Proposed ISQC 1 (Revised)[1]: Issues

Objective of the IAASB discussion

The objective of this Agenda Item is to obtain the IAASB's input on the Exposure Draft (ED) of Proposed ISQC 1 (Revised), set out in **Agenda Item 2–A**. This paper provides an overview of the Quality Control Task Force's (QCTF) considerations in further developing the ED since the IAASB's previous discussions.

Introduction

1. This paper should be read in conjunction with **Agenda Item 2–A**, the clean version of draft proposed ISQC 1 (Revised), which will be used for the discussion with the IAASB**.** The following additional agenda papers have also been prepared for the discussion:

   (a) **Agenda Item 2–B:** ED of proposed ISQC 1 (Revised) (With track changes marked from the IAASB's discussion in March 2018, and the extracts presented to the IAASB in June 2018). References to **Agenda Item 2–A** in this document also refer to **Agenda Item 2–B.**

   (b) **Agenda Item 2–C:** Tracking of the requirements in extant ISQC 1[2] to proposed ISQC 1 (Revised).

   (c) **Agenda Item 2–D** (For Reference)**:** Practical examples demonstrating the implementation of proposed ISQC 1 (Revised) across firms of varying size and complexity.

   (d) **Agenda Item 2–E** (For Reference)**:** Illustration of potential frequently asked questions for proposed ISQC 1 (Revised).

2. The various sections of this paper include extracts from the minutes of the March 2018 and June 2018 IAASB meetings, to provide the necessary context for the changes to proposed ISQC 1 (Revised). They also include a high-level summary of the feedback from the Consultative Advisory Group (CAG) at its March 2018 meeting, where relevant to the matters in this paper.

3. Some of the proposed changes in **Agenda Item 2–A** are to address feedback from various outreach activities. This includes:

   (a) The outreach undertaken between March and May 2018, which was summarized in Agenda Item 5 of the June 2018 meeting.

   (b) Feedback from coordination activities with the International Ethics Standards Board for Accountants (IESBA) on proposed ISQC 1 (Revised). The QCTF's considerations on key issues raised by representatives of the IESBA are included in this paper. A summary of the coordination activities with IESBA is included in Appendix 1.

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

[2] 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*

4. This paper sets out the QCTF's considerations by topic themes, and some issues may overlap into other components or sections of the standard. However, the IAASB discussion will follow the sequence of the standard.

Structure of Proposed ISQC 1 (Revised) and Interrelationship of the Components

Extract of June 2018 IAASB Minutes

5. In relation to the structure of the standard, the IAASB:

   (a) In general suggested locating governance and leadership as the first component in the standard because of the importance of this component to the firm's system overall, and the need for it to have appropriate prominence. The IAASB had varying views about the location of the remaining components.

   (b) Noted that the relationships between the components and their interconnectedness is not clear, including between the firm's risk assessment process (RAP) and the other components. The IAASB suggested further clarifying the relationships and interrelatedness, including through the use of examples in the appendix.

   (c) Expressed mixed views about whether the sections of the introduction explaining the structure of the standard and the firm's RAP should be located in the introduction or in the appendix. The IAASB noted that the explanations were difficult to understand, and provided various recommendations of how they could be improved.

   (d) Supported the proposed appendix explaining the components of the system of quality management (SOQM).

Summary of March 2018 CAG Discussions

6. The CAG supported the alignment of the components with the COSO Internal Control – Integrated Framework[3] and suggested changes to the sequencing of the components. (Agenda Item 5 of the June 2018 meeting highlighted the comments from the CAG regarding the overall structure of the standard and the IAASB discussed the structure at the June 2018 meeting)

Task Force Views

7. The QCTF recognized the IAASB's views to place governance and leadership as the first component, and accordingly this component has been placed first in the standard. Although the IAASB expressed mixed views about the explanation of the firm's RAP in the introductory section, the QCTF is of the view that the explanation is essential to understanding that the firm's RAP is applied to all of the components. The QCTF noted that participants in the May 2018 outreach had specifically highlighted the challenge of understanding the governance and leadership component without the background of the firm's RAP.

8. As a result, the introductory section still includes a description of the firm's RAP, with more detailed explanations of the remaining components and their interrelationships in the application material and appendix to the standard. However, the descriptions in the introductory material have been further

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

developed since the IAASB's June 2018 discussion to improve the clarity and understandability, including:

(a) Emphasis on the importance of governance and leadership.

(b) Clarity on the expectations relating to the quality objectives and responses required by the standard, and emphasis that the responses required by the standard alone are not sufficient to address the quality risks.

9. The QCTF considered the relationship between the firm's RAP and the other components in the SOQM. The QCTF noted the feedback from the May 2018 outreach that encouraged less of a 'siloed' approach to the components, since firms may organize their SOQM into different components, or may undertake the RAP in a variety of ways. For example, some firms may perform the RAP for the firm as a whole, while others may undertake the RAP by component, business unit, service line etc. Irrespective of how the firm undertakes the RAP, the firm would need to include the quality objectives and responses required by the standard in its SOQM. Accordingly, additional explanations have been added in paragraphs 8 and A36 of **Agenda Item 2–A** emphasizing that:

(a) The components exist to 'organize' the quality objectives and responses required by the standard.

(b) The firm's processes to establish quality objectives, identify and assess quality risks and design and implement responses may vary.

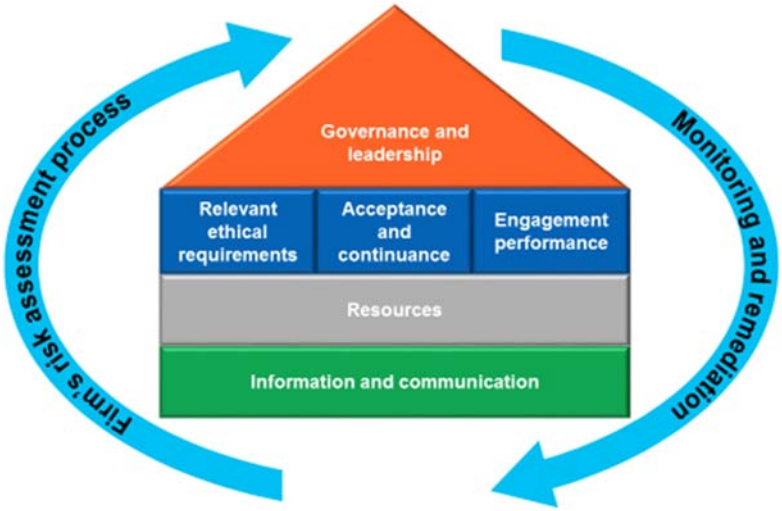
10. With respect to the interrelationship of the other components, in addition to improving the clarity of the relationships of the components overall, the QCTF observed the need to emphasize the impact of resources and information and communication on all of the components, since they are relevant considerations for every component. As a result, the following amendments have been made regarding the relationships of the components:

(a) An explanation of the interrelationships has been included in the appendix to the standard (see paragraphs 18–22 of the appendix of **Agenda Item 2–A**).

(b) Various application material has been added within the components to explain the interrelationships, or to pinpoint where another component may be relevant (see, for example, paragraphs A16, A33, A39, A48, A51, A56, A59, A63, A73, A80, A86, A91, A111 and A115 of **Agenda Item 2–A).**

11. The QCTF also developed a number of different diagrams to depict the SOQM and the interrelationship of the components. The QCTF concluded on two possibilities, which have been included below, and is seeking the IAASB's views on which diagram is preferred. The QCTF is also interested in the IAASB's views about whether the preferred diagram should be in the standard (e.g., in the introduction or appendix) recognizing that the publication of a diagram in the handbook cannot be in color.





Matters for IAASB Consideration

1. Paragraph 10 explains how proposed ISQC 1 (Revised) describes the interrelationship of the components. Does the IAASB have any further suggestions for describing or depicting the interrelationships of the components?
2. The IAASB is asked to indicate which of the two proposed diagrams is preferred and whether the preferred diagram should be included in the standard.

Introduction

Extract of March 2018 IAASB Minutes

12. The IAASB supported how the standard emphasizes the application of professional judgment by the firm in relation to its SOQM, but suggested:

(a) Increasing the emphasis on the use of professional judgment on areas where it is important.

(b) Introducing a definition of professional judgment specifically for ISQC 1, given that the term has been defined in relation to the IAASB's engagement standards.

(c) Clarifying that professional judgment is applied in relation to the achievement of the objective of the standard.

(d) Explicitly addressing professional skepticism, noting that it would be from an internal perspective.

13. The IAASB supported how the QCTF had addressed the firm's public interest role in the introductory material of the standard.

Task Force Views

14. At its June 2018 meeting, in addition to the introductory material explaining the components of the SOQM, the IAASB was presented with various other changes to the introduction including:

(a) A new paragraph that explains the purpose of proposed ISQC 1 (Revised) and compliance with the spirit of professional standards.

(b) Various changes addressing the application of professional judgment in the context of a SOQM.

