's quality management.

    (b) Ensures a firm establishes and implements communication mechanisms appropriate to the size and nature of the firm.

    (c) Enhances the documentation requirements to better align with the principles of documentation in ISA 230.[8]

56. Communication with external stakeholders through transparency reporting is also being explored by the QCOWG.

Matters for IAASB Consideration

7. The IAASB is asked for its views regarding the possible revisions in relation to information, communication and documentation.

[8] ISA 230, *Audit Documentation*

Appendix A

Feedback from Respondents

1. Investors and analysts[9] supported the proposed QMA, noting that it would promote leadership's responsibility for a proactive, scalable and robust response to managing quality risk that supports continual improvement.

2. Overall, members of the MG[10] were of the view that the ITC lacked sufficient detail to be able to fully appreciate the merits or potential implications. However, there was support from this stakeholder group[11] of the concept of a QMA, noting that an ongoing and iterative process could lead to increased audit quality as a result of the firm's consideration of risks and the activities to address those risks. One member[12] raised concerns regarding inconsistent application by firms and consequently stressed the importance of a common understanding of quality objectives, quality risk responses and how scalability could be applied. Similarly, another member[13] raised concern about how the existing and strengthened requirements would be blended into a risk-based approach, and that provisions for the risk-based approach would need to be established due to the risk of an error or omission at the risk assessment stage (resulting in risks not being properly addressed). Another respondent from the MG[14] emphasized the importance of retaining and improving the requirements to support the robustness of ISQC 1,[15] and encouraged the IAASB to not be prescriptive in its approach and also include application material to provide examples of the elements of a QMA. This respondent also highlighted that the individual firm (in the context of a network) would need to consider whether its objectives and activities are appropriate at the individual firm level.

3. There was a suggestion from the MG that the objective of conducting high-quality audits must be in an audit firm's strategy and incorporated within the firm's governance structure,[16] and there were various recommendations for linkages with the QMA (e.g., public interest, firm strategy, availability of human resources).[17] Establishing a link between governance and the QMA was also stressed.[18] There was also a view that more focus on communications, both internal and external, is needed.[19]

4. A member of the MG[20] agreed that consideration would need to be given to ISA 220, i.e. to adopt a more proactive, scalable and robust approach to audit quality at the engagement level. One

---

9 *Investors and Analysts:* CalPERS, CalSTRS, CFA, IA, NZSA

10 *MG:* IAIS, IFIAR, IOSCO

11 *MG:* BCBS, IOSCO

12 *MG:* IAIS

13 *MG:* IFIAR

14 *MG:* IOSCO

15 International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

16 *MG:* BCBS

17 *MG:* IAIS

18 *MG:* IAIS, IFIAR

19 *MG:* IAIS

20 *MG:* IAIS

respondent from the MG[21] was of the view that in order to improve audit quality at the engagement level, a framework for audit engagement partners to determine the appropriate level of their involvement in the respective engagements would be necessary.

5. Other regulators and audit oversight authorities had mixed views regarding the adoption of a QMA in ISQC 1:

   a) Those that supported[22] the proposal indicated it could have a positive impact on audit quality as it would enhance firms' consideration of risks and related quality control activities to address such risks, while also emphasizing firm leadership's responsibility for the system of quality control. Respondents also noted the following:

      - The development of additional guidance and examples of how a QMA could be applied in different circumstances is necessary.[23]
      - The IAASB would need to establish what the expected outcomes of a high quality audit are and then demonstrate how the various factors identified in the Framework for Audit Quality[24] are addressed in the quality control standards in the context of that outcome.[25]

   b) Consistent with the views of the MG, others[26] indicated that there is insufficient information in the ITC in order to be able to evaluate the possible impact of a QMA approach, and encouraged further outreach or consideration in this regard. One respondent[27] questioned the value of a QMA and whether it would actually improve audit quality, how the robustness of ISQC 1 would be retained and how a QMA would address non-audit services. This respondent, similar to the views of the MG, was also concerned about errors or omissions at the risk assessment stage and that a QMA would create inspection difficulties due to the lack of consistency and comparability, with increased time and cost.

6. Other regulators and audit oversight authorities[28] indicated support for quality management at an engagement level, as it promotes the enhancement of audit quality on those areas which include the exercise of a significant degree of judgment, such as the audit of accounting estimates, and which are key within an audit and merit the additional focus of an auditor.

