

Agenda Item 4–A(UPDATED)

NOTE TO THE IAASB:

This draft of proposed ISQM 1 includes proposed changes in response to the Board discussion on March 18, 2020 and offline comments received from Board members, on the following areas:

- Paragraphs 7 and 8A and related application material.
- Paragraphs 19(a), 19(gA), 19(q) and 19(tA) and related application material.
- Paragraphs 22A–22B and related application material.
- The firm’s risk assessment process.
- Relevant ethical requirements.
- Certain aspects of resources.
- Information and communication.
- Paragraphs 44–45 and related application material.
- Evaluation of the system of quality management.

Only the above areas will be discussed during the Board Videoconference on April 8, 2020.

Revisions to the remaining areas (highlighted in grey text throughout this document) to address Board feedback will be presented as part of the full draft to be discussed in June 2020.

The ISQM 1 Task Force noted a number of comments related to the following matters, on which the ISQM 1 Task Force plans to further deliberate and will present recommendations in June 2020:

- The use of the terms “individuals” and “personnel”, and clarifying that engagement partners are included in the term personnel.
- The example boxes, such as reducing the number of example boxes.

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

(Effective as of TBD)

(TRACK CHANGES FROM AGENDA ITEM 4-A OF THE MARCH 2020 MEETING)

CONTENTS

[Content Page to be Inserted]

Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Introduction	Application and Other Explanatory Material
Scope of this ISQM	Scope of this ISQM (Ref: Para. 2)
1. This International Standard on Quality Management (ISQM) deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. ISQM 2 ¹ deals with the responsibility of the firm and engagement quality reviewers relating	

¹ Proposed ISQM 2, *Engagement Quality Reviews*

<p>to engagement quality reviews. This ISQM is to be read in conjunction with relevant ethical requirements.</p>	
<p>2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB):</p> <p>(a) Are premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding;² and</p> <p>(b) Include requirements for engagement partners and other personnel regarding quality management at the engagement level. ISA 220 (Revised), for example, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. (Ref: Para. A1)</p>	<p>A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)³ and ISAE 3000 (Revised),⁴ also establish requirements for the engagement partner for the management of quality at the engagement level.</p>

² See, for example, Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statement* (Revised), paragraph 3

³ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁴ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<p>3. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ISQM.</p>	
<p>4. This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies).</p>	
<p>The Firm's System of Quality Management</p>	<p>The Firm's System of Quality Management (Ref: Para. 6A–13)</p>
<p>6A. A system of quality management is continual and iterative and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ISQM, a system of quality management addresses the following eight components: (Ref: Para. A1A)</p> <ul style="list-style-type: none"> (a) The firm's risk assessment process; (b) Governance and leadership; (c) Relevant ethical requirements; 	<p>A1A. The firm may use different terminology or frameworks to describe the components of its system of quality management.</p>

<p>(d) Acceptance and continuance of client relationships and specific engagements;</p> <p>(e) Engagement performance;</p> <p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p>	
<p>7. The public interest is served by the consistent performance of quality engagements. <u>The design, implementation and operation of the system of quality management supports the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved.</u> Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those</p>	<p>A2. The IESBA Code⁵ contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant’s responsibility to act in the public interest.</p> <p>A3. Reasonable assurance is obtained when the <u>firm’s</u> system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 18(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management. Such limitations include that human judgment in decision making can be faulty and that breakdowns in a <u>firm’s</u> system of quality management may occur, for example, due to human error or behavior or failures in IT applications.</p>

⁵ The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<p>standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism. (Ref: Para. A2–A3A)</p> <p>8A.— The system of quality management supports the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved. Since the system of quality management supports the consistent performance of quality engagements, in this ISQM, references to the design, implementation and operation of the system of quality management include supporting the performance of engagements. (Ref: Para. A3)</p>	
<p>9A. This ISQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the quality of engagements is proactively managed by the firm. (Ref: Para. A4A)</p>	<p>A4A. Examples of the interconnected nature of the components include the following:</p> <ul style="list-style-type: none"> • The firm’s risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, and applies across the system of quality management. • The governance and leadership component provides the basis for the system of quality management and also creates the environment in which the other components of the system of quality management operate.

	<ul style="list-style-type: none"> • The information and communication and resources components enable the design, implementation and operation of the system of quality management. • The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process may provide information that is relevant to the firm’s risk assessment process. • There may be interrelationships of specific matters, for example, aspects of relevant ethical requirements may be relevant when accepting and continuing client relationships and specific engagements.
<p>10. The risk-based approach is embedded in the requirements of this ISQM through:</p> <p>(a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives set out in this ISQM and any additional quality objectives beyond those specified by this ISQM that are considered necessary by the firm to achieve the objectives of the system of quality management.</p> <p>(b) Identifying and assessing risks to the achievement of the</p>	

<p>quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for designing and implementing responses.</p> <p>(c) Designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the firm's responses to address the assessed quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.</p>	
<p>11A. This ISQM requires that, at least annually, the individual assigned ultimate responsibility and accountability for the system of quality management evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved.</p>	
<p><i>Scalability</i></p> <p>13A. In applying a risk-based approach, the firm is required to take into account:</p>	

<p>(a) The nature and circumstances of the firm; and</p> <p>(b) The nature and circumstances of the engagements performed by the firm.</p> <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements.</p>	
<p><i>Networks and Service Providers</i></p> <p>14. A firm's system of quality management may include:</p> <p>(a) Network requirements or network services in circumstances when the firm belongs to a network; or</p> <p>(b) Resources that are obtained from a service provider that are external to the firm or external</p>	

<p>to the network when the firm belongs to a network.</p> <p>Notwithstanding the firm's responsibility to comply with network requirements, or the use of network services or resources from a service provider, the firm remains responsible for its system of quality management. Accordingly, this ISQM addresses the firm's responsibility in circumstances when the system of quality management includes network requirements or network services or resources from a service provider.</p>	
<p>Authority of this ISQM</p>	<p>Authority of this ISQM (Ref: Para. 16)</p>
<p>16. This ISQM contains the objective of the firm in following this ISQM, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ISQM, and definitions. (Ref: Para. A6–A9)</p>	<p>A6. The objective of this ISQM provides the context in which the requirements of this ISQM are set, establishes the desired outcome of this ISQM and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.</p> <p>A7. The requirements of this ISQM are expressed using “shall.”</p> <p>A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:</p> <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples that illustrate how the requirements might be applied. <p>While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQM. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the</p>

	<p>requirements in this ISQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQM.</p> <p>A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the <i>Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation.</p>
<p>Effective Date</p>	
<p>17. Systems of quality management in compliance with this ISQM are required to be designed, implemented, and commence operation by TBD.</p>	
<p>Objective</p>	
<p>18. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:</p> <p>(a) The firm and its personnel fulfill their responsibilities in</p>	

<p>accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	
<p>Definitions</p>	<p>Definitions</p>
<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) – An aspect of the firm's system of quality management that is absent, inappropriately designed, or not operating effectively. This exists when: (Ref: Para. A9A–A10A, A175)</p> <p>(i) <u>A quality objective required to achieve the objective of the system of quality management is not established;</u></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>A10. An <u>other</u> aspect of the system of quality management consists of <u>the requirements in this ISQM addressing:</u></p> <ul style="list-style-type: none"> • <u>Assigning responsibilities (paragraphs 22A–22B);</u> • <u>The firm's risk assessment process, i.e., the process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses;</u> • <u>The monitoring and remediation process; and</u> • <u>The evaluation of the system of quality management.</u>

(ii) The likelihood of one or more quality objectives not being achieved is above an acceptably low level, because:

a. A quality risk, or combination of quality risks, is not identified or properly assessed; or

b. A response to address an assessed quality risk, or combination of responses, is not properly designed, implemented or operating effectively.

