EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (REVISED) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS - REQUIREMENTS

(MARKED FROM SEPTEMBER 17, 2018 DISCUSSION)

(Effective as of TBD)

Please Note: The Quality Control Task Force has only addressed comments from the IAASB on certain sections of this document. All sections marked in GREY TEXT have not been considered by the Quality Control Task Force.

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Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. ISQC 2\(^1\) deals with the responsibility of the firm and engagement quality reviewers in performing an engagement quality review. This ISQC is to be read in conjunction with relevant ethical requirements.

2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) include requirements for engagement partners and other personnel regarding quality management at the engagement level. ISQC 2,\(^2\) for example, deals with the responsibilities of the engagement quality control reviewer in performing an engagement quality control review and ISA 220 (Revised),\(^3\) for example, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. (Ref: Para. A1)

2AA. Law, regulation or relevant ethical requirements may also establish responsibilities for the firm’s management of quality beyond those described in this ISQC. (Ref: Para. A1)

2A. This ISQC applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, regardless of the size or complexity of the firm (i.e., if the firm performs any of these engagements, this ISQC applies).

Scalability

2B. However, this ISQC requires the firm to apply a risk-based approach, exercise professional judgment in designing, implementing and operating the system of quality management, taking into consideration:

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\(^1\) Proposed ISQC 2, Engagement Quality Reviews
\(^2\) Proposed ISQC 2, Engagement Quality Control Reviews
\(^3\) Proposed International Standard on Auditing (ISA) 220 (Revised), Quality Control for an Audit of Financial Statements
(a) The nature and circumstances of the firm, including the size and operating characteristics of the firm and whether it is part of the network and whether the firm uses service providers; and

(b) The nature and circumstances of the engagements it performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are undertaken.

(Referred throughout this ISQC as the nature and circumstances of the firm and its engagements). Accordingly, the complexity of firms’ systems of quality management will vary. For example, a firm that performs different types of engagements for a wide variety of entities that includes listed entities or entities that may be of significant public interest will likely have a more complex system of quality management than a firm that performs only reviews of financial statements or compilation engagements. (Ref: Para. A12)

2C. The nature and circumstances of the firm and its engagements may change over time, and this ISQC includes requirements for the firm to identify such changes and respond appropriately when such changes occur. (Ref: Para. A1A–A1B)

The Firm’s System of Quality Management

3. The public interest is served by the consistent performance of quality engagements, which involves planning and performing engagements and reporting on them in compliance with professional standards and applicable legal and regulatory requirements. Performing quality engagements also involves applying professional judgment and, when applicable, exercising professional skepticism in achieving the objectives of those standards and legal and regulatory requirements. Audits or reviews of financial statements, or other assurance or related services engagements are performed in the public interest. Accordingly, the purpose of a system of quality management is to support the consistent performance of quality engagements, by providing the firm with reasonable assurance that the objectives of the system, identified in paragraphs 19(a) and (b), are achieved. This involves planning and performing engagements and reporting on them in compliance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism in achieving the objectives of those standards and legal and regulatory requirements. (Ref: Para. A1A–A2)

6. This ISQC requires the firm to exercise professional judgment in designing its system of quality management. A system of quality management is dynamic, iterative and highly integrated and does not operate in a linear manner. However, for the purposes of this ISQC, a system of quality management is organized into the following eight components:

(a) Governance and leadership;

(b) The firm’s risk assessment process;

(c) Relevant ethical requirements;

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

(e) Resources;

(f) Engagement performance;

(e) Resources;
(g) Information and communication; and

(h) The monitoring and remediation process.

The system of quality management is dynamic, iterative and highly integrated and does not operate in a linear manner. A further description of each of the eight components and their interrelationship is included in Appendix 1. (Ref: Para. A3)

7. The firm's governance and leadership component establishes the environment in which the other components of the system of quality management operates. This component addresses the firm's culture, decision-making process, actions, the assignment of responsibility and how the firm obtains, and allocates or assigns resources.

8. In applying a risk-based approach to quality management, the firm uses to the management of quality, using the firm's risk assessment process, which is applied to the other components, and. The firm's risk assessment process consists of:

(a) Establishing quality objectives. The quality objectives established by the firm consist of individual objectives that, taken together, facilitate the firm's achievement of the objective of this standard. The quality objectives that the firm is required to establish are included in this ISQC and are organized by component. However, the firm may consider whether additional quality objectives are necessary in order to provide a sufficient basis for the achievement of the objective of this standard, given the nature and circumstances of the firm and its engagements.