7. Although there were mixed views, respondents across other stakeholder groups were mostly supportive of the proposals regarding the adoption of a QMA approach. The views were as follows:

---

21 *MG:* IFIAR

22 *Other Regulators and Audit Oversight Authorities:* EBA, ESMA, MAOB, UKFRC

23 *Other Regulators and Audit Oversight Authorities:* EBA

24 *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*

25 *Other Regulators and Audit Oversight Authorities:* UKFRC

26 *Other Regulators and Audit Oversight Authorities:* CPAB, IRBA

27 *Other Regulators and Audit Oversight Authorities:* IRBA

28 *Other Regulators and Audit Oversight Authorities:* EBA, ESMA, UKFRC

a) Respondents across all other stakeholder groups[29] who supported a QMA, indicated that it could improve audit quality, promote a scalable approach, emphasize the need for effective firm leadership and good corporate governance, integrate with the firm's culture and strategy and organizational risk management and clarify responsibility and accountability. Furthermore, these supporters were of the view that it helps firms be more responsive and proactive, and supports continual improvement while also ensuring that quality mechanisms do not become automatic and not meaningful. It was also noted that governance practices have evolved in recent years, as have the expectations of the stakeholders of the audit.

b) Three respondents from NSS and member bodies[30] were of the view that application material that addresses the key elements of a QMA approach would be more appropriate, due to the potential implications for firms in implementing a QMA and the need to keep it operational for SMPs. Similarly, a member body[31] indicated support for incorporating a QMA as a general principle underlying the firm's approach to its system of quality control.

c) Similar to the views of members of the MG, stakeholders across a few groups[32] indicated that there was insufficient information in the ITC in order to be able to evaluate the possible impact of a QMA approach, including how new requirements would fit into a QMA. Similarly, a firm[33] supported the proposed QMA approach on the basis that details are provided to explain how the QMA could be operationalized. One of these respondents[34] also noted that the IAASB has higher priority projects that it should focus on, before embarking on a major revision to ISQC 1.

d) There was a suggestion from a member body[35] for a mixed approach i.e., that ISQC 1 is restricted to audit engagements only, with a QMA mandatory for firms performing audits of listed entities. At the same time a different standard could be developed for other non-audit engagements.

e) Respondents,[36] mostly individuals, who did not support the QMA approach, were of the view that it is unlikely to improve audit quality since the current shortcomings lie in the application of the standard, it could result in important firm-wide controls being neglected and would add a further compliance cost to firms. These respondents were also concerned about the implications of a QMA for audit firm inspections arising from the standard being far more

---

[29] *National Standard Setters:* CNCC-CSOEC, IDW, JICPA, NBA; *Accounting Firms:* BDO, CHI, DTT, EYG, GTI, KPMG, PWC; *Public Sector Organizations:* AGC, AGSA, INTOSAI; *Member Bodies and Other Professional Organizations:* ACCA, AIC, APESB, CAANZ, CAI, CIIPA, CPAA, DnR, EFAA, FACPCE, FEE, FSR, IBRACON, IRE-IBR, ICAP, ICAS, ICAZ, ICPAK, ICPAU, INCPC, SAICA, SMPC, WPK; *Academics:* AAA;

[30] *NSS:* AUASB, MAASB; *Member Bodies and Other Professional Organizations:* CAQ

[31] *Member Bodies and Other Professional Organizations:* AICPA

[32] *National Standard Setters:* CAASB; *Preparers of Financial Statements:* PAIB; *Member Bodies and Other Professional Organizations:* KICPA

[33] *Accounting Firms:* RSM

[34] *National Standard Setters:* CAASB

[35] *Member Bodies and Other Professional Organizations:* ICAEW

[36] *National Standard Setters:* NZAuASB; *Accounting Firms:* RBI; *Individuals and Others:* DAHughes, JGrant, SDeViney

judgmental. It was instead suggested that it would be more helpful to provide further guidance to firms, particularly SMPs, to assist them in applying ISQC1.

8. Respondents from accounting firms and member bodies[37] were cautious about the implication that ISQC 1 would retain the existing requirements, but at the same time achieve the stated objective of improving scalability.