15. Since the June 2018 discussion, the QCTF has made minor changes to the introductory material addressing professional judgment, and has introduced a new definition of professional judgment in the context of a SOQM, as recommended by the IAASB in March 2018 (see paragraph 20(n) of **Agenda Item 2–A).** Furthermore, given the need for the firm to exercise professional judgment in relation to the design, implementation and operation of its SOQM, a new requirement has been introduced which requires the firm to exercise professional judgment (see paragraph 25 of **Agenda Item 2–A).**

16. The QCTF has also addressed the need to comply with the spirit and letter of professional standards through explaining that the performance of quality engagements involves planning and performing engagements and reporting on them in compliance with professional standards and applicable legal and regulatory requirements (i.e., the letter), including applying professional judgment and exercising professional skepticism in achieving the objective of professional standards and applicable legal and regulatory requirements (i.e., the spirit) (see paragraph 3 of **Agenda Item 2–A).**

Public Interest

17. Although in the March 2018 discussion the Board generally supported how the public interest had been addressed, there were some concerns raised about the reference to the 'legitimate interests of relevant stakeholders'. During the various outreach events in May 2018, outreach participants had varying views about how the standard describes the firm's responsibility to act in the public interest, with some seeking more direct reference to 'acting in the public interest', and others also raising concern about whether the phrase 'the legitimate interests of relevant stakeholders' would be consistently interpreted. Accordingly, the QCTF made various amendments to the introductory material addressing public interest to clarify:

(a) That engagements are performed in the public interest.

(b) The meaning of performing engagements in the public interest, i.e., the consistent performance of quality engagements.

(c) The meaning of consistent performance of quality engagements. This is also linked to the need to comply with the spirit and the letter of professional standards, as described in paragraph 16.

(d) The purpose of the SOQM, which is to support the consistent performance of quality engagements.

18. As part of the coordination with the IESBA, the QCTF and the IESBA representatives discussed how the public interest is described in proposed ISQC 1 (Revised), and how it is articulated in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards*) (the IESBA Code).[4] The QCTF and the IESBA representatives agreed that since the responsibility to act in the public interest under the IESBA Code is an overarching obligation for all professional accountants and includes professional accountants who perform engagements, the obligation to *perform* engagements in the public interest is a subset of the obligation under the IESBA Code to *act* in the public interest. Accordingly, the QCTF believes that the description of public interest in proposed ISQC 1 (Revised) is not inconsistent with the IESBA Code.

19. Given the QCTF has clarified what is meant by performing engagements in the public interest in paragraph 3 of **Agenda Item 2–A**, the quality objective in governance and leadership that aimed to address the public interest through referring to the legitimate interests of relevant stakeholders has been amended to directly refer to the public interest (see paragraph 26(c) of **Agenda Item 2–A).**

Professional Skepticism

20. The QCTF considered the IAASB's suggestion in March 2018 to more explicitly address professional skepticism, including from an internal perspective and also noted the suggestions during the May 2018 outreach for further emphasis on the factors that support the exercise of professional skepticism. The QCTF considered:

(a) Examples of impediments to professional skepticism at the engagement level and how the SOQM could address such impediments (see Appendix 2 of this document for examples of the QCTF's considerations). The QCTF concluded that there are many aspects of the SOQM that support the exercise of professional skepticism at the engagement level. Accordingly, the QCTF is of the view that the relationship between the SOQM and professional skepticism at the engagement level should be dealt with as a broad concept in proposed ISQC 1 (Revised), rather than linking it to specific topics within the components (see paragraphs 3, 42(b) and A95 of **Agenda Item 2–A).**

(b) Whether there is a need for the firm to exercise professional skepticism when making judgments about its SOQM. The QCTF noted the IESBA's current consultation on professional skepticism in the context of all professional accountants (see *Professional Skepticism – Meeting Public Expectations*), which considers, among other matters, the behavioral characteristics inherent in professional skepticism and whether those characteristics should be applied to professional activities beyond the performance of audits or reviews of financial statements, or other assurance engagements. The QCTF agreed that addressing professional skepticism at the firm level would have similar considerations as those set out in the IESBA's

[4] The IESBA Code issued by the IESBA in April 2018.

consultation and it would not be appropriate to require the firm to exercise professional skepticism in the context of judgments related to its SOQM at this time, recognizing that the IESBA's consultation is still in progress. The responses to the IESBA's consultation will be monitored and considered by the QCTF as the IESBA further progresses their project. The QCTF's considerations were discussed with the IESBA Representatives, who supported the suggested approach.

Matters for IAASB Consideration

3. The IAASB is asked to share their views regarding:
   (a) How the introductory material has addressed the public interest.
   (b) The QCTF's proposal to address professional skepticism at the engagement level as a broad concept in proposed ISQC 1 (Revised).

Authority

Extract of March 2018 IAASB Minutes

21. The IAASB suggested further consideration of the paragraphs addressing the authority of proposed ISQC 1 (Revised), and whether it should reference proposed ISQC 2.[5]

Task Force Views

22. The authority of extant ISQC 1 is located in paragraphs 4–9 of the standard. Paragraph 11 of the Preface to the *International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* states:

> *ISQCs are written to apply to firms in respect of all their services falling under the IAASB's Engagement Standards. The authority of ISQCs is set out in the introduction to the ISQCs.*

23. The authority of the International Standards on Auditing (ISAs), is addressed in ISA 200,[6] while the authority of the International Standards on Assurance Engagements (ISAEs) is addressed in ISAE 3000 (Revised)[7] for all of the ISAEs. The authority of International Standard on Review Engagements (ISRS) 2400 (Revised)[8] and International Standard on Related Services (ISRS) 4410 (Revised)[9] are in each standard individually.

24. There are three options to dealing with the authority of the ISQCs, with varying implications:
   (a) Locate one authority section in proposed ISQC 1 (Revised) covering all ISQCs. This would require a change to the Preface, and the authority section in proposed ISQC 1 (Revised) would also need to refer to the EQC reviewer in each instance that it refers to the firm. This approach would be consistent with how the authority is addressed in the ISAs and ISAEs.

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5 Proposed ISQC 2, *Engagement Quality Control Reviews*

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

7 ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

8 ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

9 ISRS 4410 (Revised), *Compilation Engagements*

(b) Locate an authority section in each ISQC. This would mean that the Preface would stay the same and proposed ISQC 1 (Revised) would not need to refer to the EQC reviewer. This would be consistent with the approach taken in the ISREs and ISRSs which deal with the authority in each standard individually, because there is no overarching standard.

(c) Create a new ISQC that contains only the authority of the ISQCs. This would require a change to the Preface, and would raise a question about the number of the new ISQC. However, this would be inconsistent with the approach taken in all of the IAASB's other standards.

25. The QCTF recommends option (b), since reference to the responsibilities of the EQC reviewer in the authority section of proposed ISQC 1 (Revised) may cause confusion as there are no responsibilities for the EQC reviewer set out in proposed ISQC 1 (Revised). Accordingly, such references are best placed in a separate authority section in proposed ISQC 2 where the responsibilities for the EQC reviewer reside. This approach would also not require a change to the Preface.

Matters for IAASB Consideration

4. Does the IAASB support the QCTF proposal to locate the authority of the ISQCs in each ISQC individually?

Objective

Extract of March 2018 IAASB Minutes

26. The IAASB supported the objective of the standard and suggested:

(a) Clarifying in the objective the scope of services to which the standard relates.

(b) Further clarifying that the objective is not merely to comply with the requirements of professional standards and applicable legal and regulatory requirements, but rather to comply with the spirit of what the requirements aim to achieve. However, in general, the IAASB did not support adding 'appropriately fulfill' to part (a) of the objective, as suggested by a member, and suggested that the introductory section explain the principle of complying with the spirit of the requirements.

Task Force Views

27. Paragraph 16 explains how the standard addresses the need to comply with the spirit and letter of professional standards. The QCTF does not believe that any further changes to the objective of the standard are needed.

Definitions

Extract of March 2018 IAASB Minutes

28. The IAASB noted the numerous definitions and therefore encouraged the QCTF to consider whether all of the definitions are needed. In addition to editorial suggestions regarding certain definitions, the IAASB:

(a) Did not indicate a preference for whether the term 'responses,' 'controls' or 'policies or procedures' should be used.

(b) Highlighted that the definition of quality risks is inaccurate, since a reasonable possibility of a quality risk causing the quality objective(s) not to be achieved is the same as a reasonable possibility of occurrence (i.e., it is duplicated). The IAASB therefore suggested amendments to the definition to address the magnitude of the effect of a quality risk.

(c) Did not support the use of the term 'network services.' Furthermore, the IAASB noted that the manner in which the networks are described implies that many of the network services provided by the network are optional for the network firms, yet in practice it is common for the network to impose requirements on the network firms.

(d) Noted that the definition of deficiencies focuses only on responses and suggested that it also explain deficiencies in the context of a missing quality objective.

29. The IAASB also commented on the use of the term 'sufficient and appropriate' throughout the standard and in general supported how the term had been used in the standard.

Task Force Views

30. Given the IAASB's concerns regarding the number of definitions, the QCTF has removed various definitions for the following reasons:

(a) The term is no longer used in the standard (e.g., date of the report).

(b) A definition of the term is not needed because its meaning is evident from the requirements or other material, and the definition would merely repeat the requirement or other material (e.g., monitoring, network services, remediation, root cause analysis, quality objectives and quality risks). (Note that further consideration of the removal of the definitions of quality objectives and quality risks is addressed in the section of this agenda item regarding the firm's RAP.)

31. It is noted that although the definitions of quality objectives and quality risks were removed, the definition of response has been retained because the QCTF is of the view that:

(a) Its meaning is not apparent elsewhere in the standard.

(b) The definition is necessary to provide descriptions of the terms 'policies' and 'procedures', given that the responses required by the standard require policies or procedures in some instances and proposed ISQC 2 and proposed ISA 220 (Revised)[10] refer to policies or procedures.

Definition of Deficiencies

32. The QCTF recognized the IAASB's views that the definition of deficiencies should also include deficiencies in relation to quality objectives and quality risks. The QCTF also explored various ways to more succinctly define deficiencies as including all aspects requested by the IAASB results in a lengthy description. However, the QCTF came to the conclusion that it is not possible to do so with sufficient clarity. The QCTF noted than an alternative solution could be to remove the definition and include the description of deficiencies in application material supporting the monitoring and remediation component.