(iii) An other aspect of the system of quality management is absent, not properly designed, or not operating effectively, such that the likelihood of not fulfilling a requirement of this ISQM is above an acceptably

~~quality objectives, quality risks and responses or other actions by the firm that are necessary to fulfill the requirements of this ISQM. As a result, a deficiency may exist in the design, implementation or operation of any of the components of the system of quality management.~~

Examples of ~~ade~~ deficiencies related to other ~~n~~ aspects of the firm's system of quality management ~~that is absent, inappropriately designed, or not operating effectively~~

- The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not ~~appropriately fulfill their responsibilities, including undertaking~~ the annual evaluation of the system of quality management.
- The firm's risk assessment process:
 - ~~Is not designed or implemented in a manner that enables the firm to establish quality objectives, identify and assess quality risks and design and implement responses; or~~
 - ~~Fails to identify information that may indicate changes in the nature and circumstances of the firm and its engagements and that additional~~ affect the quality objectives ~~need to be established, or~~ quality risks or responses ~~modified.~~
 - ~~A quality objective required to achieve the objective of this ISQM is not established. This may cause a quality risk to not be identified or properly assessed or a response to not be properly designed or implemented.~~
 - ~~A quality risk has not been identified or properly assessed, such that a response that addresses that risk has not been properly designed or implemented.~~
 - ~~A response to address an assessed quality risk is not properly designed, implemented or operating effectively, such that a quality objective may not be achieved. A response to address an assessed quality risk is not properly designed when, for example, a response necessary to address an assessed quality risk is absent or a response is not properly designed in a manner that effectively addresses an assessed quality risk.~~
- The firm's monitoring and remediation process is not designed or implemented in a manner that:

<p><u>low level. (Ref: Para. A10)</u></p>	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> ○ Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management. ○ Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis. </div> <p>A10A. In some circumstances, an external oversight authority may establish requirements or guidance that set out matters that may be considered a deficiency.</p>
<p>(b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).</p>	
<p>(c) Engagement partner⁶ – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p>	
<p>(d) Engagement quality review – [To be aligned to ISQM 2]</p>	

⁶ “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

<p>(e) Engagement quality reviewer – [To be aligned to ISQM 2]</p>	
<p>(f) Engagement team – [To be aligned to ISA 220 (Revised)]</p>	
<p>(g) External inspections – Inspections or investigations undertaken by an external oversight authority related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A11)</p>	<p><i>External Inspections</i> (Ref: Para. 19(g))</p> <p>A11. In some circumstances, an external oversight authority may undertake other types of reviews.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of another type of review undertaken by an external oversight authority</i></p> <p>Thematic reviews of specific areas of focus that cross multiple audit firms, which are focused on matters that contribute to the improvement of engagement quality.</p> </div>
<p>(gA) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management <u>that has been accumulated from the performance of monitoring activities, external inspections and other relevant information, which comprises:</u></p> <p>(i) The results of the firm’s monitoring activities and external inspections; and</p> <p>(ii) Other information that indicates that one or more deficiencies</p>	<p><u>A11A. Information accumulated from the performance of monitoring activities, external inspections and other relevant information may also indicate positive outcomes or may reveal opportunities for the firm to improve, or further enhance, the system of quality management.</u></p> <p><u>A11B. Monitoring activities include monitoring at the engagement level, such as inspection of completed engagements. Furthermore, external inspections and other relevant information may include information 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.</u></p>

<p>may exist. (Ref: Para. A11A – A11B)</p>	
<p>(h) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A12)</p>	<p><i>Firm</i> (Ref: Para. 19(h)) A12. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISQM.</p>
<p>(i) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.</p>	
<p>(j) Network firm – A firm or entity that belongs to a network.</p>	
<p>(k) Network⁷ – A larger structure: (Ref: Para. A13–A14)</p> <p>(i) That is aimed at cooperation, and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common</p>	<p><i>Network</i> (Ref: Para. 19(k), 58) A13. Networks and the firms within the network may be structured in a variety of ways. In some instances, network firms may provide services (e.g., resources) that are used by the firm in its system of quality management. There may also be circumstances when the network includes other structures or organizations that establish requirements for the firm related to its system of quality management, or provides services. For the purposes of this ISQM, networks and the other firms within the network are external to the firm and any network requirements or network services that are obtained from the network, network firms or another structure or organization in the network are considered “network requirements or network services.” Services used by the firm in the system of quality management that are obtained from outside of the network, network</p>

⁷ As defined in the IESBA Code

<p>quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p>	<p>firms or another structure or organization in the network are considered services obtained from “service providers.”</p> <p>A14. The IESBA Code provides guidance in relation to the terms “network” and “network firm.”</p>
<p>(l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	
<p>(n) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.</p>	
<p>(o) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Management, Auditing, Review, Other Assurance and Related Services</i></p>	

<p><i>Pronouncements, and relevant ethical requirements.</i></p>	
<p>(p) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.</p>	
<p>(q) Quality risks – A <u>Risks adversely affecting the achievement of one or more quality objectives</u> that have a reasonable possibility; individually or in combination with other quality risks, of:</p> <p>(i) Occurring (i.e., likelihood); and</p> <p>(ii) <u>Individually or in combination with other risks Adversely affecting the being significant to the non-achievement of one or more</u> quality objective(s) if the risk were to occur (i.e., magnitude).</p>	
<p>(r) Reasonable assurance – In the context of the ISQMs, a high,</p>	

<p>but not absolute, level of assurance.</p>	
<p>(s) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A15–A16A, A67)</p>	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 19(s), 32)</p> <p>A15. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.</p> <p>A16. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.</p> <p>A16A. Various provisions of the relevant ethical requirements may apply only to personnel in the context of performing engagements and not the firm itself. The firm’s system of quality management may need to address personnel’s compliance with such relevant ethical requirements.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Examples of relevant ethical requirements that are applicable only to personnel and not the firm, and which relate to the performance of engagements</i></p> <p>Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner. Part 2 of the IESBA Code addresses:</p> <ul style="list-style-type: none"> • Pressure to breach the fundamental principles, and includes requirements that an individual shall not: <ul style="list-style-type: none"> ○ Allow pressure from others to result in a breach of compliance with the fundamental principles; or </div>

	<ul style="list-style-type: none"> ○ Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles. <p>In the context of performing engagements, pressure to breach the fundamental principles may arise when an engagement partner or another senior member of the engagement team pressures an engagement team member or the engagement quality reviewer to breach the fundamental principles.</p> <ul style="list-style-type: none"> • Preparation and presentation of information, and includes requirements for professional accountants when preparing and presenting information for clients or their firms and therefore applies to personnel performing a compilation engagement.
<p>(t) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address an assessed quality risk: (Ref: Para. A17–A18, A24S)</p> <p>(i) Policies are statements of what should, or should not, be done to address an assessed quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.</p> <p>(ii) Procedures are actions to implement policies.</p>	<p><i>Response</i> (Ref: Para. 19(t))</p> <p>A17. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies, or through their restraint from taking actions that would conflict with the firm’s policies.</p> <p>A18. Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but are rather conditioned by the firm’s culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm’s IT environment.</p>

<p><u>(tA) Service provider – Individuals or organizations that are external to the firm, who are engaged by the firm and used in the system of quality management, including in the performance of engagements. Service providers exclude networks, network firms or other structures or organizations in the network. (Ref: Para. A18A, A115A)</u></p>	<p><u>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.</u></p>
<p>(u) Staff – Professionals, other than partners, including any experts the firm employs.</p>	
<p>(v) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:</p> <p>(i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such</p>	

<p>standards and requirements; and</p> <p>(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	
<p>Requirements</p>	
<p>Applying, and Complying with, Relevant Requirements</p>	<p>Applying, and Complying with, Relevant Requirements (Ref: Para. 21)</p>
<p>20. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.</p>	
<p>21. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A20)</p>	<p>A20. <i>Examples of when a requirement of this ISQM may not be relevant to the firm</i></p> <ul style="list-style-type: none"> The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant.