9. There was a general observation by respondents across stakeholder groups that a QMA approach would need to accompanied by guidance for firms on how to implement QMA. Furthermore, respondents provided some suggestions on how the QMA could be encapsulated in ISQC 1, including:

   a) Two accounting firms[38] were of the view that the existing elements of ISQC 1 are still valuable. One of these firms[39] suggested, in developing a QMA, the IAASB should identify objectives and risk factors for each of the elements. Then, for any particular element, it should be considered which risks are required to be addressed in firm policy (ensuring that the requirement remains principles-based). This respondent suggested that ISQC 1 should not introduce specific requirements, but instead set clear objectives and principles-based requirements with supporting guidance as necessary to address specific developments or issues that firms should consider, in order to keep the standard fit for purpose.

   b) Some of the minimum requirements should be retained because certain quality risks are inherent in any context and require a certain basic response in order to mitigate the threats to relevant quality objectives.[40]

   c) A respondent from the public sector[41] suggested that the existing elements of ISQC 1 should be retained, and the risk identification and assessment should be in addition to the existing elements.

   d) Suggestions that reference should be made to the elements found in best practice internal control frameworks, such as the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.[42]

   e) Recommendations specific to how the QMA would be operationalized, e.g., develop an improvement team and rotate this responsibility, developing key performance indicators (KPIs) based on audit inspections and quality issues, having staff involved with leadership providing the support and interactive environment to develop different policies and procedures to address quality control risks.[43]

---

[37] *Accounting Firms:* GTI, PWC; *Member Bodies and Other Professional Organizations:* AICPA

[38] *Accounting Firms:* EYG, PWC

[39] *Accounting Firms:* EYG

[40] *Member Bodies and Other Professional Organizations:* SAICA

[41] *Public Sector Organizations:* AGSA

[42] *Accounting Firms:* DTT; *Public Sector Organizations:* AGC, INTOSAI; *Member Bodies and Other Professional Organizations:* CAANZ

[43] *Investors and Analysts:* CalSTRS

10. There were respondents from accounting firms and member bodies[44] who agreed that if the IAASB does not decide to adopt a QMA, then the items identified in paragraph 59 and Table 2 of the ITC should be considered in light of any changes to ISQC 1. An accounting firm[45] supported a risk-based approach with objective- and principles-based requirements.

11. Respondents across the other stakeholder groups concurred that a revision to ISQC 1 would need to also result in a revision to ISA 220[46] and ISA 600.[47] One respondent[48] highlighted concerns about whether the distinction between a QMA at firm level and at engagement level is understood, on the basis of how this approach will practically be applied for every engagement, including the documentation requirements. There were also suggestions to revise ISA 200,[49] [50] ISA 210,[51] [52], ISA 260 (Revised), [53] [54] ISA 265, [55] [56] ISA 300,[57] [58] and ISA 315 (Revised).[59] [60] Public sector respondents[61] highlighted the possible impact on other assurance engagements. There was also a suggestion that the current requirements and guidance in ISAs may need to be reviewed in totality to ensure that the connection of QMA can be successfully embedded.[62]

12. Improvements to the diagram in paragraph 64 of the ITC were suggested as it was noted that this is an important tool for educating stakeholders about QMA.[63]

---

44 *Accounting Firms:* BDO, CHI, RSM; *Member Bodies and Other Professional Organizations:* AICPA, ICAZ, SAICA

45 *Accounting Firms:* EYG

46 *National Standard Setters:* CAASB, CNCC-CSOEC, NBA; *Accounting Firms:* CHI, EYG, PWC, RSM; *Public Sector Organizations:* AGC, AGSA, GAO, INTOSAI; *Member Bodies and Other Professional Organizations:* CPAA, EFAA, FEE, IRE-IBR, ICAEW, ICAP, ICPAK, SAICA, SMPC

47 *Other Regulators and Audit Oversight Authorities:* IAIS; *Accounting Firms:* CHI; *Member Bodies and Other Professional Organizations:* CPAA