[10] Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Definition of Relevant Ethical Requirements

33. The definition of relevant ethical requirements has been revised taking into consideration the changes arising from the IESBA Code. These revisions have also been considered by the IAASB's IESBA Restructured Code Working Group, which is currently considering all of the revisions to the IAASB's Standards as a result of the changes to the IESBA Code. The revisions to the definition have also been included in the definitions of relevant ethical requirements in proposed ISA 220 (Revised) and proposed ISRS 4400 (Revised).[11]

34. The QCTF's considerations in revising the definitions included:

    (a) Who the relevant ethical requirements apply to. The QCTF noted that the definition of relevant ethical requirements in extant ISQC 1 is the same as the definition in extant ISA 220[12] and refers to the ethical requirements to which the engagement team and EQC reviewer are subject. However, the QCTF is of the view that the firm and its personnel are also subject to ethical requirements in the performance of engagements, for example, independence provisions. Accordingly, the definition should include the firm and its personnel. This results in a definition that is different from the definition in proposed ISA 220 (Revised).

    (b) Whether or how to refer to the parts or sections of the IESBA Code, given that they have been reorganized. The QCTF in particular noted the revisions to the IESBA Code regarding the applicability of Part 2 (previously Part C) that is addressed to professional accountants in business, which is now applicable to all *individuals* who are professional accountants, including those in public practice. The QCTF also noted that the new IESBA Code is far more integrated than the previous Code, i.e., singling out particular parts would not reflect the importance of the integration. Accordingly, the QCTF is of the view that it is no longer appropriate to refer to the parts of the IESBA Code in the definition because there could be aspects of Part 2 of the IESBA Code that are relevant to the SOQM (i.e., it affects the performance of engagements or the individual's role in relation to the SOQM).

    (c) Ensuring that the new definition does not extend beyond ethical considerations in the context of performing audits or reviews of financial statements, or other assurance or related services engagements. The IESBA Code includes a variety of provisions that affect all professional accountants and other services the firm may provide, for example, tax or consulting services. However, the firm's SOQM need only address ethical requirements to the extent that they relate to the engagements within the scope of proposed ISQC 1 (Revised). Given that the definition no longer refers to parts of the IESBA Code, it is necessary that the definition clearly indicate that relevant ethical requirements only includes ethical requirements to which the firm and its personnel are subject in undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements.

Matters for IAASB Consideration

5. Does the IAASB support the revisions to the definition for 'deficiencies' and agree that this should remain as a definition rather than being located in application material supporting the monitoring and remediation component?

[11] Proposed ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

[12] ISA 220, *Quality Control for an Audit of Financial Statements*

6. Does the IAASB support the revisions to the definition of 'relevant ethical requirements'?

Governance and Leadership

Extract of March 2018 IAASB Minutes

35. The IAASB, in general, supported the use of the term 'financial and operational' priorities instead of 'commercial considerations.'

Summary of March 2018 CAG Discussions

36. The CAG commented on the linkage of this component with relevant ethical requirements and raised concern that the objective addressing the resource allocation may not be within the remit of the standard.

Task Force Views

IESBA Representatives' Feedback on March 2018 Draft

37. In relation to the March 2018 draft of proposed ISQC 1 (Revised), the IESBA representatives:

    (a) Expressed the view that the standard should explicitly indicate to whom responsibility for ethics should be assigned.

    (b) Raised concern about the reference to 'professional values, ethics and attitudes' in the governance and leadership objectives and in various other sections of the standard, and questioned how they are different from ethical principles. The IESBA representatives also commented on the relationship between ethics and quality and how this is reflected in the objective addressing the firm's culture.

38. The QCTF remains of the view that the requirement addressing the assignment of operational responsibility for independence is appropriate because of the particular importance of independence to the firm's ability to perform audits, reviews and other assurance engagements. The QCTF further noted that in practice firms may address ethical breaches differently than independence breaches involving different resources within the firm, and therefore it may not be appropriate or scalable to extend the requirement to assign operational responsibility for independence to also include responsibility for all ethical matters. Further, the QCTF is of the view that given the varying nature and structures of firms, it is not possible for proposed ISQC 1 (Revised) to specifically indicate who within the firm should be responsible for independence, and doing so would be inconsistent with how proposed ISQC 1 (Revised) addresses operational responsibility for other aspects of the SOQM.

39. In relation to the comments on professional values, ethics and attitudes, the QCTF agreed that:

    (a) Consistent with the Audit Quality Framework,[13] issued by the IAASB, professional ethics, values and attitudes are one of the inputs that influences quality engagements. The QCTF is of the view that this is appropriately reflected in the requirements.

    (b) Professional values, ethics and attitudes include ethics, however values and attitudes go beyond ethics. The QCTF has reordered the phrase to place the emphasis on ethics first, i.e., 'professional ethics, values and attitudes' and has amended the application material to improve

[13] *A Framework For Audit Quality: Key Elements That Create An Environment For Audit Quality*

the clarity of what is meant by professional values and attitudes (see paragraphs 26(a) and A14 of **Agenda Item 2–A**).

Other Matters

40. Other revisions to the quality objectives include:

    (a) A direct reference to the firm's role in performing engagements in the public interest (see paragraph 26(c) of **Agenda Item 2–A**). As explained in paragraph 17, there were various concerns regarding the consistent interpretation of the 'legitimate interests of relevant stakeholders' and the introductory section of proposed ISQC 1 (Revised) now includes clarification of what is meant by performing engagements in the public interest.

    (b) Clarification of what is meant by the firm being 'organized' (see paragraph 26(d) of **Agenda Item 2–A**). In making the revisions, the QCTF considered how the COSO Integrated Framework explains the organization of an entity.

    (c) Increased focus on appropriate resource planning at the governance and leadership level, since resource planning is interrelated with other aspects of governance, such as strategic decisions and actions (see paragraph 26(e) of **Agenda Item 2–A**). This amendment was made in response to feedback from the May 2018 outreach. It has resulted in the removal of the resource planning objective in the resources component.

41. In addition to various changes to improve clarity and the readability of the requirements, the changes to the responses include:

    (a) A new requirement for firm leadership to have the appropriate experience and knowledge to assume their assigned responsibility, because of the similar requirement for the individuals assigned operational responsibility for the SOQM (see paragraph 27(a)(i) of **Agenda Item 2–A**).

    (b) Relocating the requirements addressing complaints and allegations from the information and communication component, given that this is a fundamental aspect of a firm's governance and leadership (see paragraph 27(c) of **Agenda Item 2–A**).

Matters for IAASB Consideration

7. The IAASB is asked to share its views on the revisions to the governance and leadership component, in particular whether the IAASB supports the direct reference to the firm's role in performing engagements in the public interest in the quality objectives.

Firm's RAP

Extract of June 2018 IAASB Minutes

42. In relation to the requirements addressing the identification and assessment of quality risks in the firm's RAP, the IAASB:

    (a) Indicated that the identification and assessment of the quality risks should be two discrete steps, similar to the ED of ISA 315 (Revised).[14]

[14] Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

(b) Encouraged the QCTF to reflect that in identifying and assessing quality risks, the firm takes into consideration the effect on the achievement of the quality objectives (i.e., instead of a binary consideration of whether the risk would result in the non-achievement of the quality objective).

(c) Expressed mixed views on the threshold for the identification of quality risks, including the appropriateness of:

(a) The threshold of a 'reasonable possibility' of occurrence; and

(b) Excluding quality risks that have a high magnitude of effect on the achievement of the quality objectives and low likelihood of occurrence.

43. In relation to the prescribed responses in proposed ISQC 1 (Revised), the IAASB:

(a) Supported the approach that all responses address quality risks, including responses that are prescribed by the standard. The IAASB provided various suggestions for demonstrating that the prescribed responses address quality risks, noting that the reasons for the identified quality risks and the assessment of the quality risks affect how the firm designs and implements the prescribed responses.

(b) Sought clarity on what is meant by the 'adaptability' of the prescribed responses.

(c) Recognized the need to retain the robustness of the standard, however noted that many prescribed responses are contradictory to a risk-based approach. Accordingly, the IAASB encouraged the QCTF to keep the prescribed responses at a minimum.

Summary of March 2018 CAG Discussions

44. The CAG suggested improving the articulation of the linkage between the firm's RAP and the other components.

Task Force Views

45. In addition to various drafting changes to improve the clarity of the requirements, the QCTF has made the following key revisions to the requirements addressing the firm's RAP:

(a) Introduced a new step for the firm to understand the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objective. This aligns more closely with proposed ISA 315 (Revised) (i.e., understand the various matters first, and then from that understanding identify and assess the risks) (see paragraph 30 of **Agenda Item 2–A**). The QCTF has also introduced application material supporting this requirement to emphasize the firm's consideration of 'what could go wrong' (see paragraph A40 of **Agenda Item 2–A**).

(b) Separated risk identification and assessment into two discrete requirements and introduced application material to explain the difference between the preliminary assessment (as part of risk identification), and the quality risk assessment (see paragraphs 31, 32 and A42 of **Agenda Item 2–A**).

(c) Revised the threshold of the effect of the quality risk on the achievement of the quality objectives (see paragraph 31 of **Agenda Item 2–A**).