	<ul style="list-style-type: none"> The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for the related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.
<p>System of Quality Management</p>	<p>System of Quality Management</p>
<p>22. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the operation of the system of quality management, through the firm's culture, decision-making processes, actions, organizational structure and leadership. (Ref: Para. A21A–A24)</p>	<p><i>Design, Implement and Operate a System of Quality Management</i> (Ref: Para. 22)</p> <p>A21A. Quality management is not a separate function of the firm; it is the integration of a quality culture and policies or procedures into the firm's operational activities and processes with the purpose of actively managing quality. As a result, designing the system of quality management and the firm's operational activities and processes in a unified manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.</p> <p>A22A. Notwithstanding that the firm assigns roles and responsibilities related to the system of quality management, the firm remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISQM.</p> <p>A24. The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, including:</p> <ul style="list-style-type: none"> Being open and alert for situations and information (or the lack thereof) regarding the system of quality management, including factors related to the nature and circumstances of the firm and engagements it performs; and Critically evaluating information obtained in formulating decisions about the system of quality management.
<p><i>Responsibilities</i></p> <p>22A. The firm shall assign: (Ref: Para. A24A–A24B)</p>	<p><i>Responsibilities</i> (Ref: Para. 22A–22AA)</p> <p>A24A. The governance and leadership component includes a quality objective that the firm has an organizational structure with appropriate assignment of roles, responsibilities and authority <u>that</u></p>

<p>(a) <u>Assign ultimate responsibility and accountability for the system of quality management to the firm’s chief executive officer or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent): (Ref: Para. A24BA)</u></p> <p>(b) <u>Assign operational responsibility for:</u></p> <p>(i) <u>The system of quality management;</u></p> <p>(ii) <u>Compliance with independence requirements; and (Ref: Para. A24BB)</u></p> <p>(iii) <u>The monitoring and remediation process; and</u></p> <p>(c) <u>In assigning the roles in sub-paragraphs (a) and (b), and any other responsibilities for specific aspects of the system of quality management, determine that the individual(s):</u></p> <p>(i) <u>Have the appropriate experience, knowledge, influence and authority within the firm, and</u></p>	<p><u>supports the firm’s culture of quality and the design, implementation and operation of the firm’s system of quality management.</u></p> <p>A242A. [Moved from paragraph A22A] <u>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. Notwithstanding that the firm assigns roles and responsibilities related to the system of quality management, the firm remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISQM.</u></p> <p>A24B. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Scalability example to demonstrate how assigning roles and responsibilities may be undertaken in a less complex firm</i></p> <ul style="list-style-type: none"> • <u>In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.</u> • <u>In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management in addition to those required by paragraph 22A(b), such as operational responsibility for compliance with ethical requirements.</u> </div> <p>A24BA. [Moved from paragraph A24D] <u>In some circumstances, the individual(s) assigned ultimate operational responsibility and accountability for aspects of the system of quality management may further assign specific roles, procedures, tasks or actions to other individuals. For example,</u></p>
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<p><u>sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A24CA)</u></p> <p><u>(ii) Understand the roles to which they are being assigned responsibility and that they are accountable for fulfilling them. (Ref: Para. A24E)</u></p> <p>22AA. In assigning operational responsibility for the system of quality management, and any other responsibilities for specific aspects of the system of quality management, the firm shall determine that the assigned individual(s) has: (Ref: Para. A24C–A24D)</p> <p>(a) The appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility; and</p> <p>(b) An understanding of their assigned responsibility and accountability for such responsibility. (Ref: Para. A24E)</p>	<p><u>the individual(s) may determine it appropriate to assign roles, procedures, tasks or actions to other individuals with specialized experience or knowledge to support the fulfillment of the requirements of this ISQM. However, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible for the system of quality management.</u></p> <p>A15324BB. [Moved from paragraph A153B] Compliance with independence requirements is essential to the performance of audits, or reviews of financial statements, or other assurance engagements, and is an expectation of stakeholders relying on the firm’s reports. The individual assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.</p> <p>A24C. This ISQM also requires the firm to assign operational responsibility for compliance with independence requirements and the monitoring and remediation process.</p> <p>A24CA. The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management may include:</p> <p>A<u>a</u> understanding of the firm’s strategic decisions and actions and experience with the firm’s business operations;;<u> and</u></p> <p>Having appropriate seniority, stature and influence within the firm.</p> <p>A24D. [Moved to paragraph A24BA]</p> <p>A24E. Although an individual may be assigned responsibility for a particular aspect of the system of quality management, in order <u>To</u> fulfill their <u>assigned</u> responsibility, the individual may need to understand how their role contributes to the system of quality management as a whole.</p>
<p>22B. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, <u>compliance with independence requirements and the</u></p>	

<p><u>monitoring and remediation process</u> have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	
<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. (Ref: Para. A24F–A24H) [Moved from paragraph 22G] <u>As part of this process, the firm shall establish policies or procedures that are designed to identify information that about changes in the nature and circumstances of the firm or its engagements and may indicate that may affect the quality objectives, quality risks or responses. The firm shall consider whether:</u> (Ref: Para. A24F–A24HA24VA–A24X)</p> <p>(a) Additional quality objectives need to be established <u>or whether previously added quality objectives are no longer applicable and if so, shall establish them; and</u></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. The firm's risk assessment process may be undertaken in relation to each component, or for the system of quality management as a whole.</p> <div data-bbox="821 651 1940 1198" 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. <u>The risk assessment process may be undertaken for the system of quality management as a whole, rather than individually for each component.</u> • A more complex firm may have a more-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, <u>and in some circumstances may be performed in a nonlinear manner.</u></p> <div data-bbox="821 1349 1940 1398" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of the iterative <u>and nonlinear</u> nature of the firm's risk assessment process</i></p> </div>

<p>(b) <u>Additional quality risks need to be identified, or assessed quality risks modified or reassessed; or</u></p> <p>(c) <u>Additional responses need to be designed or implemented, or the design or implementation of responses modified. The quality risks or responses require modification, and if so, shall modify them accordingly. (Ref: Para. A24Y)</u></p>	<div data-bbox="821 191 1932 391" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • In identifying and assessing quality risks, the firm determines that a quality risk is also relevant to an additional <u>other</u> quality objective(s) <u>needs to be established</u>. • When designing and implementing responses, the firm determines that a quality risk was not identified and assessed. </div> <p>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. Information that is relevant to the firm’s risk assessment process may be internal or external to the firm and may include:</p> <ul style="list-style-type: none"> • Information about the factors that may affect the achievement of the quality objectives. • <u>The results of the firm’s monitoring and remediation process (see paragraph 49).</u> • <u>Information regarding complaints and allegations about the commitment to quality of the firm or its personnel.</u> • The results of external inspections. • Information available from other regulators <u>about the entities for whom the firm performs engagements which is made available to the firm</u>, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the <u>entity’s</u> financial statements <u>or non-compliance with securities regulation</u>). • 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).
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	<ul style="list-style-type: none"> 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. <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>A24VA. [Moved from paragraph A24VA] Scalability example to demonstrate how <u>obtaining information about changes in the nature and circumstances of the firm and its engagements, the policies or procedures designed to identify information that may affect the quality objectives, quality risks or responses</u> may vary</p> </div> <ul style="list-style-type: none"> In a less complex firm, the <u>firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm and 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 may, in the normal course of their activities, be aware of information that may affect the quality objectives, quality risks and responses</u> in the normal course of their activities. In such cases, the firm's policies or procedures may be informal. In a more complex firm, the firm may need to establish formal policies or procedures to identify information <u>about changes in the nature and circumstances of the firm and its engagements that may affect the quality objectives, quality risks or responses</u>. This may include a periodic review of information relating to the nature and circumstances of the firm and <u>its engagements it performs or, environmental scans or risk sensing</u>. <p>A24HAX. [Moved from paragraph A24X] Additional quality objectives may need to be established, or quality risks and responses modified as part of the remedial actions undertaken by the firm to address a deficiency in accordance with paragraph 49.</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</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 22D)</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <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, require the firm to establish additional quality objectives: <u>in relation to the appointment of independent individuals to the firm's governance structure.</u></p> </div>