48 *Member Bodies and Other Professional Organizations:* SAICA

49 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

50 *Member Bodies and Other Professional Organizations:* CPAA

51 ISA 210, *Agreeing the Terms of Audit Engagements*

52 *Other Regulators and Audit Oversight Authorities:* IAIS

53 ISA 260 (Revised), *Communication with Those Charged with Governance*

54 *Other Regulators and Audit Oversight Authorities:* IAIS

55 ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

56 *Other Regulators and Audit Oversight Authorities:* IAIS

57 ISA 300, *Planning an Audit of Financial Statements*

58 *Other Regulators and Audit Oversight Authorities:* IAIS; *Member Bodies and Other Professional Organizations:* CPAA

59 ISA 315 (Revised), *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment*

60 *Other Regulators and Audit Oversight Authorities:* IAIS

61 *Public Sector Organizations:* AGC, GAO, INTOSAI

62 *National Standard Setters:* MAASB

63 *National Standard Setters:* JICPA

Public Sector

13. From a public sector perspective, it was noted that a public sector legislative auditor may be subject to additional requirements under law, regulation or public sector policy and accordingly a QMA would assist in integrating policies and procedures that address the requirements of professional standards, law, regulation and public sector policy.[64]

SMPs

14. Respondents[65] were of the view that the scalability of the QMA would be important for SMPs; it was noted that scalability should be based on the types of clients that are being audited as opposed to the size of the firms.[66] There were reservations regarding the ability of SMPs to implement the QMA approach,[67] that it could be a significant challenge and overly burdensome.[68] Respondents[69] requested the IAASB to be sensitive to the cost implications as they could be disproportionate for SMPs. One respondent indicated that it is unlikely that SMPs will welcome these changes, particularly at a time when there are many other regulatory changes and significant changes to financial reporting for the entities they audit.[70]

15. Respondents emphasized the importance of implementation guidance, particularly for SMPs, including practical illustrations of how scalability would be applied.[71] A respondent also suggested preparing robust transition guidance for smaller firms, taking into consideration the time necessary to implement the QMA in a way that works best for the firm.[72]

16. One respondent[73] was of the view that the standards should be developed on the basis of "think small first", as the principle relies on the fact that "one size does not fit all", but a lighter touch approach can also be beneficial to larger businesses.

---

64 *Public Sector Organizations:* AGC, INTOSAI

65 *National Standard Setters:* AUASB, CNCC-CSOEC, HKICPA, IDW, NBA, NZAuASB; *Public Sector Organizations:* GAO; *Member Bodies and Other Professional Organizations:* AICPA, APESB, CPAA, FEE, IBRACON, IRE-IBR, ICAS, KICPA, SAICA, SMPC

66 *National Standard Setters:* CNCC-CSOEC, FEE, IRE-IBR, ICAS

67 *National Standard Setters:* CNCC-CSOEC, NZAuASB; *Member Bodies and Other Professional Organizations:* FEE, IRE-IBR, ICAEW

68 *National Standard Setters:* CNCC-CSOEC; *Member Bodies and Other Professional Organizations:* FEE, ICAEW, SMPC

69 *Member Bodies and Other Professional Organizations:* CAI, SMPC

70 *Member Bodies and Other Professional Organizations:* ICAEW

71 *National Standard Setters:* AUASB, IDW, NZAuASB; *Member Bodies and Other Professional Organizations:* ACCA, AICPA, IBRACON, IRE-IBR, ICAEW, ICAS

72 *Member Bodies and Other Professional Organizations:* ACCA

73 *Member Bodies and Other Professional Organizations:* EFAA

Appendix B

Mapping of Requirements in Extant ISQC 1 to Proposed ISQC 1 (Revised)

Extant ISQC 1	Proposed ISQC 1 (Revised) (i.e., new structure)	Paragraph in this issues paper where the section is discussed
Introduction		
Scope of this ISQC (para. 1–3)	Scope of this ISQC (para. 1–3)	
Authority of this ISQC (para. 4–9)	Authority of this ISQC (para. 4–8)	
	Quality Management (new)	18 31
Effective date (para. 10)	Effective date (para. 10)	
Objective		
Objective (para. 11)	Objective (para. 11)	21
Definitions		
Definitions (para. 12)	Definitions (para. 12)	
Requirements		
Applying, and Complying with, Relevant Requirements (para. 13–15)	Applying, and Complying with, Relevant Requirements (para. 13–15)	
Elements of Quality Control (para. 16–17)		
Leadership Responsibilities for Quality within the Firm (para. 18–19)	Governance and Leadership (para. 18) • Organization, culture and strategy that foster quality	11(a) 29(a)
	Information, Communication and Documentation of the System of Quality Control (moved from para. 57–58)	11(c) 29(b) 54–56
	Quality Management Process (new) • Determine quality objectives • Perform quality risk assessment	11(d) 25(a) and (b) 32–48