(b) Identifying and assessing quality risks to the achievement of the firm's quality objectives (referred to as quality risks). The firm is required to identify and assess its quality risks based on the nature and circumstances of the firm and its engagements.

(c) Designing and implementing responses to address the firm's identified and assessed quality risks. This ISQC includes certain required responses organized by component that are applicable to all firms because they would be expected in every system of quality management. However, the responses required by this ISQC alone are not sufficient to address the firm's quality risks because:

(i) The design, implementation and operation of these responses alone may not address all of the quality risks identified by the firm, such that will not result in the achievement of the quality objectives required by this ISQC may not be achieved or the achievement of the objective of the system of quality management;

(ii) The nature, timing and extent of the responses that are required to appropriately address a firm's quality risks will vary based on the nature and extent of the quality risks and the reasons given to for the assessment given to the quality risks.

Accordingly, the firm is required to design and implement responses in addition to the responses required by this ISQC to address the identified and assessed quality risks, taking into account the nature and circumstances of the firm and its engagements.
9. This ISQC requires the firm to evaluate the design, implementation and operation of the system of quality management (i.e., all of the components) through a the monitoring and remediation process, which involves:

(a) designing and performing monitoring activities and determining whether the findings from those activities, or other information, indicate a deficiency in the system of quality management; and 

(b) the monitoring and remediation process also includes appropriate remediation of identified deficiencies.

The monitoring and remediation process provides the information that enables the firm to evaluate whether the system of quality management provides reasonable assurance that the objectives identified in paragraph 19(a) and (b) have been achieved.

9A. This ISQC includes components for resources and information and communication, which are necessary to support the operation of the other components of the system of quality management and the performance of engagements. This ISQC also includes components that address subject matter specific topics that are fundamental for the performance of audits or reviews of financial statements, or other assurance or related services engagements relevant to the firm’s system of quality management (i.e., relevant ethical requirements, acceptance and continuance of client relationships and specific engagements and engagement performance).

Networks

10. In some circumstances, the firm may belong to a network. The network may establish requirements for the firm regarding its system of quality management, or may provide other services, that support the firm in designing, implementing and operating the firm’s system of quality management (hereinafter referred to as ‘network requirements or services’). Network requirements or services, the purpose of which is to drive may promote the consistency in the performance of quality engagements across the firms in the network firms. Notwithstanding the firm’s compliance with the network requirements or use of the network services, the firm remains responsible for its system of quality management, including professional judgments made in designing, implementing and operating the system of quality management. Although the network may establish requirements or provide support, the individual firm is responsible for its system of quality management, which is required to reflect the nature and circumstances of the firm and its engagements. This ISQC includes requirements for the firm in circumstances when the firm belongs to a network and the network establishes requirements for the firm regarding its system of quality management or the firm uses the network services in designing, implementing and operating its system of quality management. (Ref: Para. A3A)

Authority of the ISQCs

13. This ISQC contains the objective of the firm in following the ISQC, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 16, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.

14. The objective of this ISQC provides the context in which the requirements of the ISQC are set, and establishes the desired outcome of the ISQC to assist the firm in:
• Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
• Determining whether more needs to be done to achieve the objective in the particular circumstances of the firm.

15. The requirements of this ISQC are expressed using “shall.”

16. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

• Explain more precisely what a requirement means or is intended to cover; and
• Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.

17. This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in this ISQC. (Ref: Para. A4)

Effective Date

18. Systems of quality management in compliance with this ISQC are required to be established by TBD.

Objective

19. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

(a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and

(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Definitions

20. In this ISQC, the following terms have the meanings attributed below:

(a) Deficiency in the firm’s system of quality management (referred to as ‘deficiency’ in this ISQC) – ALTERNATIVE 1: This exists when an aspect of the firm’s system of quality management is
absent, inappropriately designed, or not implemented or operating as designed, such that a quality objective may not be achieved.; (Ref: Para. A4A)

**ALTERNATIVE 2:** This exists when the firm’s response to address one or more quality risks is not appropriately designed or operating such that a quality objective may not be achieved. (Ref: Para. A4A)

(i) A quality objective is absent or not appropriately specific given the nature and circumstances of the firm and its engagements;

(ii) A quality risk is not identified or appropriately specific given the nature and circumstances of the firm and its engagements;

(iii) A response is not:

  a. Designed in a manner that effectively addresses a related quality risk;
  b. Implemented appropriately;
  c. Operating as designed; or

(iv) A response necessary to address a quality risk is absent.

(b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).