<p>of quality management. (Ref: Para. A24I–A24K)</p>	<p>A24J. The nature and circumstances of the firm and its engagements may be such that the objectives in this ISQM are considered complete, and 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: (Ref: Para. A24L)</p> <p>(a) Understand the factors (i.e., the conditions, events, 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>(i) Those relating to the nature and circumstances of the firm:</p> <p>a. The complexity and operating characteristics of the firm;</p> <p>b. The strategic <u>and operational</u> decisions <u>and</u></p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 22E)</p> <p>A24L. The identification of quality risks and assessment of quality risks may be undertaken separately or concurrently.</p> <p>A24N. The factors that may adversely affect the achievement of a quality objective consist of conditions, events, circumstances, actions or inactions. There may be factors in addition to those described in paragraph 22E(a) that may adversely affect the achievement of a quality objective. <u>A risk arises from how, and the degree to which, a factor may adversely affect the achievement of a quality objective. Not all risks are quality risks.</u></p> <table border="1" data-bbox="806 792 1923 1390"> <tr> <td colspan="2" data-bbox="806 792 1923 899"> <p><i>Examples of factors <u>and how</u> that may be considered by the firm in determining whether they adversely affect the achievement of a quality objective <u>quality risks may arise</u></i></p> </td> </tr> <tr> <td data-bbox="806 904 1310 971"> <p><u>Examples of factors</u></p> </td> <td data-bbox="1316 904 1923 971"> <p><u>Examples of quality risks</u></p> </td> </tr> <tr> <td colspan="2" data-bbox="806 976 1923 1042"> <p>Conditions and circumstances:</p> </td> </tr> <tr> <td data-bbox="806 1047 1310 1300"> <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="1316 1047 1923 1300"> <p><u>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.</u></p> </td> </tr> <tr> <td data-bbox="806 1305 1310 1390"> <p>The services offered by the firm, including services not within the scope of</p> </td> <td data-bbox="1316 1305 1923 1390"> <p><u>In the context of governance and leadership, these factors may give rise to quality risks relating to how</u></p> </td> </tr> </table>	<p><i>Examples of factors <u>and how</u> that may be considered by the firm in determining whether they adversely affect the achievement of a quality objective <u>quality risks may arise</u></i></p>		<p><u>Examples of factors</u></p>	<p><u>Examples of quality risks</u></p>	<p>Conditions and circumstances:</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><u>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.</u></p>	<p>The services offered by the firm, including services not within the scope of</p>	<p><u>In the context of governance and leadership, these factors may give rise to quality risks relating to how</u></p>
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<p>The services offered by the firm, including services not within the scope of</p>	<p><u>In the context of governance and leadership, these factors may give rise to quality risks relating to how</u></p>										

<p><u>actions, business processes</u>, <u>actions</u>, and business model <u>of the firm</u>;</p> <p>c. The characteristics and management style of leadership;</p> <p>d. The resources of the firm, including the resources provided by service providers;</p> <p>e. Law, regulation, professional standards and the environment in which the firm operates; and</p> <p>f. In the case of a firm that belongs to a network, the <u>nature and extent characteristics</u>—of the network requirements and network services, if any.</p> <p>(ii) Those relating to the nature and circumstances of the</p>	<p>this ISQM, and the relative significance of the various services to the firm’s overall financial goals.</p>	<p><u>resources are prioritized across the firm’s various services, and allocated or assigned to the firm’s engagements.</u></p>
	<p>The composition <u>and experience</u> of firm leadership and their tenure, and how authority is distributed among leadership.</p>	<p><u>In the context of governance and leadership, these factors may give rise to quality risks relating to leadership’s actions and behaviors in demonstrating a commitment to quality.</u></p>
	<p><u>Regulations directly relevant to the firm and professional standards.</u></p>	<p><u>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.</u></p>
	<p>Economic stability and social factors, and standards or regulation affecting engagements performed by the firm.</p>	<p><u>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.</u></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><u>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.</u></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><u>In the context of relevant ethical requirements, these factors may give rise to quality risks relating to compliance with independence requirements.</u></p>

<p>engagements performed by the firm subject to the system of quality management:</p> <p>a. The types of engagements performed by the firm and the reports to be issued; and</p> <p>b. The types of entities for which such engagements are undertaken;</p> <p>(b) <u>Based on the understanding in (a), identify and assess the quality risks by taking into account how and the degree to which the factors may adversely affect the achievement of the quality objectives. Consider:</u></p> <p>(i) Whether, and if so how, the factors could, individually or in combination with other quality risks, adversely affect the achievement of a quality objective; and (Ref: Para. A24P)</p> <p>(ii) The likelihood of the quality risks occurring,</p>	<p>Actions or inactions:</p>	
	<p>Decisions and actions taken by the firm in obtaining and allocating resources, <u>or a failure by the firm to take action to obtain or allocate resources.</u></p>	<p><u>In the context of information and communication, these factors may give rise to quality risks relating to effective and timely communication throughout the firm.</u></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><u>In the context of governance and leadership, these factors may give rise to quality risks relating to a culture of quality.</u></p>
	<p><u>Actions taken by</u> How leadership <u>to motivates and encourages</u> personnel, <u>or a failure to take such action.</u></p>	<p><u>In the context of resources, these factors may give rise to quality risks relating to personnel's actions and behaviors and commitment to quality.</u></p>
	<p>Events:</p>	
	<p>Audit failures that affect the general public's perception of professional accountancy firms.</p>	
	<p><u>Reform in the firm's jurisdiction, including changes in law or regulation affecting the engagements the firm performs.</u></p>	<p><u>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.</u></p>
<p><u>Recent corporate action the firm has been engaged in, such as a merger, demerger or acquisition.</u></p>	<p><u>In the context of resources, these factors may give rise to quality risks relating to engagement teams using appropriate intellectual resources.</u></p>	

<p>and if they were to occur, the potential effect on the achievement of a quality objective(s) before consideration of any response. (Ref: Para. A24Q).</p>	<div data-bbox="814 196 1308 375" style="border: 1px solid black; padding: 5px;"> <p><u>Changes in the economy or industry, or disasters, affecting the risk profile of entities for whom the firm performs engagements.</u></p> </div> <p>A24P. Not every factor will affect every quality objective and therefore, not every factor will give rise to a quality risk in a component.</p> <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).</p> <div data-bbox="814 613 1919 992" style="border: 1px solid black; padding: 5px;"> <p><u>Examples of how factors positively affect the achievement of a quality objective</u></p> <ul style="list-style-type: none"> • <u>The firm's strategy has been developed with quality of engagements a key focus area that has been embedded in the strategic goals.</u> • <u>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.</u> • <u>Leadership has a strong focus on quality and is actively involved in the daily operations of the firm and closely interacts with personnel.</u> </div> <p>A24NB. Given the evolving nature of the system of quality management, responses designed and implemented by the firm 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.</p> <p>A24Q. The identification and assessment of identified quality risks need not comprise formal ratings or scores.</p> <div data-bbox="814 1268 1940 1390" style="border: 1px solid black; padding: 5px;"> <p><u>Examples of factors to consider in assessing the magnitude of how the a quality risks may be considered by the firm in assessing the potential effect on the achievement of a quality objective(s)</u></p> </div>	<div data-bbox="1318 196 1927 375" style="border: 1px solid black; padding: 5px;"> <p><u>In the context of engagement performance, these factors may give rise to quality risks relating to exercising appropriate professional judgment and professional skepticism.</u></p> </div>
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	<ul style="list-style-type: none"> • How frequently the quality risk is expected to occur. • How much time it would take for the 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. • 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. In doing so, the The firm shall <u>also</u> 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"> • <u>How and the extent to which the factors may adversely affect the achievement of the quality objectives.</u> • The likelihood of occurrence. • The effect on the achievement of a quality objective(s). • The factors that may adversely affect the achievement of the quality objectives that give rise to the assessed quality risks. <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: 5px; margin-top: 10px;"> <p><i>Example of a response that operates at both the firm and engagement level</i></p> <p>The firm establishes policies or procedures <u>for consultation which includes setting out with whom consultation should be undertaken by engagement teams and the</u> specific matters for which consultation by engagement teams is required. The firm appoints suitably qualified and experienced individuals to provide <u>the consultation</u> technical advice to engagement teams. The engagement team is responsible for identifying when matters for consultation occur and initiating consultation, <u>and implementing the conclusions from consultation.</u></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>Modifications to the Quality Objectives, Quality Risks or Responses</p> <p>22G. [Moved to paragraph 22C]</p>	<p>Modifications to the Quality Objectives, Quality Risks or Responses (Ref: Para. 22G)</p> <p>A24VA. [Moved to paragraph A24H]</p> <p>A24W. Changes in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Example of how a change in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management</p> <p>The firm accepts an engagement to perform an audit of financial statements for an entity involved in an industry for which the firm has not previously performed audit engagements. This gives rise to new quality risks, including that individuals do not have the knowledge or experience relevant to the engagement.</p> </div> <p>A24X. [Moved to paragraph A24H]</p> <p>A24Y. Modifications to quality risks or responses include adjusting an assessed quality risk, reassessing a quality risk, identifying a new quality risk, adjusting the design or implementation of a response, or designing and implementing a new response.</p>
<p>Governance and Leadership</p>	<p>Governance and Leadership</p>
<p>23. The firm shall establish the following quality objectives that address the aspects of the firm's environment that support the design, implementation and operation of the system of quality management:</p> <p>(a) The firm commits to quality and a culture of quality exists</p>	<p><i>Culture</i> (Ref: Para. 23(a))</p> <p>A26. The firm's culture is an important factor in influencing the behavior of personnel and other individuals. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ISQM.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Examples of professional values and attitudes</i></p> <ul style="list-style-type: none"> • Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability. </div>