46. The QCTF considered the IAASB's views regarding the threshold of 'a reasonable possibility of occurrence' and quality risks that have a high magnitude of effect on the achievement of the quality objectives and low likelihood of occurrence. The QCTF:

    (a) Explored alternative approaches for a threshold, for example, a more direct reference to 'more than remote' in the requirement and other offline suggestions provided by IAASB members in June 2018. The QCTF agreed that the threshold of a reasonable possibility is consistent with the ED of ISA 315 (Revised) approved by the Board in June 2018. The QCTF note that respondents' feedback on the use of this term will be received as part of the commentary on the ED of ISA 315 (Revised), and therefore will further liaise with the ISA 315 (Revised) Task Force following the closure of the commentary period.

    (b) Noted that proposed ISQC (Revised) does not aim to achieve absolute assurance and therefore the firm is not expected to identify quality risks that have a high magnitude of effect on the achievement of the quality objectives and low likelihood of occurrence. Furthermore, the threshold is consistent with the 'reasonable possibility threshold' established in the ED of ISA 315 (Revised).

Responses Required by the Standard

47. The QCTF explored how to reflect in the standard that all responses address quality risks, including responses that are required by the standard. The QCTF considered application material for each of the required responses that explains their purpose (which effectively is the quality risk), but agreed this would result in an unnecessary increase in the volume of application material, would likely be incomplete, and it would probably drive a checklist approach.

48. However, the QCTF agreed that it would be important to address the link between the responses required by the standard and the quality risks and has included the following:

    (a) The requirement for the firm to establish the responses required by the standard has been clarified to reflect that they are responsive to quality risks (see paragraph 34 of **Agenda Item 2–A)**.

    (b) The requirements in each of the components addressing the responses include a link back to the quality risks as part of the lead-in (see, for example, paragraph 27 of **Agenda Item 2–A)**.

    (c) The introductory material and application material explains the relationship between the responses required by the standard and quality risks, and further explains why there are no prescribed quality risks in the standard (see paragraphs 8 and A52 of **Agenda Item 2–A)**.

    (d) Practical examples have been developed that demonstrate how responses required by the standard would be implemented across firms of varying size and complexity, which also demonstrate the link between quality risks identified and assessed by the firm and the responses required by the standard (see **Agenda Item 2–D)**.

49. The QCTF noted that at the March 2018 meeting, the IAASB had encouraged the QCTF to reconsider the responses required by the standard, as some of the responses were repetitive of the quality objectives. Similar views were raised by some of the outreach participants during the May 2018 outreach events, who also encouraged an analysis of the quality objectives required by the standard to determine whether they address all that is needed by the firm to achieve the overall objective of

the standard. The QCTF further noted the IAASB's encouragement in June 2018 to keep the responses required by the standard at a minimum.

50. Recognizing the encouragement to revisit the responses required by the standard, and the notable inconsistency of the granularity of the responses across the components, the QCTF developed the following criteria for determining which of the responses in the components should remain:

    (a) A requirement of extant ISQC 1 that needs to be retained that has not been explicitly described within a quality objective (i.e., it is not readily apparent from a quality objective that the specific response would be required). For example, the extant requirement to obtain annual independence confirmations (see paragraph 37(d) of **Agenda Item 2–A)**.

    (b) A recommendation in the Invitation to Comment (ITC)[15] that was supported by respondents to the ITC that is not explicitly described within a quality objective. For example, the requirement for assignment of operational responsibility for independence (see paragraph 37(d) of **Agenda Item 2–A)**.

    (c) A response needed for consistency with, or linkage to, other professional standards, including the IESBA Code. For example:

        (i) The requirement for the firm to establish 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 (see paragraph 37(b) of **Agenda Item 2–A).**

        (j) The requirement for the firm to communicate the engagement team's responsibility for implementing the firm's responses at the engagement level and planning and performing the engagement (see paragraph 43(b) of **Agenda Item 2–A)**.

51. Using these criteria, the QCTF undertook a critical review of the quality objectives and responses across the standard to determine their appropriateness. The analysis resulted in some changes to the quality objectives (e.g., to make them more detailed or outcome based) and responses, as well as the elimination of a number of responses. In many cases, the responses eliminated were already addressed by the quality objectives or responses in other components (e.g., a requirement to obtain information or communicate information). The QCTF also observed that most of the requirements of extant ISQC 1 or recommendations of the ITC had been addressed through the prescribed quality objectives.

Matters for IAASB Consideration

8. Taking into consideration the explanations in paragraphs 30–31, does the IAASB agree that the definitions for 'quality objectives' and 'quality risks' are no longer needed?

9. The IAASB is asked to share its views on the proposed revisions to the firm's RAP, in particular whether the IAASB supports:

    (a) The reference to 'a reasonable possibility of occurrence' in the threshold for the identification of quality risks.

    (b) The approach to linking responses required by the standard to quality risks.

[15] Invitation to Comment, *Enhancing Audit Quality in the Public Interest*

10.	The IAASB is asked to share its views on the review of the quality objectives and responses required by the standard.

Relevant Ethical Requirements, Engagement Acceptance and Continuance, Resources and Engagement Performance

Extract of March 2018 IAASB Minutes

52. In addition to various enhancements, the IAASB recommended that more specific responses should be developed to address relevant ethical requirements and engagement performance. The IAASB also suggested:

    (a) Improving the linkage in the engagement performance component with ISA 220.[16]

    (b) Including a direct requirement for the communication of expectations of what needs to be done at the engagement level.

Task Force Views

Relevant Ethical Requirements

53. In relation to the March 2018 draft of proposed ISQC 1 (Revised), the IESBA representatives:

    (a) Commented that the proposed standard appears to take a compliance focused approach to ethics rather than aiming to achieve the outcomes intended by relevant ethical requirements (i.e., the fundamental principles in the IESBA Code).

    (b) Sought alignment of the drafting of the requirements and application material with the drafting in the IESBA Code, for example, the requirements addressing threats and breaches of relevant ethical requirements.

54. The QCTF considered the comments and:

    (a) Made revisions to the definition of relevant ethical requirements and the lead-in requirement for the quality objectives in order to emphasize the principles of professional ethics (see paragraphs 20(q) and 36 of **Agenda Item 2–A)**. The QCTF noted that proposed ISQC 1 (Revised) needs to remain framework neutral and therefore cannot use terminology such as the 'fundamental principles'.

    (b) Noted that the requirements and application material of proposed ISQC 1 (Revised) need to remain framework neutral and that it should avoid repeating requirements established in the IESBA Code because the IESBA Code already addresses the issue. However, the QCTF agreed that where references are made to the IESBA Code the drafting of the IESBA Code should be used. Accordingly, various drafting changes have been made to the requirements and application material to improve the consistency with the IESBA Code (see, for example, paragraphs A57 and A58 of **Agenda Item 2–A)**.

55. The IESBA representatives also questioned the appropriateness of the component description, given that this is a term defined in the standard. However, the QCTF noted that the term 'relevant ethical requirements' is used throughout the standards, and if another component title were used, it may

[16] ISA 220, *Quality Control for an Audit of Financial Statements*

create uncertainty about why it is different from the term used in the actual requirements. The QCTF further noted the importance of the term emphasizing the relevance of ethical requirements, given the nature and circumstances of the firm and its engagements.

56. Other changes to this component include:

    (a) The removal of the reference to network firm personnel in the quality objectives because the QCTF is of the view that relevant ethical requirements could apply to others. This has effectively been replaced by the new response for the firm to identify who is required to comply with the relevant ethical requirements (see paragraph 37(a)(ii) of **Agenda Item 2–A)**.

    (b) A new response for the firm to identify the relevant ethical requirements, given the revisions to the definition of relevant ethical requirements and the resulting need for the firm to determine what applies to the firm and its personnel (see paragraph 37(a)(i) of **Agenda Item 2–A)**.

    (c) New application material to encourage firms to aspire to go beyond the requirements of relevant ethical requirements (see paragraph A55A of **Agenda Item 2–A)**.

    (d) Improvements to the application material to provide a linkage with the information and communication and resources components and the requirement for the firm to assign responsibility for independence (see paragraph A56 of **Agenda Item 2–A).**

Engagement Acceptance and Continuance

57. The QCTF has also made various changes to this component including an increased focus on the firm's financial and operational priorities when accepting and continuing client relationships and engagements. Governance and leadership addresses financial and operational priorities in the context of the firm's strategic decisions and actions; however, these factors are also important in considering the acceptance and continuance of client relationships and engagements as they could influence the firm's decisions. For example, the firm may decide to accept a client because of the fee, but the client may lack the appropriate integrity.

Resources

58. The resources component is critical to supporting the design, implementation and operation of the other components of the SOQM. Accordingly, various references have been included throughout the standard to demonstrate and emphasize the interrelationship between resources and the other components, as described in paragraph 10.

59. The QCTF has also made various other changes to this component including:

    (a) Refinement of the terminology in relation to the competence and capabilities of human resources. The previous draft of the standard had aligned the terminology to the *International Education Standards* (IESs) issued by the International Accounting Education Standards Board (IAESB). However, in coordinating with the ISA 220 Task Force, it was agreed that the terminology should remain as in extant, given that it is also used extensively throughout the IAASB's Standards.

    (b) Refinement of the requirements and application material addressing technological resources, to be more consistent with the terminology and principles in the ED of ISA 315 (Revised) in relation to IT. In developing this material, the QCTF sought the views of the IT specialist supporting the ISA 315 (Revised) Task Force.

60. As a result of the QCTF's refinement of the responses through the review of the responses across the components, there are no required responses remaining in this component. This is because the previous responses have been addressed in the quality objectives, or elsewhere in the standard. For example, the previous responses related to technological resources addressed matters such as:

    (a) Supporting infrastructure, which is addressed by all of the quality objectives in the resources component.

    (b) Personnel's use of the technology, which is addressed through the requirement in engagement performance addressing the implementation of the firm's responses that are applicable at the engagement level (see paragraph 43(b) of **Agenda Item 2–A)**.

