

EXTRACTS FROM PROPOSED INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1 (PREVIOUSLY INTERNATIONAL STANDARD ON QUALITY CONTROL 1) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

(TRACK CHANGES FROM MARCH 2020 UPDATED AGENDA ITEM 4–A)

CONTENTS

Introduction	Application and Other Explanatory Material
The Firm’s System of Quality Management	The Firm’s System of Quality Management (Ref: Para. 6A–13B)
<p><u><i>Use of the Terms “Personnel,” “Individuals,” and “Engagement Team” in this ISQM</i></u></p> <p><u>13B. In this ISQM, the following terms are used and applied as attributed below:</u></p> <ul style="list-style-type: none"> • <u>Personnel: Requirements of this ISQM that refer to personnel apply to partners and people employed by the firm, including people in a service delivery center of the firm.</u> • <u>Individuals: Requirements of this ISQM that refer to individuals apply to:</u> <ul style="list-style-type: none"> ○ <u>Personnel as described above; and</u> 	

<ul style="list-style-type: none"> ○ <u>People used by the firm from a network, another network firm or a service provider to perform procedures on an engagement or activities within the system of quality management, including people in a service delivery center of a network or another network firm, component auditors and external experts.</u> • <u>Engagement teams: Requirements of this ISQM that refer to engagement teams apply to all individuals included in the definition of engagement team, including component auditors.</u> 	
<p>Effective Date</p>	
<p>17. Systems of quality management in compliance with this ISQM are required to be designed <u>and</u>, implemented, and commence operation by TBD, <u>and the evaluation of the system of quality management required by paragraph 65A of this ISQM is required to be performed within one year following TBD.</u></p>	<p>_____</p>

Definitions	Definitions
<p>19. In this ISQM, the following terms have the meanings attributed below:</p>	
<p>(a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ISQM) – This exists when: (Ref: Para. A9A, A175)</p> <p>(i) A quality objective required to achieve the objective of the system of quality management is not established;</p> <p>(ii) The likelihood of one or more quality objectives not being achieved is above an acceptably low level, because:</p> <p>a. A quality risk, or combination of quality risks, is not identified or properly assessed; or (Ref: Para. A9B)</p> <p>(iii)b. A response to address an assessed quality risk, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly</p>	<p><i>Deficiencies</i> (Ref: Para. 19(a))</p> <p>A9A. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.</p> <p>A9B. When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the response(s) to address such quality risk(s) is likely to be absent, or not appropriately designed or implemented.</p> <p>A10. In the context of this ISQM, theAn other aspects of the system of quality management consists of the requirements in this ISQM addressing:</p> <ul style="list-style-type: none"> • Assigning responsibilities (paragraphs 22A–22B); • The firm’s risk assessment process, i.e., the process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses; • The monitoring and remediation process; and • The evaluation of the system of quality management. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of deficiencies related to other aspects of the firm’s system of quality management</i></p> <p>The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management.</p> <p>The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and</p> </div>

<p>designed, implemented or operating effectively.</p> <p>(iv#) An other aspect of the system of quality management is absent, <u>or</u> not properly designed, <u>implemented</u> or not operating effectively, such that the likelihood of not fulfilling a requirement of this ISQM <u>has not been addressed</u>is above an acceptably low level. (Ref: Para. A10)</p>		<p>that additional quality objectives need to be established, or quality risks or responses modified.</p> <ul style="list-style-type: none"> • The firm’s monitoring and remediation process is not designed or implemented in a manner that: <ul style="list-style-type: none"> ○ Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management. ○ <u>Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</u> • <u>The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management.</u> 	
<p>(gA) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant <u>sources</u>information, which indicates that one or more deficiencies may exist. (Ref: Para. A11A – A11B)</p>	<p><u>Findings (Ref: Para. 19(gA))</u></p> <p>A11A. Information accumulated from the performance of monitoring activities, external inspections and other relevant <u>sources</u>information may <u>reveal other observations about the firm’s system of quality management, such as</u>also indicate positive outcomes or may reveal opportunities for the firm to improve, or further enhance, the system of quality management. <u>Paragraph A173 further explains how other observations may be used by the firm in the system of quality management.</u></p> <p><u>A11AA.Paragraph A165 provides examples of information from other relevant sources.</u></p> <p>A11B. Monitoring activities include monitoring at the engagement level, such as inspection of completed engagements. Furthermore, external inspections and other relevant <u>information sources</u> may include information <u>that relates to specific</u>about engagements. As a result, information about the design, implementation and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.</p>		

<p>(q) Quality risk – A risk adversely affecting the achievement of one or more quality objectives that has a reasonable possibility of:</p> <p>(i) Occurring (i.e., likelihood); and</p> <p>(ii) Individually, or in combination with other risks, being significant <u>adversely affecting</u> to the non-achievement of one or more quality objectives if the risk were to occur (i.e., magnitude). (Ref: Para. A11C)</p>	<p><u>Quality Risk (Ref: Para. 19(q))</u></p> <p><u>A11C. The firm exercises professional judgment in determining the degree to which a risk, individually, or in combination with other risks, may adversely affect the achievement of a quality objective(s), and whether the risk is a quality risk. The degree may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk and how the risk affects the quality objective(s).</u></p>
<p>(tA) Service provider <u>(in the context of this ISQM)</u> – An individuals or organizations that are external to the firm, that is <u>who are</u> engaged by the firm and used in the system of quality management, including in the performance of engagements. Service providers exclude networks, <u>other firms within the network</u> firms or other structures or organizations in the network. (Ref: Para. A18A, <u>A134145A</u>)</p>	<p>A18A. A service provider does not include the use of component auditors external to the firm in the context of an audit of group financial statements, or when using the work of internal auditors.</p>

Requirements	
<p>The Firm’s Risk Assessment Process</p>	<p>The Firm’s Risk Assessment Process (Ref: Para. 22C–22G)</p>
<p>22C. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks to the achievement of the quality objectives and design and implement responses to address the assessed quality risks. As part of this process, the firm shall establish policies or procedures that are designed to identify information about changes in the nature and circumstances of the firm or its engagements and may indicate that: (Ref: Para. A24F–A24HA)</p> <p>(a) Additional quality objectives need to be established or whether previously added quality objectives are no longer applicable;</p> <p>(b) Additional quality risks need to be identified, or assessed quality risks modified or reassessed; or</p> <p>(c) Additional responses need to be designed or implemented, or the design or implementation of responses modified.</p>	<p>A24F. How the firm designs the firm’s risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized.</p> <div data-bbox="884 444 1940 1032" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the firm’s risk assessment process may differ</i></p> <ul style="list-style-type: none"> • A less complex firm may have an informal risk assessment process, which is undertaken by the individual assigned operational responsibility for the system of quality management. The risk assessment process may be undertaken for the system of quality management as a whole, rather than individually for each component. • A more complex firm may have a structured and formal risk assessment process, involving multiple individuals. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm’s network may also provide the firm with quality objectives, quality risks and responses to be included in the firm’s system of quality management. </div> <p>A24G. The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative, and the requirements of this ISQM are not intended to be addressed in some circumstances may be performed in a nonlinear manner.</p> <div data-bbox="884 1214 1940 1357" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of the iterative and nonlinear nature of the firm’s risk assessment process</i></p> <ul style="list-style-type: none"> • In identifying and assessing quality risks, the firm determines that an additional quality objective(s) needs to be established. </div>

- When designing and implementing responses, the firm determines that a quality risk was not identified and assessed.

A24H. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm's information and communication component and include:

- The results of the firm's monitoring and remediation process.
- Information from the network or service providers, including:
 - Information about network requirements or network services (see paragraph 58); and
 - Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 60–61).

Other information, both internal or external, may also be that is relevant to the firm's risk assessment process, such as may be internal or external to the firm and may include:

- ~~• The results of the firm's monitoring and remediation process (see paragraph 49).~~
- Information regarding complaints and allegations about the commitment to quality of the firm or its personnel.
- The results of external inspections.
- Information from regulators about the entities for whom the firm performs engagements which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial statements or non-compliance with securities regulation).
- Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm's resources.
- ~~• Information from the network or service providers, including:~~

	<ul style="list-style-type: none"> ○ Information about network requirements or network services (see paragraph 58); and ○ Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 60–61). ● Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider. <p>[Remainder of paragraph A24H moved to A24U]</p> <p>A24HA. [Moved to paragraph A22V]</p>
<p>22D. The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A24I–A24K)</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 22D)</p> <div style="border: 1px solid black; padding: 5px;"> <p>A24I. <i>Example of circumstances that may give rise to the need for additional quality objectives</i></p> <p>Law, or regulation, or the requirements of national professional standards, <u>may</u> require the firm to establish additional quality objectives in relation to the appointment of non-executive independent individuals to the firm’s governance structure, <u>and the firm establishes additional quality objectives to address the requirements.</u></p> </div> <p>A24J. The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.</p> <p>A24K. The firm may establish sub-objectives to enhance the firm’s identification and assessment of quality risks, and design and implementation of responses.</p>
<p>22E. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:</p> <p>(a) <u>Obtain an understanding of</u> the factors (i.e., the conditions, events,</p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 22E)</p> <p>A24N. There may be factors conditions, events, circumstances, actions or inactions that may adversely affect the achievement of a quality objective that have not been in addition to those described in paragraph 22E(a) that may adversely affect the achievement of a quality objective. A risk arises from how, and the degree to which, a <u>condition, event, circumstance,</u></p>