<p>throughout the firm, including recognizing and reinforcing: (Ref: Para. A26–A29)</p> <p>(i) The firm’s role in serving the public interest by consistently performing quality engagements;</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>(iii) The responsibility of all individuals for quality relating to the performance of engagements or activities within the system of quality management, and their expected behavior; and</p> <p>(iv) The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities.</p> <p>(b) Leadership is responsible and accountable to the firm for quality. (Ref: Para. A29A)</p>	<div data-bbox="821 196 1927 553" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • A commitment to teamwork. • Maintaining an open mind to new ideas or different perspectives in the professional environment. • Pursuit of excellence. • A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements and placing a focus on continual learning). • Social responsibility. </div> <p>A29. The firm’s strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm’s decisions about financial and operational matters, the firm’s financial goals, how financial resources are managed, growth of the firm’s market share, industry specialization or new service offerings. The firm’s financial and operational priorities may directly or indirectly affect the firm’s commitment to quality and culture of quality.</p> <div data-bbox="821 773 1927 971" style="border: 1px solid black; padding: 5px;"> <p><i>Example of how the firm’s financial and operational priorities may affect the firm’s commitment to quality and culture of quality</i></p> <p>Incentives that are focused on financial and operational priorities may discourage behaviors that demonstrate a commitment to quality.</p> </div> <p><i>Leadership</i> (Ref: Para. 23(b) and 23(c))</p> <p>A29A. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 65D.</p> <p>A30A. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm may be essential to promoting a culture of quality.</p> <p><i>Organizational Structure</i> (Ref: Para. 23(d))</p>
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<p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A30A)</p> <p>(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management. (Ref: Para. A31–A31A)</p> <p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: Para. A34–A35)</p>	<p>A31. The organizational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, and engagement teams may include individuals from the service delivery center who perform specific tasks that are repetitive or specialized in nature.</p> <p>A31A. How the firm assigns roles, responsibilities and authority within the firm may vary.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Scalability examples to demonstrate how assigning roles and responsibilities may vary</i></p> <p>In a less complex firm, the individual with oversight of the firm may assume all of the roles and responsibilities related to the system of quality management.</p> <p>In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals.</p> </div> <p><i>Resources</i> (Ref: Para. 23(e))</p> <p>A34. The individuals(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used.</p> <p>A35. Resource needs may change over time, however it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.</p>
<p>Relevant Ethical Requirements</p>	<p>Relevant Ethical Requirements (Ref: Para. 32)</p>
<p>32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical</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</p>

requirements, including those related to independence: (Ref: Para. A67–A69~~8~~, A75)

(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, ~~A74~~)

(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject, ~~including:~~ (Ref: Para. ~~A72–A74~~)

~~a.~~ [Moved to paragraph 41A]

~~b.~~ [Moved to paragraph 41A]

(b) In circumstances when the firm’s system of quality

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).

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.

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

- 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 ~~in addition to those specified in relevant ethical requirements, which apply to~~for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members.

A69. Other components may affect or relate to the relevant ethical requirements component.

Examples:

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including:
 - 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:

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:

(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)

(ii) Fulfill their responsibilities in relation to the relevant ethical requirements described in paragraph (b)(i).

- 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.

A71. The applicability of the relevant ethical requirements to others (e.g., the network, network firms, personnel in the network or network firms, or service providers) depends on 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 is associated with ~~to~~ 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 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.

A72. [Moved to paragraph A153AA]

A73. [Moved to paragraph A153AB]

A74. [Moved to paragraph A153AC]

	<p><i>Public Sector Considerations</i></p> <p>A75. In achieving the quality objectives in this ISQM related to independence, public sector auditors may address independence in the context of have regard to the public sector mandate and statutory measures, and address independence in that context.</p>
<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>
<p>34. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>(a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Relevant information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such</p>	<p><i>The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client</i> (Ref: Para. 34(a)(i))</p> <p>A77. The information obtained about the nature and circumstances of the engagement may include:</p> <ul style="list-style-type: none"> • The industry of the entity for which the engagement is being undertaken and relevant regulatory factors; • The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and • The nature of the underlying subject matter and the criteria. <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of underlying subject matter and criteria</i></p> <p>In the case of integrated reporting:</p> <ul style="list-style-type: none"> • The underlying subject matter may include social, environmental and health and safety information; and • The criteria may be performance measures established by a recognized body of experts. </div> <p>A79. The information obtained to support the firm’s judgments about the integrity and ethical values of the client may include the identity and business reputation of the client’s principal owners, key management, and those charged with its governance.</p>

<p>judgments; and (Ref: Para. A77–A82)</p>	<p><i>Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client</i></p>
<p>(ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A83)</p>	<ul style="list-style-type: none"> • The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure. • The nature of the client’s operations, including its business practices. • Information concerning the attitude of the client’s principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. • Whether the client is aggressively concerned with maintaining the firm’s fees as low as possible. • Indications of a client-imposed limitation in the scope of work. • Indications that the client might be involved in money laundering or other criminal activities. • The reasons for the proposed appointment of the firm and non-reappointment of the previous firm. • The identity and business reputation of related parties.
<p>(b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A85–A86)</p>	<p>A80. The firm may obtain the information from a variety of internal and external sources.</p>
	<p><i>Examples of sources of information about the integrity and ethical values of the client</i></p> <ul style="list-style-type: none"> • In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client. • In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements. • Discussions with other third parties, such as bankers, legal counsel and industry peers.

	<ul style="list-style-type: none">• Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search. <p>A81. Information that is obtained during the firm's acceptance and continuance process is in most cases also relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, ISA 220 (Revised)⁸ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.</p> <p>A82. Professional standards or legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300⁹ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.</p> <p><i>The Firm's Ability to Perform Engagements (Ref: Para. 34(a)(ii))</i></p> <p>A83. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by:</p> <ul style="list-style-type: none">• The availability of appropriate resources to perform the engagement;• Having access to information to perform the engagement, or to the persons who provide such information; and.
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⁸ Proposed ISA 220 (Revised), paragraph 21

⁹ ISA 300, *Planning an Audit of Financial Statements*, paragraph 13(b)

- Whether the firm, its personnel and other individuals involved in the engagement are able to fulfill their responsibilities in relation to the relevant ethical requirements.

Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement

- The circumstances of the engagement and the reporting deadline.
- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes:
 - Individuals to direct and supervise the engagement and take overall responsibility; and
 - Individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements.
- The availability of experts, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in ISQM 2.
- The need for technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

The Firm's Financial and Operational Priorities (Ref: Para. 34(b))

A85. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialization or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but, notwithstanding the firm's operational and financial priorities, it is

	<p>not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).</p> <p>A86. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The IESBA Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.</p>
<p>Engagement Performance</p>	<p>Engagement Performance</p>
<p>36. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>(a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of the engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A92)</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the</p>	<p><i>Responsibilities of the Engagement Team and Direction, Supervision and Review</i> (Ref: Para. 36(a) and 36(b))</p> <p>A92. The responsibilities of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement include responsibility for appropriate direction and supervision of the engagement team and review of the work performed.</p> <div style="border: 1px solid black; padding: 5px;"> <p>A93. <i>Examples of responsibilities for supervision and review</i></p> <ul style="list-style-type: none"> • Examples of responsibilities for supervision include: <ul style="list-style-type: none"> ○ Tracking the progress of the engagement; <ul style="list-style-type: none"> • Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement; ○ Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and ○ Identifying matters for consultation or consideration by more experienced engagement team members during the engagement. </div>

<p>engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced members of the engagement teams is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A93–A93A)</p> <p>(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A96)</p> <p>(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A98–A99A)</p> <p>(e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm’s system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A100)</p>	<ul style="list-style-type: none"> • Examples of responsibilities for review include consideration of whether: <ul style="list-style-type: none"> ○ The work has been performed in accordance with professional standards and applicable legal and regulatory requirements; ○ Significant matters have been raised for further consideration; ○ Appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented; ○ There is a need to revise the nature, timing and extent of work performed; ○ The work performed supports the conclusions reached and is appropriately documented; ○ The evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and ○ The objectives of the engagement procedures have been achieved. <p><i>A93A. Examples of responsibilities for supervision and review</i></p> <p>In some circumstances, the firm may use a service delivery center and individuals from the service delivery center may be included in the engagement team. In such cases, the firm’s policies or procedures addressing direction, supervision and review may specify:</p> <ul style="list-style-type: none"> • What aspects of the engagement may be assigned to individuals in the service delivery center; and • How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by individuals in the service delivery center. <p>The firm may also establish methods for communication between the engagement team and individuals in the service delivery center to facilitate direction, supervision and review of the work undertaken by individuals in the service delivery center.</p>
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(f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A108–A111)

Professional Judgment and Professional Skepticism (Ref: Para. 36(c))

A96. Professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team in performing the engagement. Other pronouncements of the IAASB may address the exercise of professional judgment or professional skepticism at the engagement level. For example, ISA 220 (Revised)¹⁰ explains the impediments to the exercise of professional skepticism at the engagement level and actions that the engagement partner may take to deal with such impediments.