61. In relation to the application material supporting human resources, the QCTF debated whether it would be appropriate to refer to the IESs issued by the IAESB. However, the QCTF noted the recent communication by the International Federation of Accountants regarding the continuation of the IAESB and is of the view that it is best to avoid reference to these standards in proposed ISQC 1 (Revised).

Engagement Performance

62. The QCTF has also made various changes to this component including:

    (a) Improved alignment of the requirements with proposed ISA 220 (Revised).

    (b) Increased focus on professional skepticism in the context of professional judgments made at the engagement level.

Matters for IAASB Consideration

11. The IAASB is asked to share its views on the proposed revisions to the following components:

    (a) Relevant ethical requirements.

    (b) Engagement acceptance and continuance.

    (c) Resources.

    (d) Engagement performance.

Information and Communication

Extract of March 2018 IAASB Minutes

63. In relation to the proposals addressing communication with parties external to the firm, such as through transparency reports, the IAASB:

    (a) Agreed that the requirement should strongly encourage firms to communicate externally about the firm's SOQM, and that it would be inappropriate to require such communication as there may be circumstances when it is not necessary or there are no suitable users of the information. However, the IAASB thought that the manner in which it was described in proposed ISQC 1 (Revised) was unclear and subject to varying interpretation and therefore suggested the QCTF further clarify this requirement.

(b) Recommended that more specificity is added to address communication with certain stakeholder groups, such as network firms and clients.

64. In relation to the other requirements addressing information and communication, the IAASB:

(a) Expressed mixed views as to whether the responses should be further streamlined and condensed, or whether doing so would blur the necessary distinction between communication and information.

(b) Recommended that the linkage between information and communication and the other components needs to be improved.

Summary of March 2018 CAG Discussions

65. The CAG in general supported the direction of how the standard is addressing communication with external parties and emphasized the value of transparency reports. However, the CAG cautioned about such communication being confused or mingled with the firm's marketing publications.

Task Force Views

66. The information and communication component is critical to supporting the design, implementation and operation of the other components of the SOQM, which is emphasized in the lead-in to the requirement to establish quality objectives for information and communication (see paragraph 44 of **Agenda Item 2–A)**. Accordingly, various references have been included throughout the standard to demonstrate and emphasize the interrelationship between information and communication and the other components, as described in paragraph 10. Appendix 3 summarizes all of the various references to information and communication or aspects related to information or communication throughout **Agenda Item 2–A.**

67. The QCTF also made various revisions to the quality objective and response dealing with communication with external parties (see paragraphs 44(e) and 45(b) of **Agenda Item 2–A)**. It is intended that the firm would not be required to communicate with external parties given the various challenges discussed by the IAASB, but the firm would consider with whom it should communicate taking into consideration the criteria set out in the standard, i.e., in some cases the firm might determine there are no stakeholders with which the firm needs to communicate or that there are not appropriate channels for such communication. The QCTF is of the view that the criteria proposed in the standard appropriately address the public interest need of such communication because it reflects a need arising:

(a) From the nature of the engagements the firm performs and the types of entities for which such engagements are performed, which have been based on similar considerations in ISA 700 (Revised).[17]

(b) Due to the nature and circumstances of the firm itself.

68. While retaining the distinction between 'information' and 'communication' in the quality objectives, the QCTF made various other changes to this component including:

(a) More explicitly requiring the firm to establish an information system to support the SOQM (see paragraph 44(a) of **Agenda Item 2–A)**. The QCTF noted that the COSO Integrated Framework

[17] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

explicitly addresses the need for an information system and the inclusion of it in the requirements improves the focus on the interrelationship with the other components. However, the QCTF recognizes that this may be perceived as too onerous for smaller firms, and therefore application material has been included which explains the scalability of the information system that has been based on similar material in the ED of ISA 315 (Revised) (see paragraphs A117 and A118 of **Agenda Item 2–A)**.

(b) More explicitly addressing the two-way communication with particular parties, i.e., engagement teams and networks (see paragraph 45(a) of **Agenda Item 2–A)**. The requirement addressing the communication from engagement teams is intended to be consistent with proposed ISA 220 (Revised). It is noted that the engagement performance component includes requirements for the firm to communicate matters to engagement teams (see paragraph 43(b) of **Agenda Item 2–A)**.

(c) New application material to encourage firms to provide transparency about the relationship between the firm and the network in circumstances when the firm is part of a network. The QCTF included this explanation in light of comments from the CAG that highlighted an expectation gap regarding the relationship between firms and their networks, and the need for more transparency to address these expectation gaps (see paragraph A129 of **Agenda Item 2–A)**.

Matters for IAASB Consideration

12. The IAASB is asked to share its views on the proposed revisions to the information and communication component, in particular whether:

    (a) The interrelationships with the other components are clear and sufficiently emphasized.

    (b) The response addressing the communication with external parties is appropriate and adequately addresses the public interest need for such communication.

    (c) The scalability of the quality objective addressing the firm's information system is appropriately highlighted.

Monitoring and Remediation

Extract of June 2018 IAASB Minutes

69. The IAASB commented variously on the proposals relating to monitoring and remediation. The IAASB in general noted the importance of retaining the concept of inspection of completed engagements, however recommended improving the focus on reviews of engagements while they are in progress.

Summary of March 2018 CAG Discussions

70. The CAG sought clarity on the proposals in relation to the stand back evaluation, and made suggestions regarding its location in the standard.

Task Force Views

71. Given the time limitations in June 2018, the IAASB was unable to provide comprehensive feedback on the QCTF's proposals addressing monitoring and remediation. This paper does not repeat the issues highlighted in the June 2018 agenda papers, and focuses on changes since June 2018. For

reference purposes, Appendix 4 includes the issues explained in Agenda Item 5 of the June 2018 meeting in relation to monitoring and remediation.

72. The QCTF considered the IAASB's recommendation to improve the focus on reviews of engagements while they are in progress, rather than inspection of completed engagements. Similar views were raised by some of the outreach participants during the May 2018 outreach events. The QCTF recognizes the need for increased flexibility in how firms design their monitoring activities, however there is an opposing need for the standard to retain its robustness. The QCTF has therefore improved the flexibility of the requirement to inspect engagements through the removal of the term 'completed' in the second sentence of paragraph 49 of **Agenda Item 2–A**, i.e., the firm is required to inspect engagements (in progress or completed) based on criteria established by the firm. However, in order to retain appropriate robustness, the requirement that each engagement partner needs to be subject to an inspection of a completed engagement on a cyclical basis has been retained. Although a cyclical review of completed engagements is still required, the QCTF notes that the requirements and application material have been significantly enhanced from extant ISQC 1 to emphasize the need for the firm to consider a variety of factors in determining the nature, timing and extent of its monitoring activities, including the inspection of engagements and how frequent the cyclical inspection needs to be (see, for example, paragraphs A136–A142, A144 and A145 of **Agenda Item 2–A**).

73. In addition to various drafting changes to improve the clarity of the requirements and application material, other key changes to the monitoring and remediation component since the June 2018 draft include:

    (a) Adapting the requirements for the identification and evaluation of deficiencies, including the root cause analysis, to require the firm to establish policies and procedures for these matters (see paragraph 51 of **Agenda Item 2–A**). The QCTF is of the view that this improves the scalability of these requirements, in particular the root cause analysis, because it places the focus on the firm to determine how it will be undertaken.

    (b) Improving the clarity of the application material addressing when a response, such as an in-process review, is a monitoring activity and when it is a response in another component (see paragraph A135 of **Agenda Item 2–A**). This change was made in response to feedback from the May 2018 outreach, and given the IAASB's views to emphasize other forms of engagement reviews that may serve as monitoring activities.

    (c) Explaining in the application material that while the monitoring activities may be focused on areas of risk in the SOQM, it is nevertheless important to ensure that they are representative of the population such that appropriate conclusions are drawn about the SOQM (see paragraph A139 of **Agenda Item 2–A**). This addition was made in response to feedback from the May 2018 outreach.

    (d) Clarification of the nature and extent of the matters that would be considered in inspection of engagements (see paragraph A146 of **Agenda Item 2–A**). This change was made in response to feedback from the May 2018 outreach.

    (e) A new framework to assist firms in determining whether a finding is a deficiency (see paragraphs A148–A149 of **Agenda Item 2–A**). The QCTF notes the revisions to the definition of deficiency discussed in paragraph 32.

(f) Additional examples to highlight the scalability of the procedures that would be undertaken in investigating the root cause of deficiencies (see paragraph A155 of **Agenda Item 2–A**).

Matters for IAASB Consideration

13. The IAASB is asked to share its views on:

    (a) The proposed revisions to the monitoring and remediation component.

    (b) Whether the revisions to the requirements addressing the inspection of engagements improves the flexibility of the nature, timing and extent of the firm's monitoring activities while retaining the necessary robustness. If not, how does the IAASB suggest this be further addressed?

Networks

Extract of March 2018 IAASB Minutes

74. The IAASB noted the concerns raised by CAG Representatives in relation to the need for requirements for networks. The IAASB indicated that there appears to be misinformation in relation to how the networks operate in practice and further suggested

    (a) Engaging with the Forum of Firms to understand the various network structures and how their membership obligations were developed.

    (b) Analyzing the various alternatives, including clearly detailing the reasons why an option can or cannot be considered in the standard. In this regard, the IAASB suggested various options that could be explored, including:

        (a) Bringing more prominence to the networks in each of the components.

        (b) Improving the requirements so that it is clear that the firm is expected to obtain the required information set out in the standard from the network.