<p>circumstances, actions or inactions) that may adversely affect the achievement of the quality objectives. The factors the firm shall understand including: (Ref: Para. A24N–A24NB)</p>	<p><u>action or inaction</u>factor may adversely affect the achievement of a quality objective. Not all risks are quality risks.</p>										
<p>(i) <u>With respect</u>These relating to the nature and circumstances of the firm:</p> <ol style="list-style-type: none"> a. The complexity and operating characteristics of the firm; b. The strategic and operational decisions and actions, business processes and business model of the firm; c. The characteristics and management style of leadership; d. The resources of the firm, including the resources provided by service providers; e. Law, regulation, professional standards and the environment in which the firm operates; and 	<table border="1"> <tr> <td colspan="2" data-bbox="871 284 1942 349"> <p><u>Examples of factors and how quality risks may arise</u></p> </td> </tr> <tr> <td data-bbox="871 349 1333 609"> <p>Examples of <u>the firm's understanding of the conditions, events, circumstances, actions or inactions</u> factors that may adversely affect the achievement of the quality objectives</p> </td> <td data-bbox="1333 349 1942 609"> <p>Examples of quality risks <u>that may arise</u></p> </td> </tr> <tr> <td colspan="2" data-bbox="871 609 1942 682"> <p><u>Conditions and circumstances:</u></p> </td> </tr> <tr> <td data-bbox="871 682 1333 933"> <p>The size of the firm, the geographical dispersion of the firm, how the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities (e.g., use of service delivery centers).</p> </td> <td data-bbox="1333 682 1942 933"> <p>In the context of governance and leadership, these factors may give rise to quality risks relating to how a consistent culture is permeated throughout the firm.</p> </td> </tr> <tr> <td data-bbox="871 933 1333 1347"> <p><u>The strategic and operational decisions and actions, business processes and business model of the firm:</u> <u>The extent of services provided</u> offered by the firm, <u>including services</u> not within the scope of this ISQM, <u>and the</u> <u>are</u> relative significance <u>to of the various services</u> to the firm's overall financial goals.</p> </td> <td data-bbox="1333 933 1942 1347"> <p>In the context of governance and leadership, these factors may <u>this may</u> give rise to <u>a number of</u> quality risks <u>such as:</u></p> <ul style="list-style-type: none"> • relating to how <u>Resources</u> are <u>allocated or assigned in a manner that prioritized</u> ed <u>across</u> the <u>services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM</u> firm's various services, and </td> </tr> </table>	<p><u>Examples of factors and how quality risks may arise</u></p>		<p>Examples of <u>the firm's understanding of the conditions, events, circumstances, actions or inactions</u> factors that may adversely affect the achievement of the quality objectives</p>	<p>Examples of quality risks <u>that may arise</u></p>	<p><u>Conditions and circumstances:</u></p>		<p>The size of the firm, the geographical dispersion of the firm, how the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities (e.g., use of service delivery centers).</p>	<p>In the context of governance and leadership, these factors may give rise to quality risks relating to how a consistent culture is permeated throughout the firm.</p>	<p><u>The strategic and operational decisions and actions, business processes and business model of the firm:</u> <u>The extent of services provided</u> offered by the firm, <u>including services</u> not within the scope of this ISQM, <u>and the</u> <u>are</u> relative significance <u>to of the various services</u> to the firm's overall financial goals.</p>	<p>In the context of governance and leadership, these factors may <u>this may</u> give rise to <u>a number of</u> quality risks <u>such as:</u></p> <ul style="list-style-type: none"> • relating to how <u>Resources</u> are <u>allocated or assigned in a manner that prioritized</u> ed <u>across</u> the <u>services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM</u> firm's various services, and
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<p><u>The strategic and operational decisions and actions, business processes and business model of the firm:</u> <u>The extent of services provided</u> offered by the firm, <u>including services</u> not within the scope of this ISQM, <u>and the</u> <u>are</u> relative significance <u>to of the various services</u> to the firm's overall financial goals.</p>	<p>In the context of governance and leadership, these factors may <u>this may</u> give rise to <u>a number of</u> quality risks <u>such as:</u></p> <ul style="list-style-type: none"> • relating to how <u>Resources</u> are <u>allocated or assigned in a manner that prioritized</u> ed <u>across</u> the <u>services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM</u> firm's various services, and 										

<p>f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.</p>		<p>allocated or assigned to the firm's engagements.</p> <ul style="list-style-type: none"> Decisions about financial and operational priorities do not consider the importance of quality in performing engagements within the scope of this ISQM.
<p>(ii) Those relatingWith respect to the nature and circumstances of the engagements performed by the firm:</p>	<p>The characteristics and management style of leadershipcomposition and experience of leadership, and how authority is distributed among leadership. The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, these factors may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> relating toLeadership's responsibilities and accountability for quality are not clearly defined and assignedactions and behaviors in demonstrating a commitment toquality. The actions and behaviors of leadership that do not promote quality are not challenged.
<p>(b) Based on the understanding in (a), identify and assess the quality risks byTakeing into account how, and the degree to which, the conditions, events, circumstances, actions or inactionsfactors described in paragraph 22E(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A24Q).</p>	<p>Regulations directly relevant to the firm and professional standards.</p>	<p>In the context of relevant ethical requirements, these factors may give rise to quality risks relating to understanding the relevant ethical requirements and identifying threats to compliance with, or breaches of, the relevant ethical requirements.</p>
	<p>Economic stability and social factors, and standards or regulation affecting engagements performed by the firm.</p>	<p>In the context of acceptance and continuance, these factors may give rise to quality risks relating to judgments about whether to accept or continue a client relationship or specific engagement.</p>

		<p>The nature of the firm’s resources, how resources will be used in the firm’s system of quality management, the firm’s dependency on resources from service providers and the characteristics of the service providers used by the firm, and the resources they provide.</p>	<p>In the context of engagement performance, these factors may give rise to quality risks relating to the engagement teams fulfilling their responsibilities in performing the engagements.</p>
		<p>The nature of the network, how the network is organized and the nature and extent of the requirements established by the network or services provided by the network.</p>	<p>In the context of relevant ethical requirements, these factors may give rise to quality risks relating to compliance with independence requirements.</p>
		<p>Actions or inactions:</p>	
		<p>Decisions and actions taken by the firm in obtaining and allocating resources, or a failure by the firm to take action to obtain or allocate resources.</p>	<p>In the context of information and communication, these factors may give rise to quality risks relating to effective and timely communication throughout the firm.</p>
		<p>Decisions about financial and operational matters, including:</p> <ul style="list-style-type: none"> • Commercial considerations; and • The firm’s strategic goals. 	<p>In the context of governance and leadership, these factors may give rise to quality risks relating to a culture of quality.</p>

	<p>Actions taken by leadership to motivate and encourage personnel, or a failure to take such action.</p>	<ul style="list-style-type: none"> In the context of resources, these factors may give rise to quality risks relating to personnel's actions and behaviors and commitment to quality.
	<p>Events:</p>	
	<p>Reform in the firm's jurisdiction, including changes in law or regulation affecting the engagements the firm performs.</p>	<p>In the context of engagement performance, these factors may give rise to quality risks relating to differences of opinion and exercising appropriate professional judgment and professional skepticism.</p>
	<p>The complexity and operating characteristics of the firm: Recent corporate action—The firm has recently been engaged in, such as a merger with another firm, demerger or acquisition.</p>	<p>In the context of resources, these factors may give rise to a number of quality risks including:</p> <ul style="list-style-type: none"> Technological resources used by the two merged firms may be incompatible. Engagement teams may using appropriate intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
	<p>Changes in the economy or industry, or disasters, affecting the risk profile of entities for whom the firm performs engagements.</p>	<p>In the context of engagement performance, these factors may give rise to quality risks relating to exercising appropriate professional judgment and professional skepticism.</p>

~~A24NA. In understanding the factors that may adversely affect the achievement of the quality objectives, the firm may identify factors that positively affect the achievement of a quality objective (i.e., it contributes to achieving the quality objectives).~~

Examples of how factors positively affect the achievement of a quality objective

- ~~• The firm's strategy has been developed with quality of engagements a key focus area that has been embedded in the strategic goals.~~
- ~~• The firm has a governing board comprising individuals who are highly experienced in the engagements performed by the firm, and includes individuals independent from the firm.~~
- ~~• Leadership has a strong focus on quality and is actively involved in the daily operations of the firm and closely interacts with personnel.~~

A24NB. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in quality risks ~~may affect the factors~~. For example, the firm may implement a resource (e.g., an IT resource) to address a quality risk, and quality risks may arise from the use of such resource.