Consultation (Ref: Para. 36(d))

A98. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a firm culture that promotes a commitment to quality.

A99. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should be agreed and implemented.

A99A. ISA 220 (Revised)¹¹ includes requirements for the engagement partner related to consultation.

Differences of Opinion (Ref: Para. 36(e))

A100. The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter should be resolved, how the related conclusions should be implemented and conclusions documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

¹⁰ Proposed ISA 220 (Revised), paragraphs A27–A29

¹¹ Proposed ISA 220 (Revised), paragraph 32

	<p><i>Engagement Documentation</i> (Ref: Para. 36(f))</p> <p>A108. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements is to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of time limit for assembly of final engagement files</i></p> <p>The firm establishes policies or procedures for audits of financial statements that require engagement files to be assembled within 60 days after the date of the auditor's report.</p> </div> <p>A109. The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without authorization to do so, or if it is permanently lost or damaged.</p> <p>A111. Law, regulation, relevant ethical requirements or other professional standards may prescribe the retention period for engagement documentation. If the retention periods are not prescribed, the firm may, in determining a retention period, consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of retention period for engagement documentation</i></p> <p>The firm establishes policies or procedures for audits of financial statements that require engagement files to be retained for five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.</p> </div>
<p>Resources</p>	<p>Resources (Ref: Para. 38)</p>
<p>38. The firm shall establish the following quality objectives that address appropriately obtaining, developing,</p>	<p>A113. Resources for the purposes of the resources component include:</p> <ul style="list-style-type: none"> • Human resources.

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)

(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A117–A119)

(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or

(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.

(b) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality

- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, a methodology or guides.

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 financial resources, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.

A115. Resources may be internal to the firm, or may be obtained externally from a network, network firm or service provider.:

~~In circumstances when a resource is obtained from a service provider, the quality objectives in this component apply to the resource provided by the service provider.~~

~~In circumstances when a resource is obtained from a network or another network firm, the firm is required to comply with paragraphs 58–63 addressing network requirements or network services form part of the responses designed and implemented by the firm in achieving the objectives in this component.~~

~~Example of how the quality objectives in this component are relevant to a resource obtained from a service provider~~

~~The firm may use an IT application from a service provider. As a result, the quality objectives in paragraphs 38(c) and 38(g) apply to the resource. Furthermore, the use of the IT application from a service provider may also create the need for additional responses from the firm, including obtaining other resources, for example, the firm may need to have specific infrastructure to support the IT application or the firm may need to train individuals who will use the IT application so that it is used in the manner intended.~~

Human Resources (Ref: Para. 38(a)–38(d))

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

<p>engagements. (Ref: Para. A120)</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) 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. A121–A123)</p> <p>(e) Appropriate technological resources are obtained or developed, implemented and maintained, and appropriately used, to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: Para. A124–A131A, A134)</p>	<p>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. Professional standards, law or regulation may establish requirements addressing competence and capabilities.</p> <div data-bbox="821 448 1936 646" 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 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> <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 appropriate competency, or the ability to develop it. • The firm’s training programs may focus on developing the competence of personnel. • 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. • 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. <p>A120. Individuals assigned to engagements or other roles may include individuals from a a network, another network firm or a service provider, or individuals from a service delivery center. Individuals from a service delivery center may be employed by the firm or they may be employed</p>
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<p>(f) Appropriate intellectual resources are obtained or developed, implemented and maintained, and appropriately used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A132–A134)</p>	<p>by a network, another network firm or a 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.</p>
<p>(g) <u>Human, technological or intellectual Resources from service providers are:</u> (Ref: Para. A134A–A134B, A134D)</p>	<p>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>(i) <u>Obtained by the firm from service providers, if any, are when appropriate to enable the operation of for use in the firm's system of quality management and performance of engagements;</u> (Ref: Para. A134CA–A134E)</p>	<p>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>(ii) <u>Appropriate for use in the firm's system of quality</u></p>	<p>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>
	<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.
	<p><i>Technological Resources</i> (Ref: Para. 38(e))</p>
	<p>A124. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:</p>
	<ul style="list-style-type: none"> • An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.

management and performance of engagements, taking into account the quality objectives in (b),(c),(e) and (f). (Ref: Para. A134C)

- The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

A125. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ISQM are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in performing engagements; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ

- In a less complex firm, the technological resources may comprise of a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and comprise of:
 - Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as:

- IT applications used by engagement teams (e.g., engagement software and automated audit tools).
- IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign individuals to engagements).
- The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

A130. Example of matters that may be considered by the firm in obtaining, developing, implementing and maintaining an IT application

- The data inputs are complete and appropriate.
- Confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.
- The need for specialized skills to utilize the IT application effectively, including the training of individuals who will use the IT application.
- The need to develop procedures that set out how the IT application operates.

A131A. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm.

Intellectual Resources (Ref: Para. 38(f))

A132. Intellectual resources include the information the firm uses to promote consistency in the performance of engagements.

Examples of intellectual resources

Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

A133. ~~The~~ intellectual resources may be made available through technological resources.

Example of intellectual resources made available through technological resources

The firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.

Use of Technological and Intellectual Resources (Ref: Para. 38(e)–38(f))

A134. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in performing engagements, or relating to other aspects of the engagement, such as in archiving the engagement file.
- Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training.
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources, including circumstances when technological and intellectual resources are used on the engagement that have been obtained by the engagement team (i.e., the firm has not provided the resource).

- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

Example of when qualifications or expertise are needed to use a technological or intellectual resource

The firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results.

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. Service providers are individuals or organizations external to the firm, who are engaged by the firm and used in the system of quality management, including in the performance of engagements. Service providers exclude networks, network firms or other structures or organizations in the network. 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 engagements, for example, to attend a physical inventory count or inspect physical fixed assets at a remote location.

	<ul style="list-style-type: none"> • An auditor's external expert engaged by the firm to assist the engagement team in obtaining audit evidence. <p>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 the use of an entity's internal audit function in the performance of engagements, since in both cases they are engaged by the entity.</p> <p>A134B. <u>In identifying and assessing quality risks, the firm is required to understand the factors that may adversely affect the achievement of the quality objectives, which includes factors related to</u> The resources provided by service providers are a consideration in identifying and assessing quality risks as part of the firm's risk assessment process. The understanding of the factors may therefore include understanding:</p> <ul style="list-style-type: none"> • <u>The reputation, competence and capabilities of service providers used by the firm; and</u> • <u>The resources provided by service providers and how they will be used by the firm in the system of quality management,</u> <p><u>in order to identify and assess quality risks related to the use of such resources.</u></p> <p><i>Examples of factor characteristics related to of the service providers used by the firm, and the resources they provide, that the firm may determine give rise to that may be considered by the firm in identifying and an assessing ed quality risks</i></p> <ul style="list-style-type: none"> • The <u>extent to which the</u> resource from the service provider is significant to the firm's system of quality management because it is used extensively across the firm, or it is being used by the firm to address another quality risk. • The <u>extent of customization of the</u> resource from the service provider has been customized by the service provider for the firm. • The firm's <u>previous use of</u> has not previously used the service provider and the service provider is not well-known in the market. • The service provider's <u>experience in</u> is new to the industry <u>and reputation in the market.</u>
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	<p>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 <u>consider</u>:</p> <ul style="list-style-type: none"> • Obtain an understanding of the service provider, including the reputation, competence and capabilities of the service provider; • Determine 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). • Consider 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 <u>a responsibility to take further</u>ies in using the resources such as the actions the firm needs to take in order to implement using the resource <u>from a service provider so that the resource functions effectively. For example, or information</u>the firm may needs to communicate <u>information</u> to the service provider in order <u>for that</u>the resource to can function effectively, <u>or (e.g., in relation to an IT application, the firm may need to have</u> supporting IT infrastructure and IT processes in place).</p> <p>A134E. There may be circumstances when the service provider supplies the firm with an assurance report on the description and design of their controls over the resource, and in some circumstances, it may also include assurance on the operating effectiveness of such controls.</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, 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</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 and externally. Information and communication is pervasive to all components of the system of quality management.</p> <p><i>The Firm's Information System</i> (Ref: Para. 40(a))</p> <p>A136. Reliable information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.</p>