(c) Engagement partner\(^4\) – The partner or other individual, designated by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

(d) Engagement quality control review – [Refer Agenda Item 6–A]

(e) Engagement quality control reviewer – [Refer Agenda Item 6–A]

(f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm, and also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).\(^5\)

(g) External inspections – Inspections or investigations or other reviews undertaken by an external oversight authority of the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A5)

(h) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A6)

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\(^4\) “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

\(^5\) ISA 610 (Revised 2013), *Using the Work of Internal Auditors,* establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.
(i) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

(j) Network firm – A firm or entity that belongs to a network.

(k) Network⁶ – A larger structure: (Ref: Para. A7–A7A)
   (i) That is aimed at cooperation, and
   (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

(l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(m) Personnel – Partners and staff.

(n) Professional judgment (in the context of the ISQCs) – The application of relevant training, knowledge and experience, within the context of the quality control standards, in making informed decisions about the courses of action that are appropriate in designing, implementing and operating the firm’s system of quality management.

(o) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements, and relevant ethical requirements.

(p) Quality objectives – The objectives established by the firm that are what the firm needs to achieve to support the design, implementation and operation of the system of quality management.

(q) Quality risks – Risks arising from conditions, events, circumstances, actions or inactions that may affect the achievement of a quality objective.

(rp) Reasonable assurance – In the context of the ISQCs, a high, but not absolute, level of assurance.

(sq) Relevant ethical requirements (in relation to the ISQCs) – Principles of professional ethics and ethical requirements that are applicable to professional accountants to which the firm and its personnel are subject when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements, taking into account the nature and circumstances of the firm and its engagements. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (Including International Independence Standards) (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A7B, A55)

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⁶ As defined in the Independent Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (Including the International Independence Standards) (Code)
Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk: (Ref: Para. A8–A9)

(i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.

(ii) Procedures are actions to implement policies.

Staff – Professionals, other than partners, including any experts the firm employs.

System of quality management – A system designed, implemented and operated by a firm to provide reasonable assurance that consists of the following eight interrelated components:

(i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and

(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Requirements
Applying, and Complying with, Relevant Requirements

21. The individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm’s system of quality management shall have an understanding of this ISQC relevant to their responsibilities, including the application and other explanatory material, to understand the objective of this ISQC and to apply its requirements properly. (Ref: Para. A10)

22. The firm shall comply with each requirement of this ISQC unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A11)

23. The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements in this ISQC is expected to provide a sufficient basis for the achievement of the objective of this standard. However, because the nature and circumstances of the firm and its engagements vary widely and cannot be fully anticipated in this standard, if the firm shall consider whether there are further matters or circumstances that require the firm to take further actions in addition to those required by this standard to meet the objective of this ISQC determines that the application of the requirements does not provide a sufficient basis for the achievement of the
objective of this standard, the firm shall take further actions. Such actions shall include consideration of whether additional quality objectives than those required by this ISQC are necessary to support the achievement of the objective of this ISQC.

System of Quality Management

24. The firm shall design, implement and operate a system of quality management, in accordance with the requirements of this ISQC.

25. The firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements, in designing, implementing and operating its system of quality management. (Ref: Para. A12–A12B)

Governance and Leadership

26. The firm shall establish the following quality objectives that address the aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management, including the firm's culture, decision-making process, actions, organization and leadership:

(a) The firm's culture promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes, throughout the firm and emphasizing the responsibility of all firm personnel for quality in conducting engagements or performing duties within the system of quality management. (Ref: Para A14–A16)

(b) The firm has leadership who are responsible and accountable for quality.

(c) The firm's strategic decisions and actions, including financial and operational priorities, reflect the firm's commitment to quality and do not undermine the firm's role in consistently performing quality engagements in the public interest. (Ref: Para A17–A18)

(d) The firm has organizational structures with appropriate designation of authority and responsibility that support the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management. (Ref: Para A19–A20)

(e) The firm has appropriate resource planning, including anticipation of resource needs, and obtains and allocates resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management. (Ref: Para A21–A22)

(f) The firm complies with the requirements of law, regulation, and professional standards that relate to the governance and leadership of the firm, if applicable. (Ref: Para A13)

27. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to governance and leadership:

(a) Assigning ultimate responsibility and accountability for the system of quality management to the firm’s chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent). The individual(s) assuming such responsibility and accountability shall: (Ref: Para. A23)

(i) Have the appropriate experience and knowledge to assume their assigned responsibility.
(ii) Demonstrate a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes, and establishing the expected behavior of personnel in conducting engagements and performing duties within the system of quality management. (Ref: Para A14–A16)

(iii) Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the following matters to personnel that fulfill the requirements in paragraph 28: (Ref: Para A25–A26)

a. The system of quality management as a whole; and

b. Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for compliance with independence requirements and the monitoring and remediation process.

