

Supplement 2 to Agenda Item 4-A – Comparison of the Framework for Audit Quality to ISQC 1¹

Framework Factor	Relevant ISQC 1 Requirement
Values, Ethics and Attitudes	
Firm Level	
Governance arrangements are in place that establish the appropriate “tone at the top” and which aim to safeguard the firm’s independence.	<p>18. The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.</p> <p>19. The firm shall establish policies and procedures such that any person...assigned operational responsibility for the firm’s system of quality control...has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p> <p>20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm...maintain independence where required by the relevant ethical requirements.</p> <p>A4. The firm’s leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm’s management that emphasize the firm’s quality control policies and procedures, and the requirement to:</p> <ul style="list-style-type: none"> (a) perform work that complies with professional standards and applicable legal and regulatory requirements; and (b) issue reports that are appropriate in the circumstances. <p>Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm’s internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm’s view on the importance of quality and how, practically, it is to be achieved.</p>

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

	<p><i>Independence</i></p> <p>21. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. <p>22. Such policies and procedures shall require: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements; (b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and (c) The accumulation and communication of relevant information to appropriate personnel so that: <ul style="list-style-type: none"> (i) The firm and its personnel can readily determine whether they satisfy independence requirements; (ii) The firm can maintain and update its records relating to independence; and (iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level. <p>23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Personnel to promptly notify the firm of independence breaches of which they become aware;
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Framework Factor	Relevant ISQC 1 Requirement
	<ul style="list-style-type: none"> (b) The firm to promptly communicate identified breaches of these policies and procedures to: <ul style="list-style-type: none"> (i) The engagement partner who, with the firm, needs to address the breach; and (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. <p>24. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10–A11)</p> <p>25. The firm shall establish policies and procedures: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)
<p>Necessary personal characteristics are promoted through appraisal and reward systems supporting audit quality.</p>	<p>29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities , and commitment to ethical principles necessary to:</p> <ul style="list-style-type: none"> (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

	<p>A24. Personnel issues relevant to the firm’s policies and procedures related to human resources include, for example:</p> <ul style="list-style-type: none"> • Recruitment. • Performance evaluation. • Capabilities, including time to perform assignments. • Competence. • Career development. • Promotion. • Compensation. • The estimation of personnel needs. <p>Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm’s work and possess the appropriate characteristics to enable them to perform competently.</p> <p>A25. Competence can be developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> • Professional education. • Continuing professional development, including training. • Work experience. • Coaching by more experienced staff, for example, other members of the engagement team. • Independence education for personnel who are required to be independent <p>A26. 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. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.</p> <p>A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.</p> <p>A28. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps</p>
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Framework Factor	Relevant ISQC 1 Requirement
	<p>a firm may take in developing and maintaining competence and commitment to ethical principles include:</p> <ul style="list-style-type: none"> • Making personnel aware of the firm's expectations regarding performance and ethical principles; • Providing personnel with evaluation of, and counseling on, performance, progress and career development; and • Helping 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.
Financial considerations do not drive actions and decisions that impair audit quality.	<p>A5. Of particular importance in promoting an internal culture based on quality 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. Promoting such an internal culture includes:</p> <ul style="list-style-type: none"> (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality; (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.
The firm emphasizes the importance of providing partners and staff with continuing professional development opportunities and access to high-quality technical support.	<p>29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:</p> <ul style="list-style-type: none"> (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

Framework Factor	Relevant ISQC 1 Requirement
	<p>A25. Competence can be developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> • Professional education. • Continuing professional development, including training. • Work experience. • Coaching by more experienced staff, for example, other members of the engagement team. • Independence education for personnel who are required to be independent <p>A26. 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. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.</p> <p>A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.</p>
The firm promotes a culture of consultation on difficult issues.	<p>34. The firm shall establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of, and conclusions resulting from; consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are implemented.
Robust systems exist for making client acceptance and continuance decisions.	<p>26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <ul style="list-style-type: none"> (a) Is competent to perform the engagement and has the capabilities including time and resources, to do so; (b) Can comply with relevant ethical requirements; and (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

Framework Factor	Relevant ISQC 1 Requirement
	<p>A18. Consideration of whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and including whether:</p> <ul style="list-style-type: none"> • 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 competence and capabilities; • 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. <p><i>Integrity of Client (Ref: Para. 26(c))</i></p> <p>A19. With regard to the integrity of a client, matters to consider include, for example:</p> <ul style="list-style-type: none"> • The identity and business reputation of the client’s principal owners, key management, 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 identity and business reputation of related parties.

Framework Factor	Relevant ISQC 1 Requirement
	<p>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.</p> <p>A20. Sources of information on such matters obtained by the firm may include the following:</p> <ul style="list-style-type: none"> • Communications with existing or previous providers of professional accountancy services to the client in accordance with relevant ethical requirements, 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. <p><i>Continuance of Client Relationship</i> (Ref: Para. 27(a))</p> <p>A21. Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary expertise.</p> <p><i>Withdrawal</i> (Ref: Para. 28)</p> <p>A22. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:</p> <ul style="list-style-type: none"> • Discussing with the appropriate level of the client's management and those charged with its governance 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. • Considering whether there is a professional, legal or regulatory 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.