        (c) Imposing requirements that the firm can only use the network services if certain conditions are met at the network level.

        (d) Improving the requirements so that they do not imply that the firm may choose to use the network services in all cases, i.e., the network may require the firm to use the services.

Summary of March 2018 CAG Discussions

75. CAG members expressed the view that the requirements should address networks directly and should be appropriately robust, yet scalable for the variety of network structures that exist. There were further suggestions that networks should provide transparency reports in order to reduce the expectation gap about the relationship between networks and the firms within the networks.

Task Force Views

76. Since the March 2018 meeting, some members of the QCTF engaged with certain members of the CAG to further understand their concerns regarding networks. Taking into account the feedback from this discussion, the issues raised in the March 2018 discussion of the CAG and the various

challenges explained in the ITC, the QCTF identified the following key public interest issues in relation to networks:

(a) Undue reliance on network requirements or services (e.g., network policies or procedures);

(b) Transparency of the network structure and operations, including the relationship between the network and the network firms; and

(c) Consistency of engagement quality across networks.

Undue Reliance on Network Requirements or Services

77. The previous discussions with the IAASB have largely focused on this issue, since it was the most significant issue highlighted in the ITC. The requirements in paragraphs 60–65 of **Agenda Item 2–A** have been designed to address this issue, since they place the onus on the firm to determine that the network requirements or services are appropriate for use in the firm's SOQM, thereby ensuring that the firm retains responsibility for its own SOQM. The requirements have been designed in a manner that is adaptable for various network structures, and can be applied in circumstances when the firm uses services provided by other structures within a network (e.g., a geographical region) or other network firms. A further discussion of the changes to these paragraphs since the March 2018 draft is included in paragraph 86 below.

78. The QCTF has noted that although these requirements are focused on the firm, it has an implicit effect on the network. For example, it would likely:

(a) Create the need for increased communication and transparency between the network and network firms.

(b) Drive consistency across the network because the network would seek ways to effectively and efficiently manage requests from all of its network firms.

79. The QCTF considered whether the undue reliance on network requirements or services could be addressed through establishing requirements at the network level regarding the design, implementation and operation of the network requirements or services. However, the QCTF is of the view that such an approach would not be adaptable to the variety of network requirements or services that may be used by a firm, and doing so would not be effective in enhancing quality since:

(a) It would reduce the responsibility of the firm for its SOQM.

(b) Networks are generally not subject to regulatory inspections or overseen by audit oversight authorities.[18]

80. The QCTF also explored the suggestion from the Board to impose requirements on the firm that allow the firm to use the network requirements or services if certain conditions are met at the network level. However, the QCTF identified that such an approach is not practicable, because:

(a) The conditions would need to be adaptable for the variety of network requirements or services used by the firm in its SOQM.

[18] As explained in the Audit Quality Framework, regulators are a critical element in the financial reporting supply chain and the requirements of auditing and other relevant standards are most effective if they are properly enforced through the legal status of standards, inspection of audits, the investigation of allegations of audit failure, and where appropriate, disciplinary action being taken.

(b) It may not be adaptable for circumstances when the firm uses services provided by other structures within a network or other network firms.

Transparency of the Relationship between the Network and its Network Firms

81. The QCTF recognizes that there may be an expectation gap regarding how the public may perceive the relationship between networks and the network firms, and the reality of how they are established and operate. The QCTF notes that the requirements in the information and communication component addressing the firm's communication with external parties have been established in a principles based manner, i.e., they do not prescribe the nature, timing and extent of communication, or the content of the communication. Nevertheless, the QCTF agreed that it would be helpful to encourage firms to consider being transparent about the relationship between the firm and the network through application material in the information and communication component (see paragraph A129 of **Agenda Item 2–A**).

Consistency of Engagement Quality across Networks

82. The QCTF agreed that networks contribute positively to quality because:

(a) They may impose requirements on the firms in the network and hold the firms accountable for complying with the requirements. The requirements imposed by the network may be more onerous and rigorous than those required by professional standards or law or regulation.

(b) For many networks, the network undertakes monitoring to determine that the firms are complying with the network requirements and professional standards.

(c) They fulfill functions in relation to the SOQM that the firm would otherwise have to perform, for example, the development of a methodology. Such functions may therefore be of a higher quality than if the firm were to fulfill the function at the firm level.

83. The QCTF is of the view that proposed ISQC 1 (Revised) should emphasize the positive influence the network can have on the consistency of quality across the firms in the network, which has been included in the introduction (see paragraph 10 of **Agenda Item 2–A**).

84. The Forum of Firms establishes membership obligations for the member networks in order for them to be accepted as members and retain their membership. These are summarized in Appendix 5. While the membership obligations include a requirement to have common policies or procedures and methodologies supporting audits and globally coordinated monitoring activities, which contribute positively to consistent quality, proposed ISQC 1 (Revised) cannot impose similar requirements on networks because networks vary in terms of the requirements or services they provide to firms. Such requirements may also not be capable of practical implementation by all networks due to the differences in the manner in which networks are established and structured.

85. This is consistent with the feedback from respondents to the ITC (summarized in **Agenda Item 4–A** of the June 2017 IAASB meeting), who were generally supportive of the IAASB taking action to address the issues at the firm level or engagement level, although recognized the challenges associated with developing requirements at the network level. These challenges included the varying network structures that exist and the inability of the IAASB to develop requirements that would be adaptable to the wide variety of circumstances that can and do arise in practice.

Other Changes to the Network Requirements or Services

86. Since March 2018, the QCTF has made multiple changes to the requirements and application material addressing networks. Key changes include:

    (a) Removing the definition of network services and replacing it with the term 'network requirements or services' in the requirements with a supporting description (see paragraph 60 of **Agenda Item 2–A**). The QCTF is of the view that the new term is clearer that some things are required by the network, while other services are available for use by the firm.

    (b) An explicit statement in the requirements that the firm retains responsibility for its SOQM.

    (c) Restructuring the requirements for networks to link them to the relevant components of the SOQM and clarifying that these requirements are additional for those components. The QCTF is of the view that this structure makes it more clear where and how the network requirements or services affect the firm's SOQM (see, for example, paragraphs 61 and 62 of **Agenda Item 2–A**).

    (d) Removal of the requirement for the firm to obtain an understanding of the network's processes for the network requirements or services, given various concerns that the requirement was onerous and implied that another level of assurance is needed. Instead, the firm is required to determine that the network requirements or services are appropriate for use (see paragraph 61 of **Agenda Item 2–A**), and the firm applies judgment in determining how to do so. Application material has been included to assist the firm in this determination (see paragraph A165 of **Agenda Item 2–A**).

    (e) Reinstating the requirement in paragraph 54 of extant ISQC 1 that addresses the communication by the network of the overall scope, extent and results of the monitoring activities across the network and deficiencies in other network firm's SOQM (see paragraph 63(a) of **Agenda Item 2–A**). This requirement has been adapted to clarify its meaning and to ensure consistency with the new requirements addressing networks. The application material has also been redrafted to provide clarity about how the information may be used by the firm (see paragraphs A169–A171 of **Agenda Item 2–A**).

Matters for IAASB Consideration

14. The IAASB is asked to share its views regarding the requirements and application material for networks, including:

    (a) Whether the public interest issues in relation to networks have been appropriately addressed in the standard. If not, what further actions should the QCTF take to address these issues?

    (b) The revisions that link the requirements for networks with the components of the SOQM.

Service Providers

Task Force Views

87. The QCTF agreed that, unlike network requirements or services, service providers would always be a resource to the firm and therefore relate to the resources component of the SOQM, irrespective of the aspect of the SOQM for which the service provider is being used. For example, a service provider may be used to undertake monitoring activities, assist the firm in identifying and assessing quality

risks and designing responses. However, in all of these cases, this would be a resource used by the firm in relation to those components.

88. The QCTF also debated whether the use of external resources at an engagement level should be included in the scope of service providers in proposed ISQC 1 (Revised). Such resources could include the use of human resources in the performance of engagements, for example, in the case of the public sector who frequently use other firms to assist in engagement performance. The QCTF and the ISA 220 Task Force discussed the matter, and concluded that the firm is responsible for the resources used at the engagement level, whether internal or external. However, in some cases the firm's responses regarding the use of the service provider may be actioned at an engagement level (e.g., the firm's responses may require the engagement team to perform specific procedures to determine that a service provider is appropriate for use for that engagement).

89. Given this revised thinking, the QCTF has made various revisions to the requirements and application material in proposed ISQC 1 (Revised) for service providers, including to clarify that these requirements are additional responses required by the standard for the resources component of the SOQM. In doing so, the QCTF considered whether they should be relocated to the resources component, however agreed that it is best placed after networks since the nature of the topics are similar.

Matters for IAASB Consideration

15. The IAASB is asked to share its views regarding the requirements and application material for service providers.

Documentation

90. Since the previous discussions with the IAASB, the QCTF has made minor revisions to the documentation section to ensure the documentation requirements are appropriately aligned with revisions made elsewhere in the standard.

Matters for IAASB Consideration

16. In the view of the IAASB, are there any further revisions needed to the documentation requirements and application material?

Title of the ISQCs

91. Given the new risk-based approach to the management of quality, the QCTF considered whether the ISQCs should be renamed to the 'International Standards on Quality Management'. The QCTF has identified the following advantages and challenges of doing so:

Advantages	**Challenges**
• The new title would better support and emphasize the principles in the standards, i.e., that it is about the management of risks to quality at the firm level. The term control has not been used in the standard.	• Many jurisdictions have law or regulation that require firms to adopt ISQC 1. Changing the title of the standard would therefore create the need for such

• A new title would also draw greater attention to the fact that the standard has fundamentally changed from the extant standard.	jurisdictions to amend their law or regulation. • Other standard setters or organizations reference extensively to ISQC 1, and it would create the need for them to update references to the standard. For example, references to ISQC 1 are included in the IESBA Code, IAESB standards and the Forum of Firms membership obligations, as well as in professional standards at a jurisdictional level.