(b) Establishing policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the matters set out in paragraph 27(a)(iii) to hold individuals accountable for the responsibilities assigned to them. (Ref: Para. A28–A31)

(c) Establishing policies or procedures for complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the firm that enable reporting by personnel or external parties to appropriate individual(s) within the firm without fear of reprisal and enabling the investigation of such concerns. (Ref: Para. A32–A35)

28. The individual(s) assigned operational responsibility for the matters set out in paragraph 27(a)(iii) shall have: (Ref: Para. A27)

(a) The appropriate experience and knowledge and sufficient time to assume their assigned responsibility;

(b) A direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management; and

(c) An understanding of their operational responsibilities for the firm’s system of quality management or specific aspects of the system of quality management.

The Firm’s Risk Assessment Process

29. The firm shall establish the quality objectives required by this ISQC, which are organized by component, to facilitate the achievement of the objective of this ISQC. (Ref: Para. A36–A39)

30. The firm shall understand the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, taking into account consideration the nature and circumstances of the firm and its engagements. (Ref: Para. A36–A37, A40)

31. Based on the understanding obtained in paragraph 30, the firm shall identify quality risks, before consideration of any responses, based on the understanding obtained in paragraph 30, that: (Ref: Para. A36–A37, A41–A42)

(a) Have a reasonable possibility of occurring; and
(b) If they were to occur, may individually or in combination with other quality risks, have a
significant effect on the achievement of a quality objective(s). (Ref: Para. A44)

32. The firm shall assess the identified quality risks to provide a basis for the design and implementation
of the related responses. (Ref: Para. A36–A37, A45)

33. The firm shall design and implement responses to address the assessed quality risks that are based
on, and responsive to, the reasons for the assessments given to the quality risks. (Ref: Para. A36–
A37, A46–A51)

34. In designing and implementing responses in accordance with paragraph 33, the firm shall include the
responses required by this ISQC, which are organized by component. In doing so, the firm shall
determine that the required responses are appropriately designed and implemented in the context of the
nature of the quality risks identified by the firm and the reasons for the assessments given to the
quality risks likelihood of the quality risks occurring. (Ref: Para. A36–A37, A52)

Consideration of the Design of the System of Quality Management

34A. The firm shall determine whether the design of the system of quality management is appropriate in
order that the objective of this standard is achieved. This determination shall include determining
whether it is appropriate to establish quality objectives in addition to those required by this ISQC.

Changes in the Nature and Circumstances of the Firm or its Engagements

35. The firm shall determine whether changes in the nature and circumstances of the firm or its
engagements occur and, if they occur, the firm shall determine whether to modify the quality objectives, quality risks
or responses, as remain appropriate, in response to such changes, and if not, modify them
through applying the requirements in paragraphs 29–34. (Ref: Para. A36–A37, A53–A54)

Relevant Ethical Requirements

36. The firm shall establish the following quality objectives that address the fulfillment of relevant ethical
requirements, which as defined include the principles of professional ethics: (Ref: Para. A55)

(a) The firm, its personnel and others subject to relevant ethical requirements understand the
relevant ethical requirements, including the independence requirements.

(b) The firm, its personnel and others subject to relevant ethical requirements fulfill their
responsibilities in relation to the relevant ethical requirements, including the independence
requirements.

(c) The firm, its personnel and others subject to relevant ethical requirements identify and
appropriately respond to breaches of the relevant ethical requirements, including the
independence requirements, in a timely manner.

37. In designing and implementing responses to address the quality risks identified by the firm, the firm
shall include the following responses that relate to relevant ethical requirements: (Ref: Para. A55A,
A56 and A61)

(a) Identifying:

(i) The relevant ethical requirements applicable to the firm and its personnel because of the
nature and circumstances of the firm and its engagements; and
(ii) The personnel and others that are required to comply with the relevant ethical requirements, which includes, as applicable, the network, other network firms or personnel in the network or other network firms.

(b) Establishing policies or procedures that enable the firm and its personnel to identify and evaluate threats to compliance with the relevant ethical requirements and address them appropriately. (Ref: Para. A57–A58)

(c) Establishing policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches. (Ref: Para. A59–A60)

(d) Obtaining, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent.