Framework Factor	Relevant ISQC 1 Requirement
	<ul style="list-style-type: none"> Documenting significant matters, consultations, conclusions and the basis for the conclusions.
Knowledge, Experience and Time	
Firm Level	
Partners and staff have sufficient time and resources to deal with difficult issues as they arise	A30. Policies and procedures may 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.
Engagement teams are properly structured	<p>31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:</p> <ul style="list-style-type: none"> (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31) <p>A31. The firm's assignment of engagement teams and the determination of the level of supervision required, include for example, consideration of the engagement team's:</p> <ul style="list-style-type: none"> Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation; Understanding of professional standards and applicable legal and regulatory requirements; Technical knowledge and expertise, including knowledge of relevant information technology; Knowledge of relevant industries in which the clients operate; Ability to apply professional judgment; and Understanding of the firm's quality control policies and procedures.
Partners and more senior staff provide less experienced staff with timely appraisals and appropriate coaching and 'on the job' training.	<p>A25. Competence can be developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> Professional education. Continuing professional development, including training. Work experience. Coaching by more experienced staff, for example, other members of the engagement team.

Framework Factor	Relevant ISQC 1 Requirement
	<ul style="list-style-type: none"> Independence education for personnel who are required to be independent.
Sufficient training is given to partners and staff on audit, accounting and where appropriate specialized industry issues.	<p>A25. Competence can be developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> Professional education. Continuing professional development, including training. Work experience. Coaching by more experienced staff, for example, other members of the engagement team. Independence education for personnel who are required to be independent. <p>A26. 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. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.</p>
Audit Process and Quality Control Procedures	
Firm Level	
The audit methodology is adapted to developments in professional standards and to findings from internal quality control reviews and external inspections.	<p>A65. Ongoing considerations and evaluation of the system of quality control include matters such as the following:</p> <ul style="list-style-type: none"> Analysis of: <ul style="list-style-type: none"> New developments in professional standards and applicable legal and regulatory 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 procedures relating to education and training.

Framework Factor	Relevant ISQC 1 Requirement
	<ul style="list-style-type: none"> • 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.
The audit methodology encourages individual team members to apply professional skepticism and exercise appropriate judgment	<p>ISA 200² paragraph 7</p> <p>7. The ISAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things:</p> <ul style="list-style-type: none"> • Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control. • Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. • Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.
The methodology requires effective supervision and review of audit work	<p>32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:</p> <ul style="list-style-type: none"> (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33) (b) Supervision responsibilities; and (Ref: Para. A34) (c) Review responsibilities. (Ref: Para. A35) <p>A34. Engagement supervision includes the following:</p> <ul style="list-style-type: none"> • Tracking the progress of the engagement;

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Framework Factor	Relevant ISQC 1 Requirement
	<ul style="list-style-type: none"> Considering the competence and capabilities of individual members of the engagement team, and whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement; Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and Identifying matters for consultation or consideration by more experienced engagement team members during the engagement. <p>A35. A review consists of consideration of whether:</p> <ul style="list-style-type: none"> The work has been performed in accordance with professional standards and applicable legal and regulatory requirements; Significant matters have been raised for further consideration; Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; There is a need to revise the nature, timing and extent of work performed; The work performed supports the conclusions reached and is appropriately documented; The evidence obtained is sufficient and appropriate to support the report; and The objectives of the engagement procedures have been achieved.
The methodology requires appropriate documentation	<p>57. The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para A73–A75)</p> <p>A73. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgment and depends on a number of factors, including the following:</p> <ul style="list-style-type: none"> The size of the firm and the number of offices. The nature and complexity of the firm’s practice and organization. <p>For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections.</p>

Framework Factor	Relevant ISQC 1 Requirement
	<p>A74. Appropriate documentation relating to monitoring includes, for example:</p> <ul style="list-style-type: none"> • Monitoring procedures, including the procedure for selecting completed engagements to be inspected. • A record of the evaluation of: <ul style="list-style-type: none"> ○ Adherence to professional standards and applicable legal and regulatory requirements; ○ Whether the system of quality control has been appropriately designed and effectively implemented; and ○ 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. • Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary. <p>A75. Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.</p> <p>Note: ISA 230³ also discusses documentation requirements in more detail.</p>
<p>Rigorous quality control procedures are established and audit quality is monitored and appropriate consequential action taken</p>	<p>48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:</p> <ul style="list-style-type: none"> (a) Include ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient appropriate experience and authority in the firm to assume that responsibility; and (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement. (Ref: Para. A64–A68)

³ ISA 230, *Audit Documentation*

Framework Factor	Relevant ISQC 1 Requirement
	<p>50. The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.</p> <p>51. Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:</p> <ul style="list-style-type: none"> (a) Taking appropriate action in relation to an individual engagement or member of personnel; (b) The communication of findings to those responsible for training and professional development; (c) Changes to quality control policies and procedures; and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. <p>A65. Ongoing consideration and evaluation of the system of quality control include matters such as the following:</p> <ul style="list-style-type: none"> • Analysis of: <ul style="list-style-type: none"> ○ New developments in professional standards and applicable legal and regulatory 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 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.

Framework Factor	Relevant ISQC 1 Requirement
Where required, effective engagement quality control reviews are undertaken	<p>35. The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective valuation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:</p> <ul style="list-style-type: none"> (a) Require an engagement quality control review for all audits of financial statements of listed entities; (b) Set out criteria against which all other audits and reviews of historical information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41) (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b). <p>See analysis performed in Appendix 1.</p>