Agenda Item 5-C

Proposed Disposition of the Present Tense and Other Statements in the Proposed ISQC1 (Redrafted)

I. Those That Have Been Elevated to a Requirement

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
8	Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.	18 19	Applicable in all cases. Considered to be essential.
11	Of particular importance is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Accordingly: (a) The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed; (b) The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and (c) The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.	A2 22 21 23	Application guidance in nature. Guidance on the application of an existing requirement. Applicable in all cases. Applicable in all cases. Applicable in all cases.
32	The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest. Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.	33	Applicable in all cases.
50	Review responsibilities are determined on the basis that more experienced engagement team members, including the	40	Applicable in all cases.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	engagement partner, review work performed by less experienced team members. Reviewers consider whether: (a) The work has been performed in accordance with professional standards and regulatory and legal requirements; (b) Significant matters have been raised for further consideration; (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; (d) There is a need to revise the nature, timing and extent of work performed; (e) The work performed supports the conclusions reached and is appropriately documented; (f) The evidence obtained is sufficient and appropriate to support the report; and (g) The objectives of the engagement procedures have been achieved.	A31	Guidance on the application of an existing requirement.
64	An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.	45 46 48 43	Applicable in all cases.
65	An engagement quality control review for audits of financial statements of listed entities includes considering the following: • The engagement team's evaluation of the	47/A38	Some bullets applicable in all cases and therefore elevated to a requirement. Other bullets considered to

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	firm's independence in relation to the specific engagement. • Significant risks identified during the engagement and the responses to those risks. • Judgments made, particularly with respect to materiality and significant risks. • Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. • Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached. • The appropriateness of the report to be issued. Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.		be examples of significant judgments and retained as application material.
70	The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer: (a) Is not selected by the engagement partner; (b) Does not otherwise participate in the engagement	51	Applicable in all cases.

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	during the period of review; (c) Does not make decisions for the engagement team; and (d) Is not subject to other considerations that would threaten the reviewer's objectivity.		
71	The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, however, care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm's policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.	A42 52	Application guidance in nature. Applicable in all cases.
76	The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. Monitoring of the firm's system of quality control is performed by competent individuals and covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.	59(b)	Applicable in all cases.
78	The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, including the following: • The size of the firm.	60 A59	Applicable in all cases. Application guidance in nature.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	• The number and geographical location of offices. • The results of previous monitoring procedures. • The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them). • The nature and complexity of the firm's practice and organization. • The risks associated with the firm's clients and specific engagements.		
87	Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system: (a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; (b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and (c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.	66	Applicable in all cases.
91	As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.	67	Applicable in all cases.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
92	The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.	68 A64 69	Applicable in all cases. Application guidance in nature. Applicable in all cases.
93	Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, the firm takes appropriate action as discussed in paragraph 83.	67(c)	Applicable in all cases.
97	The firm retains this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.	71	Applicable in all cases.