Acceptance and Continuance of Client Relationships and Specific Engagements

38. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances: (Ref: Para. A62)

(a) The firm obtains sufficient appropriate information and makes appropriate judgments about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance. (Ref: Para. A63–A66)

(b) The firm makes appropriate judgments about the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements, including that the firm has: (Ref: Para. A67)

(i) Appropriate resources to perform the engagement; and

(ii) Access to information, or the persons from whom the firm determines it is necessary to obtain information, necessary to be able to perform the engagement;

(c) Financial and operational priorities do not inappropriately influence the firm’s decision to accept and continue client relationships and specific engagements. (Ref: Para. A68)

(d) The firm responds appropriately in circumstances when the firm becomes aware of information subsequent to client or engagement acceptance that: (Ref: Para. A70)

(i) Would have caused it to decline an engagement had that information been available prior to accepting or continuing a client relationship or specific engagement; or

(ii) Affects the firm’s decision to continue a client relationship or specific engagement.

39. In designing and implementing responses to address the quality risks identified by the firm, the firm shall establish policies or procedures that address circumstances when the firm is obligated by law or regulation to accept the client relationship or specific engagement, if applicable. (Ref: Para. A71–A72)
Resources

40. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining and allocating resources, including financial resources, human resources, technological resources, and intellectual resources, in a timely manner to support the design, implementation and operation of the system of quality management: (Ref: Para. A73–A76)

(a) The firm attracts, develops and retains personnel, including engagement partners, who have the competence and capabilities to: (Ref: Para. A77–A79)

(i) Consistently perform quality engagements, including knowledge or experience regarding professional standards and applicable law or regulation for the engagements the firm performs; or

(ii) Perform duties in relation to the operation of the firm’s system of quality management.

(b) The firm assigns an engagement partner and other human resources to each engagement that have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A80–A81)

(c) The firm assigns human resources to perform duties within the system of quality management that have appropriate competence and capabilities to perform such duties.

(d) Personnel demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A82–A84)

(e) The firm obtains or develops, implements and maintains technological resources to appropriately support the operation of the firm’s system of quality management and the consistent performance of quality engagements. (Ref: Para. A85–A89)

(f) The firm obtains or develops, implements and maintains, intellectual resources to appropriately support the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A90–A91)

(g) Personnel are able to appropriately apply or use the firm’s technological and intellectual resources.

Engagement Performance

42. The firm shall establish the following quality objectives that address the performance of quality engagements in accordance with professional standards and legal and regulatory requirements:

(a) Personnel understand and fulfill their responsibilities in connection with the engagement, including, as applicable: (Ref: Para. A92–A93)

(i) The engagement partner’s overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement; and

(ii) The appropriate direction and supervision of the engagement team and review of the work performed.
(b) Engagement teams make appropriate judgments and reach appropriate conclusions in accordance with professional standards and applicable legal and regulatory requirements, and exercise professional skepticism in performing engagements. (Ref: Para: A95)

(c) The engagement documentation is appropriately assembled and retained.

43. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to engagement performance:

(a) Establishing policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including the direction and supervision of the engagement team by more experienced engagement team members and the review by more experienced engagement team members of the work performed by less experienced team members. (Ref: Para. A92–A93)

(b) Communicating the engagement team’s responsibility for:

(i) Implementing the firm’s responses that are applicable at the engagement level; and

(ii) Planning and performing the engagement in accordance with professional standards and applicable legal and regulatory requirements.

(c) Establishing policies or procedures addressing consultation, including the engagement team’s responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented. (Ref: Para. A96–A97)

(d) Establishing policies or procedures addressing differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality control reviewer or personnel performing duties within the firm’s system of quality management, including those who provide consultation. (Ref: Para. A98)

(e) [Refer to Agenda Item 6–B]

(f) Establishing policies or procedures addressing assembly and retention of documentation that require:

(i) The engagement files to be assembled within an appropriate period of time after the engagement reports have been finalized; and (Ref: Para. A110)

(ii) The engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A111–A114)

**Information and Communication**

44. The firm shall establish the following quality objectives that address obtaining, generating or using relevant information and communicating relevant information within the firm internally and externally to external parties on a timely basis to support the design, implementation and operation of the system of quality management and the performance of engagements: (Ref: Para. A115)

(a) The firm has an information system that identifies, captures, processes and maintains relevant and reliable information, whether from internal or external sources, to support the design, implementation and operation of the components of the system of quality management. (Ref: Para. A116–A118)
(b) The firm communicates relevant and reliable information to personnel, the nature, timing and extent of which is sufficient to enable personnel to understand and carry out their responsibilities regarding the system of quality management and for the performance of engagements and duties within the system of quality management. (Ref: Para. A119)

(c) The firm’s culture promotes and emphasizes the responsibility of personnel for the exchange of information with the firm and among its personnel with one another. (Ref: Para. A119)

(d) Personnel communicate relevant and reliable information to the firm when conducting performing engagements and performing activities duties within the system of quality management. (Ref: Para. A119)

(e) The firm communicates relevant and reliable information to external parties, including about the system of quality management to external parties when: (Ref: Para. A1232–A130A25)

   (i) Required by law, regulation or relevant ethical requirements; or

   (ii) Otherwise as appropriate, unless prohibited by law or regulation.