A24Q. The consideration of how, and the degree to which, the conditions, events, circumstances, actions or inactions may adversely affect the achievement of the quality objectives supports the firm's judgments in identifying whether a risk is a quality risk, and the assessment of the quality risk. The ~~identification and~~ assessment of quality risks need not comprise formal ratings or scores.

Examples of ~~factors to consider~~ations in assessing ~~the magnitude of~~ a quality risk

- How frequently the quality risk is expected to occur.
- How much time it would take for the quality risk to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the quality risk.

	<ul style="list-style-type: none"> • How long the quality risk would affect the firm once it has occurred.
<p>22F. The firm shall design and implement responses to address the assessed quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's <u>responses</u> shall also include the responses specified by this ISQM in paragraph 41A. (Ref: Para. A24R–A24T)</p>	<p><i>Design and Implement Responses to Assessed Quality Risks</i> (Ref: Para. 22F)</p> <p>A24R. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the quality risks, which includes:</p> <ul style="list-style-type: none"> • How and the extent to which t<u>The conditions, events, circumstances, actions or inactions factors giving rise to the quality risk may adversely affect the achievement of the quality objectives.</u> • The <u>assessment of the quality risk likelihood of occurrence.</u> <p>A24S. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of a response that operates at both the firm and engagement level</i></p> <p>The firm establishes policies or procedures for consultation which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur and initiating consultation, and implementing the conclusions from consultation.</p> </div> <p>A24T. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.</p>
<p><u>22G. The firm shall establish policies or procedures that are designed to identify information that indicates that additional quality objectives, or additional or modified quality risks or responses, are needed due</u></p>	<p><i>Changes in the Nature and Circumstances of the Firm or its Engagements</i> (Ref: Para. 22G)</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><u>A24U.</u> [Moved from paragraph A24H] Scalability example to demonstrate how <u>policies or procedures for obtaining-identifying</u> information about changes in the nature and circumstances of the firm and its engagements may vary</p> </div>

<p><u>to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A24U–A24V)</u></p> <p><u>(a) Establish additional quality objectives:</u></p> <p><u>(b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks: or</u></p> <p><u>(c) Design and implement additional responses, or modify the responses.</u></p>	<ul style="list-style-type: none"> In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is able to identify such information in the normal course of their activities. In a more complex firm, the firm may need to establish <u>more</u> formal policies or procedures to identify <u>and consider</u> information about changes in the nature and circumstances of the firm or its engagements. This may include, <u>for example</u>, a periodic review of information relating to the nature and circumstances of the firm and its engagements or <u>ongoing tracking of trends and occurrences in the firm's internal and external environment</u>environmental scans. <p>A24VHA. [Moved from paragraph A24HA] Additional quality objectives may need to be established, or quality risks and responses <u>added to or</u> modified, as part of the remedial actions undertaken by the firm to address a deficiency in accordance with paragraph 49.</p>
<p>Relevant Ethical Requirements</p> <p>32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A67–A69, A75)</p> <p>OPTION 1</p> <p>(a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm's</p>	<p>Relevant Ethical Requirements (Ref: Para. 32)</p> <p>A67. The IESBA Code sets out the fundamental principles of ethics that establish the standard of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the International Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence (e.g., privacy laws affecting the confidentiality of information).</p> <p>A68. In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.</p>

<p>engagements are subject. (Ref: Para. A15, A16A)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.</p> <p>(b) In circumstances when the firm’s system of quality management includes network requirements or network services or resources from a service provider, including in the performance of engagements, the Others, including the network, network firms, personnel in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject and that which are applicable to them in providing the network requirement, network service or resource; and (Ref: Para. A15, <u>A16A</u>, A71)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical</p>	<div data-bbox="884 215 1927 282" data-label="Text"> <p><i>Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements</i></p> </div> <ul data-bbox="884 305 1927 500" style="list-style-type: none"> • The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential. • The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members. <p>A69. Other components may affect or relate to the relevant ethical requirements component.</p> <div data-bbox="884 591 1927 1317" data-label="Text"> <p>Examples:</p> <ul style="list-style-type: none"> • The information and communication component may address the communication of various matters related to relevant ethical requirements, including: <ul style="list-style-type: none"> ○ The firm communicating the independence requirements to all personnel and others subject to independence requirements. ○ Engagement teams and other individuals in the firm communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements. • As part of resources, the firm may: <ul style="list-style-type: none"> ○ Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements. ○ Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence. </div> <p>A71. The applicability of the relevant ethical requirements <u>that apply</u> to others (the network, network firms, personnel in the network or network firms, or service providers) depends on</p>
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requirements that apply to them described in paragraph (b)(i).

OPTION 2

(a) The firm, ~~and~~ its personnel and others subject to relevant ethical requirements, including, as applicable, the network, network firms, personnel in the network or network firms, or service providers:

(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject. (Ref: Para. A15, A16A, A71)

(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.

~~(b) In circumstances when the firm's system of quality management includes network requirements or network services or resources from a service provider, including in the performance of engagements, the network, network firms, personnel in the network or network firms, or service providers:~~

the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, including in the performance of engagements.

Examples of relevant ethical requirements that apply to others

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, the IESBA Code includes independence requirements that apply when the firm belongs to or associated with a network firm.
- The definition of engagement team under relevant ethical requirements may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a component auditor or a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.
- The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.

Public Sector Considerations

A75. In achieving the quality objectives in this ISQM related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.

<p>(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject and which are applicable to them in providing the network requirement, network service or resource; and (Ref: Para. A15, A71)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements described in paragraph (b)(i).</p>	
<p>Resources</p>	<p>Resources (Ref: Para. 38)</p>
<p>38. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources; including resources from service providers; in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A113–A115)</p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A117–A119)</p> <p>(i) Consistently perform quality engagements, including</p>	<p>A113. Resources for the purposes of the resources component include:</p> <ul style="list-style-type: none"> • Human resources. • Technological resources, for example, IT applications. • Intellectual resources, for example, written policies or procedures, a methodology or guides. <p>Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm's human resources, technological resources and intellectual resources. Given the nature of the management and allocation of financial resources <u>is strongly influenced by leadership</u>, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.</p> <p>A115. Resources may be internal to the firm, or may be obtained externally from a network, network firm or service provider. <u>Resources may be used in performing activities within the firm's system of quality management, or in performing engagements as part of operating</u></p>

<p>having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.</p> <p>(aad) [Moved from subparagraph (d)] Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A119A21–A119C23)</p> <p><u>(ab) Human resources are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. (Ref: Para. A119D)</u></p> <p>(b) Engagement team members are assigned to each engagement,</p>	<p><u>the system of quality management.</u> In circumstances when a resource is obtained from a network or another network firm, paragraphs 58–63 form part of the responses designed and implemented by the firm in achieving the objectives in this component.</p> <p><i>Human Resources</i> (Ref: Para. 38(a)–38(cd))</p> <p>A117. Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.</p> <p>A118. <u>Law, regulation or p</u>Professional standards, law or regulation may establish requirements addressing competence and capabilities.</p> <div data-bbox="879 756 1940 954" style="border: 1px solid black; padding: 5px;"> <p><i>Example of requirements in law or regulation that address competence and capabilities</i></p> <p>Law, or regulation <u>or national standards</u> of a jurisdiction may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.</p> </div> <div data-bbox="810 987 1940 1390" style="border: 1px solid black; padding: 5px;"> <p>A119. <i>Examples of matters that the firm may address regarding hiring, developing and retaining personnel</i></p> <ul style="list-style-type: none"> • The firm may develop a recruitment strategy focused on selecting individuals who have, <u>or are able to develop,</u> appropriate competence, or the ability to develop it. • The firm's training programs may focus on developing the competence of personnel <u>and continuing professional development.</u> • The firm may address the continuing professional development of personnel, including personnel's responsibility to maintain an appropriate level of continuing professional development, and how the firm will support them. </div>
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<p>including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A117, A118, A120–A120E)</p> <p>(c) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities. (Ref: Para. A120)</p> <p>(d) [Moved to subparagraph (aa)]</p> <p>... [Technological and Intellectual Resources not for discussion in June 2020]</p> <p>(g) Human, technological or intellectual resources from service providers are: (Ref: Para. A134A–A134B, A134D)</p> <p>(i) Obtained by the firm when appropriate to enable the operation of the firm’s system of quality management and performance of engagements; (Ref: Para. A134C)</p> <p>(ii) a Appropriate for use in the firm’s system of quality management and performance of engagements, taking into account the quality objectives in paragraph 38</p>	<div data-bbox="892 219 1932 430" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • The firm may establish evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures. • The firm may set compensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm’s system of quality management. </div> <p>Personnel’s Commitment to Quality and Accountability and Recognition for Quality (Ref: Para. 38(aa))</p> <p>A119A24. [Moved from paragraph A121] Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.</p> <p>A119B22. [Moved from paragraph A122] Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p> <p>A119C23. [Moved from paragraph A123] The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm’s responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence.</p> <div data-bbox="882 1047 1942 1339" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality</i></p> <ul style="list-style-type: none"> • Training or other professional development. • Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved. • Disciplinary action, if appropriate. </div>
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(b),(c),(e) and (f). (Ref: Para. [\(Ref: Para. A134A–A134D\)](#))