92. The QCTF is of the view that the challenges of changing the name of the standards are outweighed by the advantages of doing so, and therefore proposes retaining 'ISQCs'.

Matters for IAASB Consideration

17. Does the IAASB support the QCTF's proposal to retain the title of the ISQCs?

Length and Simplicity

Extract of March 2018 IAASB Minutes

93. In relation to the length of the standard, the IAASB noted that the standard addresses a complex topic and accordingly it may not be possible to develop a shorter standard. However, the Board encouraged the QCTF to further simplify the requirements and application material, including through:

    (a) Simplification of the language used.

    (b) Critically analyzing what application material is needed. In this regard, the Board suggested that the QCTF analyze the application material by considering what material is needed to support the consistent application of the standard.

Summary of March 2018 CAG Discussions

94. The CAG raised concerns regarding the overall complexity of the standard, including its structure and its length.

Task Force Views

95. Since the March 2018 discussion, the QCTF has critically evaluated all of the content of proposed ISQC (Revised) in an effort to reduce the length of the standard and to improve the simplicity of the language, in response to the IAASB and CAG comments, as well as feedback from the May 2018 outreach. This included:

    (a) Simplification of terminology.

    (b) Reducing the length of sentences.

(c) Critically reviewing the prescribed quality objectives and prescribed responses across the standard to determine their appropriateness, as explained in paragraphs 49–51.

(d) Removing application material, for example, because it addresses a specific scenario that might not be common, addresses a matter that is obvious, or unnecessarily duplicates requirements or other application material.

96. In undertaking this review, the QCTF received the input of a non-native English speaking National Standard Setter regarding areas where the language was complex or difficult to understand, or application material appeared excessive.

Matters for IAASB Consideration

18. Does the IAASB support the revisions made to proposed ISQC (Revised) to reduce the length of the standard and to improve its simplicity? If not, does the IAASB have any further suggestions in this regard?

Scalability and Additional Guidance

Extract of March 2018 IAASB Minutes

97. In relation to additional guidance supporting the standard, the IAASB:

(a) Supported the development of further guidance to address different sizes and complexity of firms.

(b) Suggested that the guidance accompany the explanatory memorandum and the exposure draft in order to seek feedback on its usefulness.

(c) Encouraged the QCTF to explore where the guidance would be located when the standard is finalized, however expressed mixed views about whether it should have the same authority as application material, or should merely be guidance material in nature.

Summary of March 2018 CAG Discussions

98. In general the CAG raised concerns that small and medium sized-practices (SMPs) may struggle to apply the standard and encouraged the QCTF to:

(a) Improve the scalability of the standard, including in relation to the root cause analysis.

(b) Develop guidance that addresses varying sizes and complexities of firms.

Task Force Views

99. As explained in paragraph 94, the QCTF has critically evaluated all of the content of proposed ISQC (Revised) in an effort to reduce the length of the standard and to improve the simplicity of the language. The QCTF is of the view that this review has helped to improve the clarity and understandability of the standard. However, the QCTF notes the need to retain the robustness of extant ISQC 1 and improve the standard to address issues identified in the ITC. This has had the effect of increasing firms' responsibilities in relation to their SOQM, with the intention of enhancing quality.

100. The QCTF recognizes the concerns about the scalability, which the QCTF believes is largely arising from the overall complexity of the standard. While the standard is inherently scalable because of the risk-based approach that has been introduced, the QCTF has taken the following actions to highlight the judgment that is applied by the firm in the context of its SOQM and the application of the standard to firms of varying size and complexity:

    (a) Emphasize professional judgment. Applying professional judgment is critical to ensuring that the SOQM is designed according to the nature and circumstances of the firm and the engagements it performs. Accordingly, several paragraphs and explanations highlighting professional judgment have been included in the standard, including a requirement for the firm to apply professional judgment and a new definition of professional judgment in the context of an SOQM (see paragraphs 5, 20(n), 25, A1B, A38, A41, A46, A131 of **Agenda Item 2–A**). There is also an explanation of the factors that may affect the firm's decisions about matters related to the firm's SOQM (see paragraph A12 of **Agenda Item 2–A**). Certain other application material also includes factors for the firm to consider in applying the related requirement (see, for example, paragraphs A153 of **Agenda Item 2–A**).

    (b) Include an explicit note regarding the applicability of the standard to firms of varying size or complexity. A new paragraph has been included in the introduction to explain the application of the standard to all firms (see paragraph 2A of **Agenda Item 2–A**).

    (c) Provide examples for SMPs. There are specific examples provided throughout the application material that explain the application of the related requirement for an SMP (see paragraphs A10, A16, A19, A23, A25, A30, A35, A48, A82, A87, A97, A117 and A181 of **Agenda Item 2–A**).

    (d) Note that some requirements may not be relevant. The standard explains that in some cases the requirements may not be relevant, and the application material provides examples of when requirements may not be relevant (see paragraphs 22 and A11 of **Agenda Item 2–A**). The QCTF considered whether it is possible to expand these examples to SMPs more broadly, however the QCTF could not identify a particular requirement that would likely not be applicable to SMPs, since the requirements are generally applicable to all firms.

    (e) Emphasize the scalability of responses required by the standard. Although the responses required by the standard are applicable to all firms, the standard emphasizes that the firm takes into consideration the reasons for the assessment given to the quality risks identified by the firm in designing and implementing the required responses (i.e., there is still a level of flexibility within the responses required by the standard) (see paragraphs 34 and A48 of **Agenda Item 2–A**). There are also some responses that have been drafted in a more specific manner to emphasize the scalability. For example, paragraph 45(b) of **Agenda Item 2–A** requires the firm to take into consideration various factors in determining with whom to communicate externally (which may be no one in some cases) and the nature, timing and extent of such communication. Furthermore, paragraph 49 of **Agenda Item 2–A** requires the firm to establish the criteria for engagement inspections, and paragraph 51 of **Agenda Item 2–A** requires the firm to determine the policies or procedures for the root cause analysis (e.g., what is subject to the root cause analysis and how it would be done).

101. Furthermore, the QCTF has developed a straw case for a practical example to demonstrate how particular aspects of the standard would be applied in the case of firms with different circumstances

(see **Agenda Item 2–D**). The QCTF has also initially developed a frequently asked questions to explain some of the more complex areas of the standard in a manner that is less formal, while staying within the bounds of the standard (i.e., the QCTF is cautious that additional interpretations would be inappropriate) (see **Agenda Item 2–E**). **Agenda Item 2–D** and **Agenda Item 2–E** have been provided for reference purposes.

102. The QCTF has not concluded how the practical examples and frequently asked questions would ultimately be published, since the QCTF is aware that additional support materials are likely to be developed for the IAASB's projects on ISA 540 (Revised)[19] and ISA 315 (Revised). Therefore, the support materials for ISQC 1 (Revised) may need to be handled in a similar manner to those developed for these projects. Nevertheless, the QCTF is interested to obtain the IAASB's views about whether these materials should be provided as supplementary material to the explanatory memorandum of the ED of proposed ISQC 1 (Revised).

Matters for IAASB Consideration

19. Does the IAASB support how scalability has been addressed in proposed ISQC 1 (Revised)? If not, what further actions should be taken to address scalability?

20. In relation to the reference materials in **Agenda Item 2–D** and **Agenda Item 2–E,** the IAASB is asked to share their views about:

    (a) Whether these materials should be published with the explanatory memorandum of the ED of proposed ISQC 1 (Revised)

    (b) Whether an additional example should be developed to illustrate the scalability of the standard, and if so, the nature of the additional example.

[19] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Appendix 1

QCTF Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the QCTF including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the quality control project.

Task Force Activities Since Last IAASB Discussion

2. Since the last IAASB discussion at the June 2018 IAASB meeting, the QCTF has met once in person and held three teleconferences.

Outreach

3. Since the previous discussions with the IAASB, the QCTF has undertaken outreach with the SMP Committee.

Coordination with Other IAASB Task Forces and Working Groups and Other Standard Setting Boards

ISA 220 Task Force (TF) and ISQC 2 Task Force (TF)

4. Since the last IAASB discussion at the June 2018 IAASB meeting, the Chairs of the three Task Forces and staff held one teleconference. Further coordination has also been facilitated through:
    - The overlap of Task Force members on each of the Task Forces, as well as the participation of the QCTF Task Force Chair in the ISQC 2 TF.
    - A teleconference that was held between the QCTF and ISA 220 TF to discuss matters of mutual interest.
    - The QCTF's feedback to the ISQC 2 TF on **Agenda Item 6–B**.
    - Staff liaison and staff's cross-review of agenda papers.

Professional Skepticism Working Group (PSWG)

5. The proposals in this paper were circulated to the Chair of the PSWG for input and feedback.

IESBA

6. Since the last IAASB discussion at the June 2018 IAASB meeting, in addition to ad-hoc liaison and discussions at a staff level, the IAASB and IESBA Staff held two meetings to discuss the ISQC project. In addition, the Chair of the QCTF, the IESBA Liaison Member and various IAASB and IESBA Staff held a call to discuss specific matters on the proposals in **Agenda Item 2–A**, which included feedback on how the QCTF has addressed previous feedback provided by IESBA representatives on the March 2018 draft.