<p>system of quality management: (Ref: Para. A135)</p> <p>(a) The information system supports the system of quality management by identifying, capturing, processing and maintaining relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A136–A138A)</p> <p>(b) The culture of the firm promotes and emphasizes the responsibility of individuals to exchange information with the firm and with one another. (Ref: Para. A139)</p> <p>(c) Relevant and reliable information is exchanged throughout the firm, including: (Ref: Para. A139)</p> <p>(i) Information is communicated to engagement teams and other individuals, and the nature, timing and extent of the information which is sufficient to enable them to understand and carry out their responsibilities</p>	<p>A138. The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the firm's responses for other components. In addition, digital records may replace or supplement physical records.</p> <div data-bbox="751 412 1919 649" style="border: 1px solid black; padding: 5px;"> <p>138A. Scalability example to demonstrate how the information system may be designed in a less complex firm:</p> <p>Less complex firms with fewer personnel, and direct involvement of firm leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.</p> </div> <p><i>Communication Within the Firm</i> (Ref: Para. 40(b), 40(c)(i) and 40(c)(ii))</p> <p>A139. The firm may promote and emphasize the responsibility of individuals to exchange information with the firm and with one another by establishing two-way communication channels to facilitate communication across the firm.</p> <div data-bbox="821 863 1919 1390" style="border: 1px solid black; padding: 5px;"> <p><i>Examples of two-way communication among the firm, engagement teams and other individuals</i></p> <ul style="list-style-type: none"> • The firm communicates the responsibility for implementing the firm's responses to engagement teams and other individuals. • The firm communicates changes to the system of quality management to engagement teams and other individuals, to the extent that the changes are relevant to their responsibilities and enables the engagement teams and other individuals to take prompt and appropriate action in accordance with their responsibilities. • The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements. • Engagement teams communicate to the firm information about: </div>
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<p>relating to the performance of engagements or activities within the system of quality management. (Ref: Para. A139)</p> <p>(ii) Personnel communicate relevant and reliable information to the firm when performing engagements or activities within the system of quality management. (Ref: Para. A139)</p> <p><u>(d) Relevant and reliable information is communicated to external parties, including:</u></p> <p>(iii) Information is communicated by the firm to the network or service providers, if any, enabling to enable the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by the service provider. (Ref: Para. A141A)</p>	<div data-bbox="816 191 1917 760" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> ○ The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. ○ The operation of the firm's responses (e.g., concerns about the firm's processes for assigning individuals to engagements), which in some cases, may indicate a <u>deficiency finding</u> in the firm's system of quality management. ● The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant individuals changes in the independence requirements and the firm's policies or procedures to address such changes. ● Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation. </div> <p><i>Communication with External Parties</i></p> <p>Communication with the Network and Service Providers (Ref: Para. 40(de)(iii))</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="816 1027 1938 1209" style="border: 1px solid black; padding: 5px;"> <p><i>Example of a 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 <u>when the firm is associated</u> to network firms or employees of network firms.</p> </div> <p>Communication Required by Law or Regulation (Ref: Para. 40(de)(iv))</p> <div data-bbox="747 1299 1938 1388" 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> </div>
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<p>(iiv) Information is communicated <u>externally</u> by the firm to external parties when required by law, regulation or professional standards, or when the firm determines appropriate to support external parties' understanding of the system of quality management, including the quality of the engagements performed by the firm. (Ref: Para. A142–A153)</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 professional 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. <p>Communication to External Parties to Support an Understanding of the System of Quality Management (Ref: Para. 40(de)(iiv))</p> <p>A145. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way 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. [Remainder of paragraph moved to paragraph A153GC]</p> <p><u>A145A. Not every firm will have external parties who may seek or use information 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.</u></p>
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	<p><u><i>Examples of external parties who may use information about the firm's system of quality management</i></u></p> <ul style="list-style-type: none"> • <u>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.</u> • <u>External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring quality of engagements across a jurisdiction.</u> • <u>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.</u> • <u>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.</u> <p>A146. [Moved to paragraph A153GA]</p> <p>A151. [Moved to paragraph A153GD]</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;"> <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>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><u><i>Relevant Ethical Requirements (Ref: Para. 41A(aa) – 41A(b))</i></u></p>

<p>The firm assigns operational responsibility for compliance with independence requirements to an individual(s) who fulfills the criteria in paragraph 22AA. (Ref: Para. A153B)</p> <p><u>(aa) The firm establishes policies or procedures for:</u></p> <p><u>ia.</u> [Moved from paragraph 32(a)(i)(a)] Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: <u>Para. A153AA</u>)</p> <p><u>ii.b.</u> [Moved to paragraph 32(a)(i)(b)] Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: <u>Para. A153AB–A153AC</u>)</p>	<p><u>A153AA72.</u> [Moved from paragraph A72] 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><u>A153AB73.</u> [Moved from paragraph A73] 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; • 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><u>A153AC74.</u> [Moved from paragraph A74] 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>Responsibility for Compliance with Independence Requirements (Ref: Para. 41A(a))</p> <p><u>A153B.</u> [Moved to paragraph A124BB]</p> <p><u>Complaints and Allegations</u> (Ref: Para. 41A(c))</p> <p><u>A153C.</u> Establishing policies or procedures for dealing with complaints and allegations about a failure to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures, may assist the firm in</p>
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<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>preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:</p>
<p>(c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about the commitment to quality of the firm or its personnel. (Ref: Para. A153C–A153D)</p>	<ul style="list-style-type: none"> • Identifying and dealing with individual(s), including leadership, who do not act or behave in a manner that supports the firm’s commitment to quality; or • Identifying findings in the system of quality management. <p>A153D. Complaints and allegations may originate from within or outside the firm and they may be made by individuals internal or external to the firm (e.g., clients or others within the firm’s network).</p> <p><i>Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement</i> (Ref: Para. 41A(d))</p>
<p>(d) The firm establishes policies or procedures to address circumstances when:</p>	<p>A153E. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:</p>
<p>(i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific</p>	<ul style="list-style-type: none"> • Have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or • Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.
	<p><i>Examples of matters addressed in the firm’s policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement</i></p> <ul style="list-style-type: none"> • Undertaking consultation within the firm or with legal counsel. • Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement. • Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances, and when it is determined that withdrawal is an appropriate action, informing them of this decision and the reasons for the withdrawal.

<p>engagement; or (Ref: Para. A153E–A153G)</p>	<ul style="list-style-type: none"> • If the firm withdraws from the engagement, considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
<p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A153F–A153G)</p>	<p>A153F. In some circumstances, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions.</p>
<p><u>(dA) The firm establishes policies or procedures that address: (Ref: Para. A153GA)</u></p>	<p>A153G. <i>Example of matters addressed in the firm’s policies or procedures in circumstances when the firm is aware of information that would have caused the firm to decline or discontinue an engagement, however the firm is obligated to accept or continue the engagement or the firm is unable to withdraw from the engagement</i></p> <ul style="list-style-type: none"> • The firm considers the effect of the information obtained in determining whether to accept or continue a client relationship or specific engagement on the performance of the engagement. • The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of their direction and supervision of engagement team members and review of their work. • The firm assigns more experienced individuals to the engagement. • The firm determines that an engagement quality review should be performed.
<p><u>(i) Whether to communicate with external parties about the firm’s system of quality management; and Ref: Para. A153GB)</u></p>	
<p><u>(ii) If so, the matters to be communicated, and the nature, timing and extent and appropriate form of such communication. Ref: Para. A153GC–A153GD)</u></p>	
<p>(e) [Placeholder for engagement quality reviews – refer to Agenda Item 5]</p>	<p><u>Communication with External Parties about the Firm’s System of Quality Management (Ref. Para: 41A(dA))</u></p> <p>A153GA146. [Moved from paragraph A146] Examples of matters the firm may consider in determining whether it is appropriate to communicate with external parties to support an understanding of the system of quality management, and the nature, timing and extent of such communication <u>The firm’s determination of whether 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</u></p>

appropriate form of such communication, is a matter of professional judgment and may be influenced by matters such as:

- 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, ~~and whether there are external parties who may use information about the firm's system of quality management to support their understanding of the quality of the engagements performed by the firm.~~
- The nature and circumstances of the firm ~~including~~.
- 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, ~~and~~
- 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.