II. Those That Have Been Treated as Application Material and Redrafted

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
17	The firm's policies and procedures emphasize the fundamental principles, which are reinforced in particular by (a) the leadership of the firm, (b) education and training, (c)	A6	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	monitoring, and (d) a process for dealing with non-compliance. Independence for assurance engagements is so significant that it is addressed separately in paragraphs 18-27 below. These paragraphs need to be read in conjunction with the IFAC Code.		
22	A firm receiving notice of a breach of independence policies and procedures promptly communicates relevant information to engagement partners, others in the firm as appropriate and, where applicable, experts contracted by the firm and network firm personnel, for appropriate action. Appropriate action by the firm and the relevant engagement partner includes applying appropriate safeguards to eliminate the threats to independence or to reduce them to an acceptable level, or withdrawing from the engagement. In addition, the firm provides independence education to personnel who are required to be independent.	N/A A21	First two sentences repeat requirements in paragraphs 28(b) and 26(b). Application guidance in nature.
24	Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.	A7	Guidance on the application of an existing requirement.
26	Using the same senior personnel on assurance engagements over a prolonged period may create a familiarity threat or otherwise impair the quality of performance of the engagement. Therefore, the firm establishes criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as (a) the nature of the engagement, including the extent to which it involves a matter of public interest, and (b) the length of service of the senior personnel on the engagement. Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.	A9	Paraphrases an existing requirement in the Code of Ethics. Application guidance in nature.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
29	With regard to the integrity of a client, matters that the firm considers include, for example: • The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance. • The nature of the client's operations, including its business practices. • Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. • Whether the client is aggressively concerned with maintaining the firm's fees as low as possible. • Indications of an inappropriate limitation in the scope of work. • Indications that the client might be involved in money laundering or other criminal activities. • The reasons for the proposed appointment of the firm and non-reappointment of the previous firm. The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.	A14 32	Guidance on the application of an existing requirement. First bullet considered to be applicable in all cases.
30	Information on such matters that the firm obtains may come from, for example: • Communications with existing or previous providers of professional accountancy services to the client in accordance with the IFAC Code, and discussions with other third parties. • Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers. • Background searches of relevant databases.	A16	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
31	In considering whether the firm has the capabilities, competence, time and resources to undertake a new engagement from a new or an existing client, the firm reviews the specific requirements of the engagement and existing partner and staff profiles at all relevant levels. Matters the firm considers include whether: • Firm personnel have knowledge of relevant industries or subject matters; • Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively; • The firm has sufficient personnel with the necessary capabilities and competence; • Experts are available, if needed; • Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and • The firm is able to complete the engagement within the reporting deadline.	A15	Guidance on the application of an existing requirement.
35	Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following: • Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances. • If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.	A18	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	• Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities. Documenting significant issues, consultations, conclusions and the basis for the conclusions.		
37	Such policies and procedures address the following personnel issues: (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) The estimation of personnel needs. Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm's engagements. The firm's recruitment processes include procedures that help the firm select individuals of integrity with the capacity to develop the capabilities and competence necessary to perform the firm's work.	A20	Guidance on the application of an existing requirement. Application guidance in nature.
39	The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. The firm therefore emphasizes in its policies and procedures the need for continuing training for all levels of firm personnel, and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and	A22	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	competence. Where internal technical and training resources are unavailable, or for any other reason, the firm may use a suitably qualified external person for that purpose.	A25	
40	The firm's performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In particular, the firm: (a) Makes personnel aware of the firm's expectations regarding performance and ethical principles; (b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and (c) Helps personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.	A23	Guidance on the application of an existing requirement.
43	Policies and procedures include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.	A26	Guidance on the application of an existing requirement.
45	The firm establishes procedures to assess its staff's capabilities and competence. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following: • An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation. • An understanding of professional standards and regulatory and legal requirements.	A27	Application guidance in nature.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
	• Appropriate technical knowledge, including knowledge of relevant information technology. • Knowledge of relevant industries in which the clients operate. • Ability to apply professional judgment. • An understanding of the firm's quality control policies and procedures.		
47	Through its policies and procedures, the firm seeks to establish consistency in the quality of engagement performance. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed include the following: • How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work. • Processes for complying with applicable engagement standards. • Processes of engagement supervision, staff training and coaching. • Methods of reviewing the work performed, the significant judgments made and the form of report being issued. • Appropriate documentation of the work performed and of the timing and extent of the review. • Processes to keep all policies and procedures current.	A28	Application guidance in nature.
48	It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.	A29	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
53	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. The firm seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.	A33	Application guidance in nature.
54	Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations.	A34	Guidance on the application of an existing requirement to specific circumstances.
55	A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by (a) other firms, (b) professional and regulatory bodies, or (c) commercial organizations that provide relevant quality control services. Before contracting for such services, the firm considers whether the external provider is suitably qualified for that purpose.	A36	Guidance on the application of an existing requirement.
56	The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of: (a) The issue on which consultation was sought; and (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.	A35	Guidance on the application of an existing requirement.

§ in Extant ISA	Statements	§ in Redrafted ISA (Agenda Item 5-A)	Rationale or Comments
59	A firm using a suitably qualified external person to conduct an engagement quality control review recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example, by consulting with another practitioner or firm, or a professional or regulatory body.	A46	Covered by existing requirements relating to differences of opinion.
62	Criteria that a firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review include the following: • The nature of the engagement, including the extent to which it involves a matter of public interest. • The identification of unusual circumstances or risks in an engagement or class of engagements. • Whether laws or regulations require an engagement quality control review.	A37	Guidance on the application of an existing requirement.
66	The engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued.	A39	Clearly application guidance in nature.
67	Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.	A48	Covered by existing requirements relating to differences of opinion.
69	The firm's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise, experience and authority necessary to perform the role. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. In addition,	A41	Guidance on the application of an existing requirement.

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	the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.		
72	Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the firm follows the requirements and guidance in paragraphs 68-71.	A43	Application guidance in nature.
73c	Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.	A48	Not applicable in all cases. Application guidance in nature.
73f	Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, the firm designs and implements appropriate controls for engagement documentation to: (a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed; (b) Protect the integrity of the information at all stages of the engagement, especially when the information is	A50	Application guidance in nature.

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	shared within the engagement team or transmitted to other parties via the Internet; (c) Prevent unauthorized changes to the engagement documentation; and (d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.		
73h	For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to: (a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations; (b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and (c) Enable the scanned copies to be retrieved and printed as necessary. The firm considers whether to retain original paper documentation that has been scanned for legal, regulatory or other reasons.	A52	Application guidance in nature.
73j	The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In the specific case of audit engagements, the retention period	A53	Application guidance in nature.

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	ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.	A54	
73k	Procedures that the firm adopts for retention of engagement documentation include those that: • Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time. • Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed. • Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.	A55	Application guidance in nature.

77	Ongoing consideration and evaluation of the system of quality control includes matters such as the following:
	• Analysis of:
	  • New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate;
	  • Written confirmation of compliance with policies and procedures on independence;
	  • Continuing professional development, including training; and
	  • Decisions related to acceptance and continuance of client relationships and specific engagements.
	• Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and
		A58	Application guidance in nature.

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	procedures relating to education and training. • Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it. • Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.		
88	Appropriate documentation relating to monitoring: (a) Sets out monitoring procedures, including the procedure for selecting completed engagements to be inspected; (b) Records the evaluation of: (i) Adherence to professional standards and regulatory and legal requirements; (ii) Whether the quality control system has been appropriately designed and effectively implemented; and (iii) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances; and (c) Identifies the deficiencies noted, evaluates their effect, and sets out the basis for determining whether and what further action is necessary.	A66	Application guidance in nature.