Extant ISQC 1	Proposed ISQC 1 (Revised) (i.e., new structure)	Paragraph in this issues paper where the section is discussed
	• Design and implement responses to quality risks • Monitor and remediate (moved from para. 48–56 and para 59)	
Relevant Ethical Requirements (para. 20–25) Acceptance and Continuance of Client Relationships and Specific Engagements (para. 26–28) Human Resources (para. 29) Engagement Performance (para. 32–47)	Applying the Quality Management Process • Law, Regulation and Relevant Ethical Requirements (para. 20–25) • Acceptance and Continuance of Client Relationships and Specific Engagements (para. 26–28) • Resources (para. 29) • Engagement Performance (para. 32–47)	15–16 25(c) 29(d) 49–53
Monitoring (para. 48–56)		
Documentation of the System of Quality Control (para. 57–59)		

Appendix C

Illustration of Applying the QMP to an Element: Engagement Performance

Extant ISQC 1	Illustration of applying QMP to element
Requirements **Engagement Performance** 32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include: (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33) (b) Supervision responsibilities; and (Ref: Para. A34) (c) Review responsibilities. (Ref: Para. A35) 33. The firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members. *Consultation* 34. The firm shall 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;	**Requirements** **Applying the Quality Management Process** *Engagement performance* 32. The firm shall establish objectives addressing the performance of engagements in accordance with professional standards and applicable legal and regulatory requirements, and the issuance of reports by the firm or the engagement partner that are appropriate in the circumstances. Those objectives shall include, at a minimum, that: (a) The engagement partner accepts responsibility for the engagement and its performance, including quality management at an engagement level; (Ref: Para. A31b–A31d) (b) The firm and engagement partner undertake appropriate consultation on difficult or contentious matters; (Ref: Para. A36–A40) and (c) The firm and engagement partner appropriately deal with and resolve, on a timely basis, differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and engagement quality control reviewer. (Ref: Para. A52–A53a) 33. In responding to the risks that the firm's objectives relating to engagement performance will not be achieved, the firm shall design a response that addresses the objectives established in accordance with paragraph 32, and includes, at a minimum:

(c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are implemented. (Ref: Para. A36–A40) *Differences of Opinion* 43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A52–A53) 44. Such policies and procedures shall require that: (a) Conclusions reached be documented and implemented; and (b) The report not be dated until the matter is resolved.	(a) Assigning responsibility for each engagement to an engagement partner, including establishing the appropriate authority for the engagement partner to fulfill this role, and clearly defining and communicating the responsibilities of the engagement partner; (Ref: Para. A31(b)–A31(d)) (b) Establishing the nature, timing and extent of the direction, supervision and review of work performed on engagements, including the involvement by appropriate personnel and the establishment of the roles and responsibilities of the firm, engagement partner and other members of the engagement team; (Ref: Para. A33(a)–A35(c)) [Note – direction, supervision and review to be further considered in conjunction with the Crossover Working Group (c) Addressing the agreement, documentation and implementation of conclusions resulting from consultations; (Ref: Para. A36–A40) and (d) Establishing policies and procedures for dealing with and resolving differences of opinion, including the documentation and timely implementation of conclusions resulting therefrom. (Ref: Para. A52–A53a)
Application Material **Engagement Performance** *Consultation* (Ref: Para. 34) A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise. A37. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps to promote a culture in which consultation is recognized	**Application Material** **Applying the Quality Management Process** *Engagement performance* Engagement Partner Responsibility for the Engagement and its Performance (Ref: Para. 32(a), 33(a) and 33(b)) A31b. [Placeholder to link to the engagement partner's responsibilities in ISA 220, to be developed in consultation with the Crossover Working Group] A31c. The formality with which a firm communicates an engagement partner's responsibility, and by which the engagement partner accepts such responsibility, may vary from firm to firm. For example, for a firm with many