Appendix 2

Examples of Impediments to Professional Skepticism at the Engagement Level and How Proposed ISQC 1 (Revised) Addresses such Impediments

The examples of impediments included below were some of the impediments discussed by the QCTF, and is not an exhaustive list of all impediments that could arise or all of the aspects of proposed ISQC 1 (Revised) that address such impediments.

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
The culture of the firm and the tone set by leadership may not promote the importance of quality, and the need to exercise professional skepticism when performing engagements.	• The firm is required to establish a culture that promotes a commitment to quality throughout the firm and emphasizes the responsibility of personnel for quality in conducting engagements. • The firm is required to have leadership who are responsible and accountable for quality. Such leaders are in turn required to demonstrate a commitment to quality through their actions, including demonstrating appropriate professional ethics, values and attitudes, and establishing the expected ethics, values and behavior of personnel in conducting engagements.
The client's management may be difficult to deal with, which may give rise to a more accepting mindset (e.g., putting pressure on, or persuading, less experienced auditors to accept its position as the appropriate or only position).	• Acceptance and continuance decisions are required to take into consideration the integrity and ethical values of client management, and, when appropriate, those charged with governance. • The firm is required to establish 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 (this supports the engagement team in exercising professional skepticism in relation to the matters on which consultation takes place).
Resource constraints such as financial (e.g., inappropriate fees) or human resources (i.e., limited time) may act as an impediment to the exercise of professional skepticism.	• The firm's strategic decisions and actions, including financial and operational priorities, are required to reflect the firm's commitment to quality and should not undermine the firm's role in serving the public interest to consistently perform quality engagements. • The firm is required to have appropriate resource planning, including anticipation of resource needs, and obtain and allocate resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's SOQM. • Acceptance and continuance decisions are required to take into consideration whether the firm is able to perform the

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
	engagement in accordance with professional standards and applicable legal and regulatory requirements, including whether the firm has appropriate resources to perform the engagement.
Human resources may not have the competence and capabilities to be in a position to exercise professional skepticism.	• Acceptance and continuance decisions are required to take into consideration whether the firm is able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements, including whether the firm has appropriate resources to perform the engagement. • The firm is required to attract, develop and retain personnel, including engagement partners, who have the competence and capabilities to consistently perform quality engagements. • The firm is required to assign engagement partners and other personnel to each engagement that have appropriate competence and capabilities, including sufficient time, to consistently perform quality engagements. • Personnel are required to demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable by the firm through timely evaluations, compensation, promotion and other incentives. • The firm is required to establish 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 (this supports the engagement team in exercising professional skepticism in relation to the matters on which consultation takes place).
The firm's evaluation, promotion and compensation of human resources may create incentives for auditors that do not appropriately encourage professional skepticism.	• The firm is required to establish policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for matters related to the SOQM. • Personnel are required to demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable by the firm through timely evaluations, compensation, promotion and other incentives.
Engagement team members may not have the appropriate experience to identify potential	• The firm is required to assign engagement partners and other personnel to each engagement that have appropriate

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
areas of risk and exercise of professional skepticism.	competence and capabilities, including sufficient time, to consistently perform quality engagements. • The firm is required to ensure that personnel understand and fulfill their responsibilities for the engagement, including the engagement partner's responsibility for achieving quality on the engagement and being sufficiently and appropriately involvement throughout the engagement, and the appropriate direction and supervision of the engagement team and review of the work performed. This includes establishing policies or procedures that require more experienced engagement team members to direct and supervise the engagement team and the work performed by less experienced team members to be reviewed by more experienced engagement team members.
Engagement team members may rely on the firm's resources and merely follow procedures without thinking critically and probing (e.g., IT applications or checklists).	• The firm is required to obtain or develop, implement and maintain, technological resources to appropriately support the operation of the firm's SOQM and the consistent performance of quality engagements. • The firm is required to obtain or develop, implement and maintain, intellectual resources to appropriately support the consistent performance of quality engagements, and such intellectual resources are required to be consistent with professional standards and applicable legal and regulatory requirements, where applicable. • The firm is required to ensure that personnel are able to appropriately apply or use the firm's technological and intellectual resources.

Appendix 3

References to Information and Communication from Other Components in Proposed ISQC 1 (Revised)

Component or Section	Paragraph Number
Governance and leadership	A15
	A16
	A32
	A35
Firm's risk assessment process	A39
	A48
	A49
	A54
Relevant ethical requirements	37(c)
	A56
	A59
	A60
Acceptance and continuance	38(d)
	A63
	A64
	A65
	A66
	A67
	A70
	A71
Resources	A80
	A81
	A86
	A90
	A91
Engagement performance	43(b)
	A94

Component or Section	Paragraph Number
Monitoring and remediation	46(a) and (c)
	48(e)
	51(a)
	55
	56
	57
	58
	59
	A140
	A141
	A143
	A148
	A151
	A160
	A161
	A163
Networks	62
	63
	64
	A165
	A168
	A169
	A170
	A171
Service providers	66(b)
	67
	A177

Component or Section	Paragraph Number
Service providers	A178
Documentation	A180
	A181
Appendix	16
	20

Appendix 4

Extract of Agenda Item 5 of the June 2018 Meeting Addressing Monitoring and Remediation

Extract of March 2018 IAASB Minutes

1. At the March 2018 meeting, matters discussed by the IAASB included:

   (a) Applying the quality RAP to the monitoring and remediation component.

   (b) Undertaking monitoring and remediation over the quality RAP.

   (c) Addressing quality objectives and quality risks in the context of deficiencies.

   (d) The use of in-process reviews as monitoring activities.

   (e) How frequently firm leadership should evaluate whether the SOQM provides the firm with reasonable assurance in accordance with the objective of the standard.

Task Force Views

2. As requested by the IAASB in March 2018, the QCTF has amended the requirements addressing monitoring and remediation in order to reflect that it is also subject to the firm's RAP. This includes new quality objectives for monitoring and remediation that focus on the output of the process. The QCTF explored structuring this component in a manner similar to the other components, however given the extensive responses in this component, it is proposed that a general requirement be included to address the design and implementation of the required responses that references the required responses in the paragraphs that follow (see paragraph 45 of **Agenda Item 5–A**).

3. The QCTF recognizes the concerns from outreach participants regarding the practicalities of the proposed requirement in paragraph 57 of **Agenda Item 5–A**, in particular the need for a framework to provide consistency in application, the level of understanding of firm leadership of the SOQM, whether the conclusion is for a period or a point in time, and how remediation of the deficiencies is taken into account (see paragraph 27 of Appendix 2). The QCTF has amended this requirement to clarify:

   (a) The frequency with which the evaluation is undertaken, as requested by the IAASB.

   (b) The information that should be considered by firm leadership in undertaking the evaluation, in order to provide clarity regarding what should be considered such that there is consistent application of the requirement.

4. Other changes that have been proposed to this component include:

   (a) Organizing the content into a more logical order, and refining how the requirements are articulated, where possible.

   (b) More explicit references to monitoring the firm's RAP, in addition to monitoring activities over the responses. This was in response to Board comments and outreach feedback.

   (c) Highlighting that monitoring activities should be designed to determine whether the responses that are required to be implemented at the engagement level have been implemented. This amendment addresses:

(a) Comments from the Board and outreach to address other types of engagement-level reviews that may form part of monitoring activities, including in-flight reviews.

(b) Comments from outreach to clarify what an inspection of completed engagements should address.

(d) Adding flexibility to the requirement addressing the objectivity of those performing monitoring activities, in response to feedback that there may be certain monitoring activities undertaken directly by the persons performing the related response, which may be appropriate in some cases.

(e) Refinement of the requirements addressing communication, in order to reduce the repetitiveness between the communication requirements in monitoring and remediation and those in information and communication (Note: the information and communication section has not been presented in **Agenda Item 5–A**, however it addresses the nature, timing and extent of communication and applies to all communication across the SOQM, including communication required by other components).

5. The QCTF also plans to enhance or consider the application material in relation to the following matters, which will be presented to the IAASB in September 2018:

(a) Emphasis on the importance of undertaking monitoring activities that confirm the operation of the SOQM across the whole population subject to monitoring (i.e., not only areas of risk), such that the firm forms an appropriate conclusion on its SOQM.

(b) The need to consider all of the monitoring activities in determining the nature, scope and frequency of monitoring activities (e.g., if the firm has undertaken engagement level monitoring through in-flight reviews, it may reduce the extent of inspection of completed engagements).

(c) Further clarification on what is considered to be inspection of completed engagements.

(d) The cyclical inspection of completed engagements, in particular the suggestion that this should be undertaken every 3 years.

(e) Factors to consider in determining whether a finding is a deficiency, investigating the root causes of deficiencies and considering the severity and pervasiveness of deficiencies.

Appendix 5

Forum of Firms Membership Obligations

1. The Forum of Firms membership obligations are as follows:

   (a) Maintain quality control standards in accordance with ISQC 1 in addition to relevant national quality control standards;

   (b) Conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews;

   (c) Have policies and methodologies for the conduct of transnational audits that are based, to the extent practicable, on the ISAs;

   (d) Have policies and methodologies that conform to the IESBA Code of Ethics for Professional Accountants and national codes of ethics; and

   (e) Agree to submit to the Secretary of the Forum an annual report, in an approved format, indicating that it meets the membership obligations set forth above.

2. A transnational audit is defined in the constitution of the transnational audit committee as follows:

   Transnational audit means an audit of financial statements which are or may be relied upon outside the audited entity's home jurisdiction for purposes of significant lending, investment or regulatory decisions; this will include audits of all financial statements of companies with listed equity or debt and other public interest entities which attract particular public attention because of their size, products or services provided.