45. In designing and implementing responses to address the quality risks identified by the firm in relation to its information and communication quality objectives, the firm shall include the following responses that relate to information and communication:

(a) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated within the firm, including: (Ref: Para. A119–A120)

   (i) Information that the firm is required to provide to engagement teams to support the performance of engagements. Changes in the system of quality management.

   (ii) Information that the engagement team is required to provide to the firm to support the design, implementation and operation of the firm’s quality management system, including information that is required to be communicated in accordance with professional standards, law or regulation.

   (iii) In circumstances when the firm is part of a network, matters to be communicated by the firm to the network. (Ref: Para. A121)

(b) Establishing policies or procedures that address the nature, timing and extent of matters to be communicated to addressing the communication of information about the firm’s system of quality management to parties external to the firm, including identifying external parties with whom communication is appropriate necessary, if any, and the nature, timing and extent of such communication. Such policies and procedures shall take into account consideration: (Ref: Para A123A–A123B–A126–A129)

   (i) The communication requirements set out in law, regulation or professional standards, where relevant, including required communicated to: (Ref: Para A123C5)

      a. An oversight authority or regulatory body; or

      b. Management or those charged with governance of the firm’s clients.

   (ii) Circumstances when the firm is part of a network or when the firm intends to obtain or use resources provided by a service provider; (Ref: Para. A123D)
(iii) Other circumstances when it is appropriate to communicate relevant information about the system of quality management to external parties. In determining whether it is appropriate to communicate such information to external parties, the firm shall take into account: (Ref: Para A125A–A130A)

a. The extent to which the firm’s relevant stakeholders, including the extent to which they use information about the firm’s system of quality management to support their understanding of the quality of the engagements performed by the firm; and

b. The nature of the engagements the firm performs and the types of entities for which such engagements are performed, including whether, and the extent to which the firm performs engagements for entities that may be of significant public interest. (Ref: Para A123B0)

Monitoring and Remedy Process

46. The firm shall establish the following quality objectives that address the firm’s monitoring and remediation process that support the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved: (Ref: Para. A131)

(a) The firm’s monitoring and remediation process provides relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management.

(b) The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are effectively remediated on a timely basis.

(c) The firm’s monitoring and remediation process provides relevant, reliable and timely information to the individual(s) assigned ultimate responsibility and accountability for the system of quality management sufficient to support their evaluation of whether the system of quality management provides the firm with reasonable assurance that in relation to the objectives identified described in paragraph 19(a) and (b) have been achieved.

47. The firm shall design and implement responses for the monitoring and remediation process in accordance with paragraphs 48–59

Designing and Performing Monitoring Activities

48. In designing and implementing monitoring activities, the firm shall determine the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. In doing so, the firm shall take into account, taking into consideration: (Ref: Para. A132–A136)

(a) For a response, the design of the response and the identified and assessed quality risks, including the nature of engagements where quality risks have been assessed as more likely to occur; (Ref: Para. A139

(b) For monitoring activities over the firm’s risk assessment process, the design of the process;

(c) Changes in factors that have affected the firm’s system of quality management; (Ref: Para. A140)
(d) Previous monitoring activities and remedial actions, including whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management; and
(Ref: Para. A141)

(e) Other relevant information that may suggest deficiencies exist in the firm’s system of quality management, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A141–A143)

49. [Note for Board: The QCTF heard a view that the criteria in this paragraph could be more robust if it were targeted at the risk of the engagements and the partners, rather than focusing on the cyclical inspection of completed engagements. The QCTF also heard a view that this requirement should recognize in-process reviews. The QCTF has not made changes to this paragraph as the QCTF is interested in obtaining the Board’s views on these suggestions.] The firm shall design and implement monitoring activities to determine whether the responses that are required to be implemented at the engagement level have been implemented. Such monitoring activities shall include inspection of engagements based on criteria established by the firm that takes into account the factors in paragraph 48, and which include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (Ref: Para. A144–A146)