[Human Resources Obtained from External Sources \(Ref: Para. 38\(ab\)\)](#)

[A119D. The need to obtain human resources from external sources may be identified by the firm, or the engagement team. For example, proposed ISA 220 \(Revised\)¹ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm’s policies or procedures.](#)

[Engagement Team Members Assigned to Each Engagement \(Ref: Para. 38\(b\)\)](#)

[A120. ~~Individuals~~ Engagement team members assigned to engagements ~~or other roles~~ may include:](#)

- [Personnel assigned by the firm, including individuals from a service delivery center of the firm.](#)
- [Individuals from a network, or another network firm, or a service provider who perform procedures on the engagement, including component auditors and individuals from a service delivery center of a network or another network firm. These individuals are generally assigned by the network or other network firm, or](#)
- [Individuals from a service provider who perform procedures on the engagement delivery center. Individuals from a service delivery center may be employed by the firm or they may be employed by a network, another network firm or a service provider, including component auditors from a firm that is not within the firm’s network. These individuals are generally assigned by the service provider.](#)
- [The quality objectives in paragraphs 38\(b\) and 38\(c\) apply to all individuals assigned to engagements or other roles in the system of quality management.](#)

[A120A. Proposed ISA 220 \(Revised\)² addresses the responsibilities of the engagement partner with respect to the competence and capabilities of the engagement team, including component](#)

¹ [Proposed ISA 220 \(Revised\), paragraph 25](#)

² [Proposed ISA 220 \(Revised\), paragraph 26](#)

auditors, and ISA 600³ addresses the application of ISA 220 (Revised) in the context of a group engagement. When using individuals from a network, another network firm or a service provider on an engagement, the requirements of this ISQM address:

- The appropriate use of the network, other network firm or service provider on the engagement, through the quality objective in paragraph 38(g) and the requirements in paragraphs 58–63; and
- The competence and capabilities of the individuals assigned to the engagement by the network, other network firm or service provider, through the quality objective in paragraph 38(b).

The appropriate use of the network, other network firm or service provider on the engagement

A120B. The policies or procedures designed and implemented by the firm to address the appropriate use of the network, other network firm or service provider on the engagement may be implemented at the firm level or the engagement level, or a combination of both. For example, the firm’s policies or procedures may require the engagement team to gather information about a service provider used on the engagement, and the policies or procedures may specify the conditions that need to be met for it to be appropriate to use the service provider.

A120C. The network may establish requirements for circumstances when the firm uses the network or another network firm to support the performance of engagements, such as network policies or procedures that address how the firm interacts with the network or another network firm. The nature and extent of the understanding of the network or other network firm, evaluation of whether it is appropriate to use the network or other network firm in performing the engagement, and determination of any further actions that need to be taken such that it is appropriate to use them may vary based on matters such as:

- The requirements established by the network, and the extent to which the network undertakes monitoring across the network. For example, the understanding and evaluation of the network or other network firm may be:

³ [ISA 600, paragraph 19](#)

- Less when there is a high degree of commonality across the network firms' systems of quality management, and the network actively monitors compliance with the network requirements; and
- More when there is limited commonality in the systems of quality management across the network and the network does not undertake monitoring across the network.
- The information communicated from the network about the overall results of the network's monitoring activities across the network firms.
- The frequency with which the network or other network firm is used across the firm, and the nature of the procedures they perform on the engagement.

A120D. The nature and extent of the procedures to determine that it is appropriate to use a service provider on an engagement may vary depending on a number of factors, including the frequency with which the service provider is used, and the nature of the procedures performed by the service provider on the engagement.

The competence and capabilities of the individuals assigned to the engagement by the network, other network firm or service provider

A120E. The policies or procedures designed and implemented by the firm to address the competence and capabilities of individuals on the engagement may address:

- How the engagement team determines the competence and capabilities of the individuals assigned to the engagement by the network, other network firm or service provider; and
- How concerns about the competence and capabilities of the individuals assigned by the network, other network firm or service provider may be resolved.

Examples of the firm's policies or procedures for addressing the competence and capabilities of component auditors

- In the case of a firm that belongs to a network, the firm's policies or procedures may indicate that in considering the competence and capabilities of the component auditors:

- For component auditors from other firms within the network, the engagement team may use the information provided by the firm about the commonality of the policies or procedures across the network, such as commonality of training programs and evaluation methods.
- For component auditors from other firms not within the firm's network, the engagement team may request the relevant information directly from the individuals assigned by the other firm.
- The firm's policies or procedures may further address how the group engagement team should address circumstances when the competence and capabilities of a component auditor is inappropriate. For example, the firm's policies or procedures may specify that:
 - The group engagement team first discuss the matter with the component auditor and request that they address the concerns.

The group engagement team is required to consult within the firm if the group engagement team is unable to resolve the matter with the component auditor.

A121. [Moved to paragraph A119A]

A122. [Moved to paragraph A119B]

A123. [Moved to paragraph A119C]

...[Technological and Intellectual Resources not for discussion in June 2020]

Service Providers (Ref: Para. 38(g))

A134A. In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances when the firm does not have access to the appropriate resources internally. ~~The quality objectives in paragraph 38 (b), (c), (e) and (f) apply to these resources, for example, a methodology from a service provider would need to be appropriate and consistent with professional standards and applicable legal and~~

~~regulatory requirements.~~ Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.

Examples of resources from a service provider

- Individuals engaged to perform the firm’s monitoring activities or engagement quality reviews, or to provide consultation on technical matters.
- A commercial IT application used to perform audit engagements.
- Individuals ~~engaged to assist in~~ performing ~~procedures on the firm’s~~ engagements, for example, ~~component auditors from other firms not within the firm’s network or individuals engaged~~ to attend a physical inventory count ~~or inspect physical fixed assets~~ at a remote location.
- An auditor’s external expert engaged by the firm to assist the engagement team in obtaining audit evidence.

A134B. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions~~factors~~ that may adversely affect the achievement of the quality objectives, which includes ~~factors related to~~ service providers. ~~The understanding of the factors may therefore include understanding:~~

~~The reputation, competence and capabilities of service providers used by the firm; and~~

In doing so, the firm may consider the nature of ~~the~~ resources provided by service providers, and how and the extent to which they will be used by the firm ~~in the system of quality management, and the general characteristics of the service providers used by the firm (e.g., the varying types of other professional services firms that are used),~~ in order to identify and assess quality risks related to the use of such resources.

A134BA. In determining whether a resource from a service provider is appropriate for use in the firm’s system of quality management and performance of engagements, the firm may obtain information about the service provider and the resource they provide from a number of sources. Matters the firm may consider include: ~~Examples of factors related to service providers that may be considered by the firm in identifying and assessing quality risks~~

	<ul style="list-style-type: none"> • <u>The related quality objective. For example, a methodology from a service provider would need to achieve the quality objective in paragraph 38(g), i.e., be appropriate and consistent with professional standards and applicable legal and regulatory requirements.</u> • <u>The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data).</u> • The extent to which the resource is used across the firm, <u>how the resource will be used by the firm and whether it is suitable for that purpose.</u> • The extent of customization of the resource for the firm. • The firm’s previous use of the service provider. • The service provider’s experience in the industry and reputation in the market. • A134C. In determining whether a resource from a service provider is appropriate for use in the firm’s system of quality management, the firm may consider: • The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data). • How the resource will be used by the firm in its system of quality management and whether it is suitable for that purpose. <p>A134D. The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively, or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.</p>
<p>Information and Communication</p>	<p>Information and Communication (Ref: Para. 40)</p>
<p>40. The firm shall establish the following quality objectives that address obtaining,</p>	<p>A135. Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm</p>