as a strength and encourages personnel to consult on difficult or contentious matters. A38. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted: • Are given all the relevant facts that will enable them to provide informed advice; and • Have appropriate knowledge, seniority and experience, and when conclusions resulting from consultations are appropriately documented and implemented. A39. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of: • The issue on which consultation was sought; and • The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented. Considerations Specific to Smaller Firms A40. A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by: • Other firms; • Professional and regulatory bodies; or • Commercial organizations that provide relevant quality control services. Before contracting for such services, consideration of the competence and capabilities of the external provider helps the firm to determine whether the external provider is suitably qualified for that purpose. *Differences of Opinion* (Ref: Para. 43)	engagement partners, the firm may establish formal policies and procedures that specify the responsibilities of the engagement partner or induction processes for new engagement partners. Conversely, for a firm with only a few engagement partners, the responsibilities may be established through a meeting or discussion with the partners. A31d. Furthermore, the firm may establish processes to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities. Direction, Supervision and Review (Ref: Para. 33(b)) [Placeholder – to be developed in conjunction with the Crossover Working Group] Consultation (Ref: Para. 32(b) and 33(c)) A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise. A37. Consultation involves appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and consistency, and improves the application of professional judgment and professional skepticism. Appropriate recognition of consultation in the firm's quality management helps to promote a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters. A38. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted: • Are given all the relevant facts that will enable them to provide informed advice; and • Have appropriate knowledge, seniority and experience, and when conclusions resulting from consultations are appropriately documented and implemented.

A52. Effective 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. A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.	A39. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of: • The issue on which consultation was sought; and • The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented. A40. The nature of the firm's consultation processes may depend on a variety of factors. For example, the need for consultation on technical, ethical and other matters in a firm that only performs compilation engagements may be less than in a firm that performs audits of financial statements. Examples of how a firm's consultation process may vary include: • A firm may establish resources internally for consultation, or may determine it appropriate to consult externally where the firm does not have the necessary internal resources, for example, with other firms, professional and regulatory bodies, or third-party service providers. Before contracting for such services, consideration of the competence and capabilities of the external provider helps the firm to determine whether the external provider is suitably qualified for that purpose. • A firm may set established processes for consultation, including with whom to consult. For example, a small firm may establish certain protocols before consulting with a third-party service provider, such as informing a particular individual within the firm of the intended consultation. Conversely, a firm with in-house specialists may have less formalized processes for engaging with specialists on matters related to consultation, or may require that engagement teams contact a central hotline. • A firm may believe it appropriate to set policies and procedures that specify circumstances where consultation is required. For example, a firm may mandate that engagement teams consult with the technical department in certain circumstances, such as circumstances when it

	is determined that an audit report needs to be reissued, there has been a breach of independence requirements or the engagement team has determined it appropriate to report non-compliance with laws and regulations to an appropriate authority outside the entity. Differences of Opinion (Ref: Para. 32(c) and 33(d)) A52. The establishment of robust and effective policies and procedures addressing differences of opinion contributes to achieving the appropriate quality of engagements performed. Establishing policies and procedures addressing differences of opinion encourages identification of differences of opinion at an early stage, provides clear guidelines as to the successive steps to be taken thereafter, ensures the resolution of the matter before the report is issued and addresses the documentation and the implementation of the conclusions reached. A53. The nature of the firm's processes may depend on a variety of factors. For example, a firm that only performs compilation engagements is less likely to encounter differences of opinion than a firm that performs audits of financial statements. Examples of how a firm's process for addressing differences of opinion may vary include: • A firm may identify internal resources to address the differences of opinion, or may determine it appropriate to consult externally where the firm does not have the necessary internal resources, for example, with other firms, professional and regulatory bodies, or third-party service providers. • A firm may believe it appropriate to set policies and procedures that specify circumstances where there are differences of opinion and consultation is required. For example, a firm may mandate that engagement teams follow the process in resolving the differences of opinion where the matter relates to a particular accounting matter, or the engagement team does not agree on reporting non-compliance

	with laws and regulations to an appropriate authority outside the entity. A53a. A formal process for addressing differences of opinion is also necessary in supporting the functioning and effectiveness of the engagement quality control review.