50. The firm shall establish policies or procedures that:

(a) Require those performing the monitoring activities to have sufficient time and the competence and capabilities, including sufficient time, experience and knowledge to perform the monitoring activities effectively; and

(b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality control reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A147)

Identifying and Evaluating the Deficiencies

51. The firm shall establish policies or procedures addressing:

(a) The evaluation of the findings arising from the monitoring activities, the results of external inspections and any other relevant information to determine whether one or more deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A148–A151)

(b) The investigation of the root cause(s) of the deficiencies, including that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the deficiencies and their possible severity. (Ref: Para. A151A2–A156)

(c) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the deficiencies, individually and in aggregate, on the system of quality management as a whole. (Ref: Para. A157)

Responding to Identified Deficiencies

52. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis, including determining whether the firm’s related quality objectives, quality risks and responses remain appropriate. (Ref: Para. A158)
53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management, or the individual assigned operational responsibility for the system of quality management, monitoring and remediation shall evaluate whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s) and determine whether they have been implemented.

Findings in Relation to About a Particular Engagement

54. In circumstances when a finding relates to an engagement and there is an indication that the report issued may be inappropriate or that procedures required were omitted during the performance of the engagement, the firm shall: (Ref: Para. A159)

(a) Determine what further action is necessary to comply with relevant professional standards and applicable legal and regulatory requirements; and

(b) Consider whether to obtain legal advice.

Ongoing Communication Related to Monitoring and Remediation

55. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A159A)

(a) A description of the monitoring activities performed;

(b) The deficiencies identified by the firm, including the severity and pervasiveness of such deficiencies; and

(c) The remedial actions to address the deficiencies, including the planned communications to personnel and, if appropriate, planned communications to parties that are external to the firm, as necessary.

56. The firm shall communicate the matters described in paragraph 55 to personnel to the extent that it is relevant to their responsibilities and to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. (Ref: Para. A160)

57. The firm shall communicate information in relation to about the results of the firm’s monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 45(b).

Evaluating the Effectiveness of the System of Quality Management

58. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides the firm with reasonable assurance in relation to that the objectives identified described in paragraph 19(a) and (b) have been achieved. This evaluation shall taking into account consideration: (Ref: Para. A160A – A161A)

(a) The severity and pervasiveness of identified the deficiencies; and

(b) The evaluation in paragraph 53 regarding whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s), and have been implemented; and
Whether there has been appropriate communication of matters related to monitoring and remediation internally and with external parties.

58A. The firm shall evaluate the system of quality management at least annually or more frequently if the effect of identified deficiencies is of a severity and pervasiveness that indicates that the system may not be providing a firm with such reasonable assurance that the objectives identified in paragraph 19(a) and (b) have been achieved.

59. If the evaluation indicates that the system of quality management does not provide reasonable assurance that the objectives identified in paragraph 19(a) and (b) have been achieved, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall take prompt and appropriate action in accordance with their responsibilities, including communicating this fact to personnel to the extent that it is relevant to their responsibilities and, as appropriate, external parties. (Ref: Para. A162–A163)

Network Requirements or Services

60. When the firm operates as part of a network, the firm shall understand:

(a) The requirements established by the network in relation to the firm's system of quality management;

(b) Any other services provided by the network that the firm intends to use in its system of quality management;

(c) The firm's responsibilities in implementing the network requirements or services, if applicable, including any related actions by the firm.

Notwithstanding the firm's compliance with the network requirements or use of the network services, the firm remains responsible for its system of quality management, including professional judgments made in designing, implementing and operating the system of quality management. (Ref: Para. A7, A164–A164B)

The Firm's Risk Assessment Process

61. For the network requirements or services, in addition to complying with the requirements in paragraphs 29–34, the firm shall: (Ref: Para. A164C5–A166)

(a) As part of the establishment of the quality objectives and quality risks provided by the network, as applicable, and, determine the effect of the firm's risk assessment process, and whether quality objectives identified by the network, if any, are appropriate for use in the firm's system of quality management. (Ref: Para. A164D)

(b) As part of the identification and assessment of quality risks, determine whether quality risks identified by the network, if any, are appropriate for use in the firm's system of quality management; and

(bc) As part of the design and implementation of the responses provided by the network, as applicable, and, determine whether the network responses are appropriately designed and implemented in the context of the quality risks identified by the firm and the reasons for the assessments given to the quality risks designed by the network, if any, are appropriate for use in the firm's system of quality management. (Ref: Para. A167)
Resources

61A. For the network requirements or services, the firm’s responses for resources in paragraph 45 shall include determining the firm’s responsibilities in implementing the resources provided by the network, if applicable, including any related actions by the firm.