<p>generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A135)</p> <p>... [Only communication with external parties for discussion in June 2020]</p> <p>(d) Relevant and reliable information is communicated to external parties, including:</p> <p>(i) Information is communicated by the firm to the network or service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by the m—service <u>provider</u>. (Ref: Para. A141A)</p> <p>(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management. (Ref: Para. A142–A153)</p>	<p>and externally. Information and communication is pervasive to all components of the system of quality management.</p> <p>... [Only communication with external parties for discussion in June 2020]</p> <p><i>Communication with External Parties</i></p> <p>Communication with the Network and Service Providers (Ref: Para. 40(d)(i))</p> <p>A141A. In addition to the firm communicating information to the network or a service provider, the firm may need to obtain information from the network or a service provider that supports the firm in the design, implementation and operation of its system of quality management.</p> <div data-bbox="879 586 1938 787" style="border: 1px solid black; padding: 5px;"> <p><i>Example of information obtained by the firm from the network</i></p> <p>The firm obtains information from the network as the relevant ethical requirements include requirements for independence that apply when the firm is associated <u>belongs to a network—firms or employees of network firms</u>.</p> </div> <p>Communication Required by Law or Regulation (Ref: Para. 40(d)(ii))</p> <div data-bbox="810 873 1938 1274" style="border: 1px solid black; padding: 5px;"> <p>A142. <i>Examples of when law, regulation or professional standards may require the firm to communicate information to external parties</i></p> <ul style="list-style-type: none"> • The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances. • Law, regulation or <u>professional—national</u> standards require the firm to publish a transparency report and specify the nature of the information that is required to be included in the transparency report. </div>
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	<p>Communication to External Parties to Support an Understanding of the System of Quality Management (Ref: Para. 40(d)(ii))</p> <p>A145: [Moved to paragraph A153FA]</p> <p>A145A: [Moved from paragraph A153FB]</p> <p>A153. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Examples of when the firm may be precluded from communicating information externally</i></p> <ul style="list-style-type: none"> • Privacy or secrecy law or regulation prohibits disclosure of certain information. • Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality. </div>
<p>Specified Responses</p>	<p>Specified Responses (Ref: Para. 41A)</p>
<p>41A. In designing and implementing responses, the firm shall include the following responses in accordance with paragraph 22F: (Ref: Para. A153A)</p> <p>(aa) The firm establishes policies or procedures for:</p> <ol style="list-style-type: none"> i. Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A153AA) ii. Identifying, communicating, evaluating and reporting of any 	<p>A153A. The specified responses alone are not sufficient to achieve the objectives of the system of quality management and may address quality risks that are relevant to multiple components.</p> <p><i>Relevant Ethical Requirements</i> (Ref: Para. 41A(aa)–41A(b))</p> <p>A153AA. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p> <p>A153AB. Matters that may need to be addressed by the firm relating to breaches of the relevant ethical requirements include:</p> <ul style="list-style-type: none"> • The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;

<p>breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A153AB–A153AC)</p> <p>(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p> <p>... [The only aspects in this section for discussion in June 2020 are relevant ethical requirements and communication with external parties]</p> <p>(dA) The firm establishes policies or procedures that address: (Ref: Para. A153FGA)</p> <p>(i) When <u>it is appropriate</u> to communicate with external parties about the firm’s system of quality management; and Ref: Para. <u>A153FB–A153GAB</u>)</p> <p>(ii) <u>When the firm communicates with external parties</u>–so, the matters to be communicated, and the nature, timing and</p>	<ul style="list-style-type: none"> • The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements; • The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable; • Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and • Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach. <p>A153AC. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.</p> <p>... [The only aspects in this section for discussion in June 2020 are relevant ethical requirements and communication with external parties]</p> <p><i>Communication with External Parties about the Firm’s System of Quality Management</i> (Ref. Para: 41A(dA))</p> <p>A15345FA. [Moved from paragraph A145] The firm’s ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective communication between the firm and its stakeholders. In circumstances when the firm is transparent about the activities that it has undertaken to address quality, and the effectiveness of those activities, stakeholders’ perception of the quality of engagements performed by the firm may be improved.</p> <p>A15345AFB. [Moved from paragraph A145A] <u>External parties who may use information about the firm’s system of quality management, and the extent of their interest in the firm’s system of quality management, may vary based on the nature and circumstances of the firm and its engagements. Not every firm will have external parties who may seek or use information</u></p>
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<p>extent and appropriate form of such communication. Ref: Para. A153GC–A153GD)</p> <p>...</p>	<p>about the firm’s system of quality management, such as in the case of a less complex firm performing engagements for entities that are not listed or do not have a higher public interest or public accountability, or high public profile.</p> <div data-bbox="877 321 1940 867" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of external parties who may use information about the firm’s system of quality management</i></p> <ul style="list-style-type: none"> • Management or those charged with governance of the firm’s clients may use the information to determine whether to appoint the firm to perform an engagement. • External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring quality of engagements across a jurisdiction. • Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) may have requested such information. • Other users of the firm’s engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information. </div> <p>A153GA. The firm’s determination of whether it is appropriate to communicate with external parties about the firm’s system of quality management, the matters to be communicated, and the nature, timing and extent and appropriate form of such communication, is a matter of professional judgment and may be influenced by matters such as:</p> <ul style="list-style-type: none"> • The requirements of law, regulation or professional standards. • The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken. • The nature and circumstances of the firm. • The nature of the firm’s operating environment, such as customary business practice in the firm’s jurisdiction and the characteristics of the financial markets in which the firm operates.
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- The extent to which the firm has already communicated with external parties in accordance with law, regulation or national standards (i.e., whether further communication is needed, and if so, the matters to be communicated).
- The expectations of stakeholders in the firm’s jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm’s processes in performing the engagements.
- Jurisdictional ~~and international~~ trends ~~and best practices~~, ~~and research undertaken about the information needs of stakeholders, including research on information that firms already provide, such as whether and how the information is being used and recommendations of how it can be enhanced.~~
- The information that is already available to external parties.
- How external parties may use the information, and their general understanding of matters related to firms’ system of quality management and audits or reviews of financial statements, or other assurance or related services engagements.
- The cost of external communication (monetary or otherwise) and whether it would reasonably be expected to outweigh the public interest benefits of such communication.

~~Examples of conditions or circumstances that may indicate a need for the firm to communicate information about its system of quality management to a wide range of external parties~~

- ~~The firm, or its leadership, has a higher public profile or presence in its market, the firm is a member of a network with a higher public profile locally or internationally, or the firm is large with multiple geographical locations.~~
- ~~The firm performs engagements for entities in industries that are generally regarded as exhibiting public interest or public accountability characteristics, for example, entities that are subject to oversight by securities regulators, certain large financial institutions, insurance companies or pension funds, certain large mining entities or entities closely related to the extraction or utilization of natural~~

~~resources, significant public sector entities or state utility companies, large or high profile charitable organizations, or entities with a strong community interest that are subject to regulatory oversight.~~

~~A153GB. In some circumstances, the firm may determine that it is not necessary to communicate with external parties about the firm's system of quality management, other than communication required to fulfill the requirements of law, regulation or professional standards.~~

A153GC. The firm uses professional judgment in determining the form of communication that is suitable in the circumstances. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

- A webpage, videos or interviews.
- A publication such as a transparency report or audit quality report.
- Targeted communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).
- Direct conversations and interactions with the external party, including through social media.

A153GD. The firm may consider the following attributes in preparing the information that is communicated to external parties about the firm's system of quality management:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.
- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is

	<p>appropriately balanced towards positive and negative aspects of the matter being communicated).</p> <ul style="list-style-type: none"> • The information is accurate and complete in all material respects and does not contain information that is misleading. • The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm’s website). <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of matters that may be communicated by the firm about its system of quality management</i></p> <ul style="list-style-type: none"> • The nature and circumstances of the firm, such as the organizational structure and operating environment. • The firm’s governance and leadership, such as its culture and commitment to quality and information about the individuals responsible for the leadership of the firm. • Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators. • The results of the firm’s monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them. • The evaluation undertaken in accordance with paragraphs 65A and 65AA of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved, including the basis for the judgments made in undertaking the evaluation. • How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes. </div>
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	<ul style="list-style-type: none"> The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms.
<p>Monitoring and Remediation Process</p>	<p>Monitoring and Remediation Process (Ref: Para. 42–534)</p>
<p>42. The firm shall establish a monitoring and remediation process to: (Ref: Para. A154)</p> <p>(a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</p> <p>(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</p>	<p>A154. In addition to enabling the firm’s evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. For example:</p> <ul style="list-style-type: none"> A209D. [Moved from paragraph A209D] Given the inherent limitations of a system of quality management, the identification of deficiencies is <u>not unusual and it is an expected and</u> important aspect of the system of quality management, because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continuous improvement. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may further encourage continuous improvement by promoting more effective ways of managing quality. <u>The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.</u>
<p>43A. [Moved to paragraph 22A in Agenda Item 4–A (Updated) of March 2020 meeting]</p>	
<p><i>Designing and Performing Monitoring Activities</i></p> <p>44. The firm shall design and perform monitoring activities to reduce to an acceptably low level the risk that to provide</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 44–46)</p> <p>A155A. The monitoring activities undertaken by the firm may also prevent a deficiency from arising through responding to a finding that could over a period of time lead to a deficiency.</p>

<p><u>a basis for the identification of</u> deficiencies <u>are not detected.</u> (Ref: Para. A155A)</p>	
<p>44A. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A156–A159)</p> <p>(a) The reasons for the assessments given to the quality risks;</p> <p>(b) The design of the responses;</p> <p>(c) <u>For monitoring activities over the</u>The <u>design of the</u> firm’s risk assessment process and monitoring and remediation process, the design of the processes; (Ref: Para. A161A–A161B)</p> <p>(d) Changes in the system of quality management. (Ref: Para. A162)</p> <p>(e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A163–A164)</p> <p>(f) Other relevant information, including <u>complaints and allegationse</u>cerns <u>about actions or behaviors that do not demonstrate a</u>identified</p>	<p>A156. The firm’s monitoring activities may comprise <u>a combination of</u> ongoing monitoring activities <u>and</u>, periodic monitoring activities or a combination of both. Ongoing monitoring activities are generally routine activities, built into the firm’s processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.</p> <p>A157. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while in process that appear similar in nature to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent an assessed quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address an assessed quality risk).</p> <p>A158. The nature, timing and extent of the monitoring activities may also be affected by other matters, including:</p> <ul style="list-style-type: none"> • The size, structure and organization of the firm. • The involvement of the network in monitoring activities. • The resources that the firm intends to use to enable monitoring activities, such as the use of IT applications. <p>A159. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.</p>

<p>regarding the commitment to quality of the firm or its personnel, information from external inspections and information from service providers. (Ref: Para. A165–A167)</p>	<p>The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 44A(c))</p> <p>A161A. How the firm's risk assessment process is designed (e.g., a centralized or decentralized process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities, <u>including monitoring activities over the firm's risk assessment process.</u></p> <p>A161B. <u>The overall design of the monitoring activities, including the extent to which the firm may need to specifically monitor the monitoring and remediation process, may be affected by the nature and combination of monitoring activities undertaken by the firm, including whether the monitoring activities are preventive or detective, and their timing and extent. In some circumstances, monitoring activities may be designed to determine that the monitoring and remediation process is achieving its purpose (i.e., providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies).</u></p> <div data-bbox="879 756 1938 1268" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability example to demonstrate <u>considerations affecting the monitoring activities for how the monitoring and remediation process may be monitored in a less complex firm</u></i></p> <ul style="list-style-type: none"> • In a less complex firm, leadership's daily interaction with the system of quality management <u>and findings from monitoring activities over the firm's responses</u> may provide sufficient information about the effectiveness of the monitoring <u>and remediation</u> activities in achieving their purpose. In such circumstances, the <u>firm</u> may <u>determine it appropriate to</u> be a need for undertake formalized monitoring of the monitoring and remediation process. • <u>In a more complex firm, monitoring activities may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies</u> </div> <p>Changes in the System of Quality Management (Ref: Para. 44A(d))</p> <p>A162. Changes in the system of quality management may include:</p>
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	<ul style="list-style-type: none">• Changes to address an identified deficiency in the system of quality management.• Changes to the quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements. <p>When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm’s monitoring activities may include monitoring of those areas of change.</p> <p>Previous Monitoring Activities (Ref: Para. 44A(e), 50)</p> <p>A163. The results of the firm’s previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of deficiencies.</p> <p>A164. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.</p> <p>Other Relevant Information (Ref: Para. 44A(f))</p> <p>A165. In addition to the sources of information indicated in paragraph 44A(f), other relevant information may include:</p> <ul style="list-style-type: none">• Information communicated by the network in accordance with paragraphs 60(c) and 61(b) about the firm’s system of quality management, including the network requirements or network services that the firm has included in its system of quality management.• Information communicated by a service provider about the resources the firm uses in its system of quality management.• Information available from regulators, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in their financial statements).
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	<p>A166. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing and extent of the monitoring activities.</p> <p>A167. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing and extent of the monitoring activities.</p>
<p>45. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners should be to selected. In doing so, the firm shall: (Ref: Para. A158, A168–A170)</p> <p>(a) Take into account the matters in paragraph 44A;</p> <p>(b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<p><i>Engagement Inspections</i> (Ref: Para. 45)</p> <p>A168. <i>Examples of matters in paragraph 44A that may be considered by the firm in selecting completed engagements for inspection</i></p> <ul style="list-style-type: none"> • In relation to the <u>conditions, events, circumstances, actions or inactions</u>factors giving rise to the quality risks: <ul style="list-style-type: none"> ○ The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement. ○ The types of entities for which engagements are undertaken, for example: <ul style="list-style-type: none"> • Entities that are listed, • Entities operating in emerging industries. • Entities operating in industries associated with a high level of complexity or judgment. • Entities operating in an industry that is new to the firm. ○ The tenure and experience of engagement partners. • The results of previous inspections of completed engagements, including for each engagement partner. • In relation to other relevant information:

	<ul style="list-style-type: none">○ Complaints or allegations regarding an engagement partner’s commitment to quality.○ The results of external inspections, including for each engagement partner.○ The results of the firm’s evaluation of each engagement partner’s commitment to quality. <p><i>A168B. Examples of how other monitoring activities undertaken by the firm may affect the inspection of completed engagements</i></p> <p>The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:</p> <ul style="list-style-type: none">• Which completed engagements to <u>should be</u> selected for inspection.• Which engagement partners to <u>should be</u> selected for inspection.• How frequently <u>to select</u> an engagement partner should be selected for inspection.• Which aspects of the engagement should be to <u>considered</u> when performing the inspection of completed engagements. <p>A169. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.</p> <p><i>A169A. Examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner</i></p>
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	<p>The firm may establish policies or procedures that require the inspection of a completed engagement for each engagement partner performing audits of financial statements of listed entities once every three years, and for all other engagement partners, once every five years. The firm's <u>may include in the</u> policies or procedures also address:</p> <ul style="list-style-type: none"> • The criteria for selecting completed engagements; • <u>The Sselectiong of</u> engagement partners in a manner that is unpredictable; and • <u>The Sselectiong of</u> engagement partners more, or less, frequently than the <u>standard</u> period set out in the policy. <u>For example, the firm's policies or procedures:</u> <p><u>The firm's policies or procedures:</u></p> <ul style="list-style-type: none"> ○ Address the selection of engagement partners more frequently than the <u>standard</u> period set out in the policy if certain conditions or circumstances exist, such as when: <ul style="list-style-type: none"> • Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners. • The engagement partner performs engagements for entities operating in a certain industry where there are increased complexities. • An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory. • The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience. • The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction. ○ <u>May Aa</u>llow the selection of an engagement partner to be increased deferred <u>(e.g., for a year) to a period longer than the period set out in the policy (e.g.,</u>
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	<p>every four years for engagement partners performing audits of financial statements of listed entities if certain conditions or circumstances exist, such. The firm's policies or procedures describe such conditions or circumstances as when:</p> <ul style="list-style-type: none"> • Engagements performed by the engagement partner have been subject to other monitoring activities in the last three years; and • The results of the other monitoring activities provide sufficient information about the engagement partner, i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner. <p>A170. The matters considered in an inspection of an engagement depends on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses designed to be implemented at the engagement level have been implemented.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Example of a response at the engagement level that is considered by the firm in an inspection of an engagement</i></p> <p>In inspecting engagements, the firm determines whether engagement teams have appropriately applied the firm's policies and procedures in respect of engagement performance.</p> </div>
<p>46. The firm shall establish policies or procedures that:</p> <p>(a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and</p>	<p>Individuals Performing the Monitoring Activities (Ref: Para. 46(b))</p> <p>A171. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> • An inspection of an engagement was: <ul style="list-style-type: none"> ○ In the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or

<p>(b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A171–A171A)</p>	<ul style="list-style-type: none"> ○ For all other engagements, an engagement team member or the engagement quality reviewer of that engagement. ● Another type of monitoring activity had participated in designing, executing or operating the response being monitored. <p><u>A171A. In some circumstances, for example, in the case of a less complex firm, there may not be an individual within the firm who has the competence, capabilities, time or objectivity to perform the monitoring activity. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.</u></p>
<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>47. The firm shall establish policies or procedures addressing the evaluation of the findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A173–A177)</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i> (Ref: Para. 47)</p> <p>A173. The results of monitoring activities, results of external inspections and other relevant information may reveal other observations about the firm’s system of quality management, such as:</p> <ul style="list-style-type: none"> • Actions, behaviors or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or • When findings are identified, Observations that <u>similar monitoring activities did not note similar findings did not arise in other circumstances that are of a similar nature to the matter to which the finding relates</u> (e.g., in relation to engagements, observations that <u>no findings were noted from monitoring activities were not observed on some engagements when there were findings from monitoring activities on other engagements of a similar nature</u>). <p>Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.</p> <p>A173A. The firm may exercise professional judgment in determining whether a findings, individually or in combination with other findings, <u>are</u> of such significance that they <u>give rise to results in</u> a deficiency in the system of quality management. Significance is judged by the firm, taking into consideration the relative importance of the findings <u>s</u> in the context of</p>

the quality objectives, quality risks, responses or other aspects of the system of quality management to which they relates. The firm’s judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about/investigate the root cause(s) of a findings in order to determine whether a finding is a deficiency exists. ~~A173B~~. Not all findings, including engagement findings, will be a deficiency ~~in the system of quality management~~.

A175. *Examples of quantitative and qualitative factors that a firm may consider in determining whether a finding(s) areis of such significance that they give rise to it results in a deficiency*

Quality risks and responses

- If the findings relates to a response:
 - How tThe ~~design of the~~ response is designed, for example, the nature of the response and the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the assessed quality risk(s) and achieving the quality objective(s) to which it relates.
 - The nature of the assessed quality risk to which the response relates, and the extent to which the findings indicates that the assessed quality risk has not been addressed.
 - Whether there are other responses that address the same assessed quality risk and whether there are findings for those responses.