Information and Communication

62. For the network requirements or services, the firm’s responses for information and communication in paragraph 45 shall include determining the expected form, timing and content of communications between the firm and the network. (Ref: Para. A168)

Monitoring and Remediation Process

63. If the network performs monitoring activities, the firm shall: (Ref: Para. A17069–A1723)

(a) As part of designing and implementing monitoring activities in paragraph 48:

(i) Determine whether the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm’s monitoring activities are appropriate for use in the firm’s system of quality management;

(ii) Determine the firm’s responsibilities in relation to the monitoring activities, including any related actions by the firm; and

(iii) Obtain, at least annually, information about the overall scope, extent and results of the monitoring activities across the network firms’ systems of quality management to determine whether it suggests deficiencies in the firm’s system of quality management;

(b) As part of identifying and evaluating deficiencies in paragraph 51, obtain the results of the monitoring activities of the firm’s system of quality management from the network in a timely manner; and

(c) Obtain information:

(i) At least annually, about the overall scope and results of the monitoring activities across the network firms’ systems of quality management and consider the effect of such information on the nature, timing and extent of the monitoring activities that need to be undertaken by the firm; and

(ii) About the deficiencies identified in other network firms’ systems of quality management, if relevant to the firm, so that the firm can take prompt and appropriate action, unless prohibited by law or regulation.

64. As part of identifying and evaluating deficiencies in paragraph 51, if the firm identifies deficiencies in the network requirements and services, the firm shall communicate to the network relevant information about the identified deficiencies. (Ref: Para. A172)

65. As part of designing and implementing remedial actions in paragraph 52, for deficiencies related to the network requirements or services the firm shall: (Ref: Para. A173)

(a) Understand the planned remedial actions by the network;

(b) Understand whether the network’s remedial actions are designed and implemented to address the deficiencies and their related root cause(s); and
(c) Determine the supplementary remedial actions needed by the firm, if any.

**Service Providers**

66. When the firm intends to obtain or use resources provided by a service provider in performing engagements or designing, implementing and operating its system of quality management, the firm’s responses for resources shall include:

   (a) Establishing the nature and scope of the services, including the firm’s responsibilities in using the resources, and determining the ability of the firm to fulfill relevant ethical requirements in relation to their use, if applicable; (Ref: Para. A174–A177)

   (b) Obtaining an understanding of the service provider and determining the expected form, timing and content of communications between the firm and the service provider; (Ref: Para. A178)

   (c) Determining that the reputation or competence and capabilities of the service provider are appropriate in the context of the service provided; and

   (d) Determining whether the resource is appropriate for use in the system of quality management, including where periodic changes are made to the resources provided. (Ref: Para. A179)

Notwithstanding the firm’s use of a service provider(s), the firm remains responsible for its system of quality management.

67. As part of identifying and evaluating deficiencies in paragraph 51, if the firm identifies deficiencies in the resources provided by the service provider, the firm shall communicate to the service provider information about the identified deficiencies. The firm shall also:

   (a) Understand the planned remedial actions by the service provider and consider whether the service provider’s remedial actions are designed and implemented to address the deficiencies relevant to the firm and their related root cause(s);

   (b) Determine the supplementary remedial actions needed by the firm, if any; and

   (c) Consider whether to continue using the services provided by the service provider.

**Documentation**

68. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A180–A182)

   (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the firm’s system of quality management;

   (b) Support the consistent implementation and operation of the responses; and

   (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management.

69. The documentation shall include: (Ref: Para. A183)

   (a) The firm’s quality objectives and quality risks;

   (b) A description of the responses and how the firm’s responses address the quality risks;
(c) In relation to the monitoring and remediation process:

(i) Evidence of the monitoring activities performed;

(ii) The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information, including the identified deficiencies and their related root cause(s);

(iii) Remedial actions to address deficiencies and the evaluation of the design and implementation of such remedial actions;

(v) Communications about monitoring and remediation;

(vi) The basis for the evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

70. When network requirements or services or resources provided by service providers are used in the firm’s system of quality management, the documentation shall include:

(a) The matters in paragraph 69 as they relate to network requirements or services or resources from service providers that are used by the firm in its system of quality management; and

(b) The firm’s basis for determining that it is appropriate to use the network requirements or services or the resources from a service provider in its system of quality management.

71. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to permit those performing monitoring procedures to evaluate the firm’s system of quality management, or for a longer period if required by law or regulation.