Nature of the findings and theirs pervasiveness

- The nature of the findings. For example, a findings related to leadership’s actions and behaviors may be qualitatively significant, given the pervasive effect this could may have on the system of quality management as a whole.
- Whether the findings, in combination with other findings, indicates a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.

Error rates and population size

- The design of the monitoring activity from which the findings arose. For example, the firm may consider the tolerable error rate of the activity and whether it was designed to focus on specific areas of risk or the whole population.
- The extent of the monitoring activity from which the findings arose, including the size of sample selected relative to the size of the entire population.
- The extent of the findings in relation to the sample of the population covered by the monitoring activity. For example, in the case of inspection of engagements, the number of engagements selected where the findings wereas identified, relative to the total number of engagements selected.

A175A. Evaluating findings and identifying deficiencies, evaluating the severity and pervasiveness of a deficiency, ~~including~~ and investigating the root cause(s) of a deficiency, are part of an iterative and non-linear process.

Examples of how the iterative nature process of evaluating findings and identifying deficiencies, evaluating identified deficiencies, ~~including~~ and investigating the root cause(s) of deficiencies, is iterative and non-linear

- In investigating the root cause(s) of a deficiency, the firm identifies a circumstance that is consistent with also existed in relation to another findings that is not considered a deficiency. As a result, the firm adjusts its evaluation of the other findings and classifies ~~it~~ them as a deficiency.
- In evaluating the severity and pervasiveness of a deficiency, the firm identifies a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

	<p>A177. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of how <u>results of external inspections findings</u> may reveal information about the effectiveness of the monitoring and remediation process</i></p> <p><u>The results of external inspections findings</u> may <u>indicate</u> <u>provide information about findings in</u> the system of quality management that <u>has</u> <u>not</u> been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.</p> </div>
<p><i>Evaluating Identified Deficiencies</i></p> <p>48. The firm shall <u>evaluate the severity and pervasiveness of identified deficiencies by establish policies or procedures addressing</u>: (Ref: Para. A175A, <u>A178A–A178B</u>)</p> <p>(a) The investigation of the root cause(s) of the identified deficiencies, <u>In determining including that</u> the nature, timing and extent of the procedures to be performed to investigate the root cause(s), <u>the firm shall</u> take into account the nature of the identified deficiencies and their possible severity; and. (Ref: Para. A179–A182A)</p> <p>(b) The evaluation of the severity and pervasiveness of the identified</p>	<p><i>Evaluating the Severity and Pervasiveness of Identified Deficiencies</i> (Ref: Para. 48(b))</p> <p>A178A83. [Moved from paragraph A183] Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:</p> <ul style="list-style-type: none"> • The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management; • In the case of deficiencies related to responses, whether there are compensating responses to address the assessed quality risk to which the response relates; • The root cause(s) of the identified deficiency; • The frequency with which the matter giving rise to the deficiency occurred; and • The magnitude of the identified deficiency, how quickly it occurred and the duration of time that it existed and had an effect on the system of quality management. <p>A178B83A. [Moved from paragraph A183A] The severity and pervasiveness of deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p> <p><i>Root Cause of the Identified Deficiencies</i> (Ref: Para. 48(a))</p>

<p>deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management. (Ref: Para. A183–A183A)</p>	<p>A179. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:</p> <ul style="list-style-type: none"> • Evaluate the severity and pervasiveness of the deficiency; and • Appropriately remediate the deficiency. <p>Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.</p> <p>A180. <u>The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by t</u>t<u>he nature and circumstances of the firm, such as:</u></p> <ul style="list-style-type: none"> • <u>such as t</u>t<u>he complexity and operating characteristics of the firm,</u> • <u>T</u>t<u>he size of the firm,</u> • <u>T</u>t<u>he geographical dispersion of the firm,</u> • <u>H</u>h<u>ow the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities, may also affect the nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency.</u> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures undertaken to understand the root cause(s) of the identified deficiencies</i></p> <ul style="list-style-type: none"> • The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a listed entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality. • The possible severity of the deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance. </div>
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	<ul style="list-style-type: none"> • Nature and circumstances of the firm: <ul style="list-style-type: none"> • In the case of a less complex firm with a single location, the firm’s procedures to understand the root cause(s) of a deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent. • However, in the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of a deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s). <p>A181A. In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.</p> <p><i>Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies</i></p> <p>The firm identifies findings on multiple engagements that are audits of financial statements and determines that a deficiency in the system of quality management exists because since the similar findings have occurred across multiple engagements. However, the findings do not occur in firm observes several other engagements with inout these same population being tested findings, and in considering why these other engagements do not have similar findings, the firm notes that the engagement partners were actively involved at all stages of the engagements. By contrasting ing, for the engagements with the findings, the engagement partners were not actively involved. By contrasting the engagements, the firm concludes that the root cause of the deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.</p>
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	<p>A182. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of identifying a root cause(s) that is appropriately specific</i></p> <p>The firm identifies that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates where management's assumptions have a high degree of subjectivity. While the firm notes that these engagement teams are not exercising appropriate professional skepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to challenge individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.</p> </div> <p>A182A. In addition to investigating the root cause(s) of deficiencies, the firm may alsoAlthough not required by this ISQM, investigateing the root cause(s) of positive outcomes as doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.</p> <p>Evaluating the Severity and Pervasiveness of Identified Deficiencies (Ref: Para. 48(b))</p> <p>A183: [Moved to paragraph A178A]</p> <p>A183A: [Moved to paragraph A178B]</p>
<p><i>Responding to Identified Deficiencies</i></p> <p>49. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A184–A184B)</p>	<p><i>Responding to Identified Deficiencies (Ref: Para. 49)</i></p> <p>A184. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:</p> <ul style="list-style-type: none"> • The root cause(s). • The severity and pervasiveness of the identified deficiency and therefore the urgency within which it needs to be addressed. • The effectiveness of the remedial actions in addressing the root cause(s), such as whether the firm needs to implement more than one remedial action in order to

	<p>effectively address the root cause(s), or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions.</p> <p>A184A. In some circumstances, the remedial action may include establishing additional quality objectives, or modifying the assessed quality risks or responses <u>may be added or modified</u>, because it is determined that they are not appropriate.</p> <p>A184B. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the remedial actions taken by the firm may include also:</p> <ul style="list-style-type: none"> • Considering whether to continue using the resources provided by the service provider. • Determining the remedial actions the firm needs to take to address the effect of the identified deficiency. <u>Communicating</u> the matter to the service provider.- <p><u>The firm is responsible for addressing the effect of the deficiency of the resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from reoccurring with respect to the firm’s system of quality management. However, the firm is not responsible for remediating the deficiency on behalf of the service provider or further investigating the root cause of the deficiency at the service provider.</u></p>
<p>50. The individual(s) assigned operational responsibility for monitoring and remediation shall evaluate whether the remedial actions:</p> <p>(a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and</p>	

<p>(b) Implemented to address previously identified deficiencies are effective. (Ref: Para. A163)</p> <p><u>50A.</u> If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for monitoring and remediation shall take appropriate action to <u>determine that</u>modify the remedial actions <u>are appropriately modified</u> such that they are effective.</p>	
<p>Findings About a Particular Engagement</p> <p>51. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm’s response shall include: (Ref: Para. A185)</p> <p>(a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and</p> <p>(b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.</p>	<p>Findings About a Particular Engagement (Ref: Para. 51)</p> <p>A185. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:</p> <ul style="list-style-type: none"> • Consulting with appropriate personnel regarding the appropriate action. • Discussing the matter with management of the entity or those charged with governance. • Performing the omitted procedures. <p>The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings <u>to</u>, <u>identifying</u> deficiencies and <u>when if it is determined that</u> a deficiency exists, investigating the root cause(s) of the identified deficiency.</p>

<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>52. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A186)</p> <p>(a) A description of the monitoring activities performed;</p> <p>(b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and</p> <p>(c) The remedial actions to address the identified deficiencies.</p>	<p><i>Ongoing Communication Related to the Monitoring and Remediation</i> (Ref: Para. 52)</p> <p>A186. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management <u>may be communicated on an ongoing basis or periodically. Such individuals may use the information in multiple ways, for example:</u></p> <ul style="list-style-type: none"> • <u>As a basis for further communications to personnel about the importance of quality.</u> • <u>To hold individuals accountable for their roles assigned to them.</u> • <u>To identify key concerns about the system of quality management in a timely manner.</u> <p><u>The information also</u> provides the basis for the evaluation of the system of quality management, as required by paragraphs <u>65A–65AA</u>.</p>
<p>53. The firm shall communicate the matters described in paragraph 52 to engagement teams and other individuals to enable them to take prompt and appropriate action in accordance with their responsibilities.</p>	
<p>54. The firm shall communicate information about the results of the firm’s monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 40(c)(iv).</p>	

Network Requirements or Network Services	Network Requirements or Network Services (Ref: Para. 58)
<p>58. When the firm operates as part of a network, the firm shall understand, when applicable: (Ref: Para. A192)</p> <p>(a) The requirements established by the network regarding the firm’s system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);</p> <p>(b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm’s system of quality management (i.e., network services); and</p> <p>(c) The firm’s responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A194)</p> <p>The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network</p>	<p>A192. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm’s system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that operate as part of the network. The extent to which a network will provide the firm with quality objectives, quality risks and responses that are common across the network will depend on the firm’s arrangements with the network.</p> <div data-bbox="884 594 1940 1382" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of network requirements</i></p> <ul style="list-style-type: none"> • Requirements for the firm to include additional quality objectives or identified quality risks in the firm’s system of quality management that are common across the network firms. • Requirements for the firm to include responses in the firm’s system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network developed methodologies for the performance of engagements or IT applications. • Requirements that the firm be subject to the network’s monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network’s methodology appropriately), or to the firm’s system of quality management in general. <p><i>Examples of network services</i></p> <ul style="list-style-type: none"> • Services or resources that are optional for the firm to use as a response in its system of quality management <u>or in the performance of engagements</u>, such as voluntary training programs, <u>use of component auditors or experts from within the</u> </div>

<p>requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A13, A195)</p>	<div data-bbox="884 196 1934 285" style="border: 1px solid black; padding: 5px;"> <p>network, or use of a service delivery center established at the network level, or by another firm or group of firms within the same network.</p> </div> <p>A194. The network may establish responsibilities for the firm in implementing the network requirements or network services.</p> <div data-bbox="884 380 1934 708" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of responsibilities for the firm in implementing network requirements or network services</i></p> <ul style="list-style-type: none"> • The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management. • The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology. </div> <p>A195. The firm’s understanding of the network requirements or network services and the firm’s responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as:</p> <ul style="list-style-type: none"> • The network’s governance and leadership. • The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services. • How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the professional standards or information that indicates a deficiency in the network requirements or network services. • How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms’ monitoring activities, and the network’s processes for remediating identified deficiencies.
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<p>... [The only aspects in this section for discussion in June 2020 are paragraph 58 and related application material]</p>	<p>... [The only aspects in this section for discussion in June 2020 are paragraph 58 and related application material]</p>
<p>Evaluating the System of Quality Management</p>	<p>Evaluating the System of Quality Management (Ref: Para. 65A–65D)</p>
<p>65A. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate the system of quality management. The evaluation shall be undertaken as of a point in time, and shall be performed at least annually. (Ref: Para. A209A–A209C)</p>	<p>A209A. <u>The firm is responsible for the evaluation of the system of quality management, and assigns the performance of the evaluation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management. The firm remains responsible and accountable for achieving the objectives of this ISQM. Nevertheless, the evaluation of the system of quality management reinforces the responsibility and accountability of the individual(s) assigned ultimate responsibility and accountability for the system of quality management. It may not be possible or practical for the individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate the system of quality management on their own, and the individual(s) may need to assign aspects of the evaluation to other individual(s) in the firm to assist in performing the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible for the system of quality management, and complying with the requirements of this ISQM.</u></p> <p>A209B. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle.</p> <div style="border: 1px solid black; padding: 5px;"> <p>A209C. <i>Scalability examples to demonstrate how the information to support the evaluation of the system of quality management may be obtained</i></p> <ul style="list-style-type: none"> • In a less complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management. </div>

	<ul style="list-style-type: none"> In a more complex firm, the firm may need to establish processes to collate, summarize and communicate the information needed to evaluate the system of quality management.
<p>65AA. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude <u>one of the following that either:</u> (Ref: Para. A209D– A210A, A210DA)</p> <p>(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. <u>A210AA</u>)</p> <p>(b) Except for matters <u>related to which specific</u> deficiencies <u>relate</u> that have <u>been determined to have</u> a severe <u>but not pervasive</u> effect on the design, implementation and operation <u>of an aspect(s)</u> of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. <u>A210AAA</u><u>A210AB</u>)</p> <p>(c) The system of quality management does not provide the firm with reasonable assurance that the</p>	<p>A209D. [Moved to paragraph A154]</p> <p><u>Concluding on the System of Quality Management (Ref: Para. 65AA)</u></p> <p>A210A. In the context of this ISQM, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may use the results of the firm’s monitoring and remediation process and consider the following:</p> <ul style="list-style-type: none"> The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management; The actions taken thus far by the firm to remediate the identified deficiencies, and whether these are appropriate, and have been designed and implemented; and Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 51. <p><u>A210AA. There may be circumstances when identified deficiencies that are severe (including deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</u></p> <p><u>A210AB. A deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:</u></p>

objectives of the system of quality management are being achieved.
(Ref: Para. A210AB–~~A210AD~~)

- The deficiency affects several components or aspects of the system of quality management.
- The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management.
- The deficiency affects several business units or geographical locations of the firm.
- The deficiency is confined to a business unit or geographical location but the business unit or location affected is fundamental to the firm overall.
- The deficiency affects a substantial portion of engagements that are of a certain type or nature.

~~A210AA. Example of a *specific* deficiency that that has been determined to have a *may be considered severe but not pervasive* effect on the design, implementation and operation of an aspect(s) of the system of quality management~~

~~There is a technological failure in the firm's IT application for accepting and continuing client relationships and specific engagements that results in the firm performing a few engagements that would otherwise not have been accepted. However, the engagements were performed in accordance with professional standards and applicable legal and regulatory requirements, and the engagement reports were appropriate in the circumstances. The firm identifies a deficiency in a smaller regional office of the firm. The deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, including the actions and behavior of leadership in the regional office, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the deficiency is:~~

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Not pervasive, because it is limited to the smaller regional office.

A210A~~CB~~. The the individual(s) assigned ultimate responsibility and accountability for the system of quality management~~firm~~ may conclude that the system of quality management does not

provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the deficiencies have not been appropriately corrected.

Example of a deficiency that may be considered severe and pervasive

A deficiency relating to the firm's governance and leadership, which affects the overall environment that supports the operation of the system of quality management. The firm identifies a deficiency in a regional office that is a hub for many other offices of the firm. The deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, including the actions and behavior of leadership in the regional office, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the deficiency is:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Pervasive, because the regional office is a hub for many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices.

A210AD. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the deficiencies may be diminished and it may be determined that the deficiencies are still severe, but no longer severe and pervasive. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may adjust the conclusion (i.e., they may conclude that, except for matters related to deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved).

	<p>A210DA. This ISQM does not require the firm to obtain an independent assurance report on its system of quality management.</p>
<p>65C. If the evaluation indicates that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system are being achieved, the firm shall: (Ref: Para. A210DAA)</p> <p>(a) Take prompt and appropriate action; and (Ref: Para. A210DB)</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals to the extent that it is relevant to their responsibilities; and (Ref: Para. A210DC)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 41A(dA). (Ref: Para. A210DD)</p>	<p>Circumstances When the Evaluation Indicates the System of Quality Management Does Not Provide Reasonable Assurance that the Objectives of the System are Being Achieved (Ref: Para. 65C)</p> <p>A210DAA. The firm is responsible for holding the individual(s) assigned ultimate responsibility and accountability for the system of quality management responsible and accountable for the firm's system of quality management. Accordingly, in circumstances when the system of quality management does not provide the firm with reasonable assurance that the objectives of the system are being achieved, the firm is responsible for taking prompt and appropriate further action, which-</p> <p>A210DB. Prompt and appropriate action when the evaluation indicates that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system are being achieved may include:</p> <ul style="list-style-type: none"> • Taking measures to support the performance of engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams. • Obtaining legal advice. <p>A210DC. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.</p> <div style="border: 1px solid black; padding: 5px;"> <p>A210DD. <i>Examples of circumstances when it may be appropriate for the firm to communicate to external parties</i></p> <ul style="list-style-type: none"> • When the firm belongs to a network. </div>

	<ul style="list-style-type: none"> • When other firms in the network use the work performed by the firm, for example, in the case of a group audit. • When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed. • When law or regulation requires the firm to communicate to an oversight authority or a regulatory body that the system does not provide the firm with reasonable assurance that the objectives of the system are being achieved.
<p>65D. The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the individual(s) assigned operational responsibility for the system of quality management. In doing so, the firm shall take into consideration the evaluation of the system of quality management. (Ref: Para. A210E–A210G)</p>	<p><i>Performance Evaluations</i> (Ref: Para. 65D)</p> <p>A210E. Periodic performance evaluations promote accountability. In considering the performance of these individuals, the firm may take into account:</p> <ul style="list-style-type: none"> • The results of the firm’s monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm’s monitoring activities against those targets. • The actions taken by the individual(s) in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Scalability examples to demonstrate how the firm may undertake the performance evaluations</i></p> <ul style="list-style-type: none"> • In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm’s monitoring activities may provide an indication of the performance of the individual(s). • In a more complex firm, the performance evaluations may be undertaken by an independent non-executive member of the firm’s governing body, or a special committee overseen by the firm’s governing body. </div>

	<p>A210F. A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual’s commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm’s achievement of its quality objectives.</p> <p>Public Sector Considerations</p> <p>A210G. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the results of the performance evaluation, given the nature of the individual’s appointment. Nevertheless, performance evaluations may still be undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.</p>
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