Examples of external parties who may use information about the firm's system of quality management

- ~~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.~~
- ~~Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit).~~
- ~~Other users of the firm's engagement reports for example, investors who use engagement reports in their decision making.~~

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. [Moved from paragraph A145] 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 ~~f~~Form of ~~c~~Communication to ~~e~~External ~~P~~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.

A153GD4. [Moved from paragraph A151] 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 ~~and is prepared and presented in a timely manner~~. 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 that is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
- 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).

	<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 paragraph 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.• 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 <u>(including that the firm is ultimately responsible for the system of quality management)</u>, and information about the overall scope and results of network monitoring activities across the network firms. <p><i>Engagements Subject to an Engagement Quality Review (Ref: Para. 41A(e))</i></p> <p>[Placeholder for application material– refer to Agenda Item 5]</p>
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Monitoring and Remediation Process	Monitoring and Remediation Process (Ref: Para. 42–54)
<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.</p>
<p>43A. The firm shall assign operational responsibility for the monitoring and remediation process to an individual(s) who fulfills the criteria in paragraph 22AA.</p>	
<p><i>Designing and Performing Monitoring Activities</i></p> <p>44. The firm shall design and perform monitoring activities to <u>reduce to an acceptably low level the risk that deficiencies are not detected</u>prevent or detect deficiencies that, individually or in aggregate, could result in the system of quality management not</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 44–46)</p> <p>A155A. The monitoring activities undertaken by the firm may detect a deficiency, or may also prevent a deficiency from arising through responding to a finding <u>that could over a period of time lead to before it rises to a level of severity or pervasiveness that results in</u> a deficiency.</p> <p>A156. The firm’s monitoring activities may comprise ongoing monitoring activities, 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</p>

<p>providing the firm with reasonable assurance that the objectives of the system are being achieved. (Ref: Para. A155A)</p> <p><u>44A.</u> In determining the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities, the firm shall take into account: (Ref: Para. A15<u>65A</u>–A159)</p> <p>(a) The reasons for the assessments given to the quality risks, including:</p> <p>(i) The factors giving rise to the quality risks; and (Ref: Para. A159B)</p> <p>(ii) The likelihood of the quality risks occurring and the effect of the quality risks on the achievement of a quality objective(s);</p> <p>(b) The design of the responses;</p> <p>(c) For monitoring activities over the firm’s risk assessment process <u>and monitoring and remediation process</u>, the design of the <u>eat processes</u>; (Ref: Para. A161A–<u>A161B</u>)</p>	<p>cases, ongoing monitoring activities identify findings<u>provide information about</u> in 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 <u>inspection of an in-process engagement that is a</u> monitoring activity that is an inspection of in-process engagement or an engagement review <u>of an engagement</u> 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>The Reasons for the Assessments Given to the Quality Risks (Ref: Para. 44(a))</p> <p>A159B. The factors giving rise to the quality risks include the nature and circumstances of the firm and the engagements it performs, as set out in paragraph 22E of this ISQM.</p> <p>The Design of the Firm’s Risk Assessment Process <u>and Monitoring and Remediation Process</u> (Ref: Para. 44(c))</p>
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<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 concerns identified regarding the commitment to quality of the firm or its personnel, and information from external inspections <u>and information from service providers</u>. (Ref: Para. A165–A167)</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.</p> <p><u>A161B. 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 style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><u>Scalability example to demonstrate how the monitoring and remediation process may be monitored in a less complex firm</u></p> <p><u>In a less complex firm, leadership’s daily interaction with the system of quality management may provide sufficient information about the effectiveness of the monitoring activities in achieving their purpose. In such circumstances, there may not be a need for formalized monitoring of the monitoring and remediation process.</u></p> </div> <p>Changes in the System of Quality Management (Ref: Para. 44(d))</p> <p>A162. Changes in the system of quality management may include:</p> <ul style="list-style-type: none"> • Changes to address an identified deficiency in the system of quality management. • Changes to the <u>quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements.</u> <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>
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Examples of matters that may give rise to change to the responses

- ~~• Changes in the nature and circumstances of the firm and the engagements it performs.~~
- ~~• Responses have become obsolete over time.~~
- More effective responses are available, such as the use of IT applications to replace manual processes.

Previous Monitoring Activities (Ref: Para. 44(e), 50)

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. ~~Furthermore, the monitoring activities may need to evaluate the effectiveness of the remedial actions that have been implemented to address deficiencies previously identified.~~

A164. Previous monitoring activities undertaken by the firm ~~on areas of the system of quality management that have not changed~~ 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 in circumstances when time has elapsed since the monitoring activities were undertaken.

Other Relevant Information (Ref: Para. 44(f))

A165. In addition to the sources of information indicated in paragraph 44(f), other relevant information may include:

- 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 ~~other~~ regulators, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in their financial statements).

	<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 may provide a basis for 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 <u>and shall determine which engagements and engagement partners should be selected.</u> In doing so, determining the selection of engagements for inspection, and taking into account the matters in paragraph 44, the firm shall: (Ref: Para. <u>A158</u>, A168–A170)</p> <p><u>(a) Take into account the matters in paragraph 44;</u></p> <p><u>(ba)</u> 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><u>(cb)</u> Select at least one completed engagement for each engagement partner on a</p>	<p><i>Engagement Inspections</i> (Ref: Para. 45)</p> <p>A168. The matters in paragraph A158 may also affect the firm’s selection of completed engagements for inspection.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of matters in paragraph 44 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 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. </div>

<p>cyclical basis determined by the firm.</p>	<ul style="list-style-type: none"> • 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>A168B. Examples of how the the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities may affect the inspection of completed engagements</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 should be selected for inspection. • Which engagement partners should be selected for inspection, and which engagements that the partner is responsible for should be selected. • How frequently an engagement partner should be selected for inspection. • Which <u>The matters aspects of the engagement should</u> be considered 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>
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	<p>A169A. <i>Examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner</i></p> <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, <u>and for all other engagement partners, once every five years.</u></p> <p>The firm's policies or procedures may also address<u>include the selection of:</u></p> <ul style="list-style-type: none">• <u>The criteria for selecting completed engagements:</u>• <u>Selecting E</u>engagement partners in a manner that is unpredictable; and• <u>Selecting e</u>Engagements or engagement partners <u>more, or less, frequently than the period set out in the policy</u>where there is an increased need to do so. <p>The firm's policies or procedures therefore:</p> <ul style="list-style-type: none">• Address the selection of engagement partners more frequently than three year<u>the period set out in the policy</u> if certain conditions or circumstances exist, such as when:<ul style="list-style-type: none">○ <u>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 an engagement for an entity that has a higher public interest or public accountability, or high public profile, and the engagement has not been subject to a completed inspection in the last three years;</u>○ The engagement partner performs engagements for entities operating in a certain industry where there are increased <u>complexities</u>risks of audit failures.○ 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.
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- The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction.
- Allow the selection of ~~an~~the engagement partner to be increased to a period longer than the period set out in the policy (e.g., every four years for engagement partners performing audits of financial statements of listed entities)~~deferred for a period(s)~~ if certain conditions or circumstances exist. The firm's policies or procedures describe such conditions or circumstances as when:
 - eEngagements 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 ~~any~~ further information about the engagement partner.

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.

Example of a response at the engagement level that is considered by the firm in an inspection of an engagement

In inspecting engagements, the firm determines whether engagement teams have appropriately applied the firm's policies and procedures in respect of engagement performance~~a change in the firm's methodology arising from changes in professional standards.~~

<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>(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)</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 ○ 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><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 similar findings did not arise in other circumstances that are of a similar nature to the matter to which the finding relates (e.g., in relation to engagements, observations that findings were not observed on other engagements of a similar nature).

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.

A173A. The firm may exercise professional judgment in determining whether a finding, individually or in combination with other findings, is of such significance that it results in a deficiency in the system of quality management. Significance is judged by the firm, taking into consideration the relative importance of the finding in the context of the aspect of the system of quality management to which it relates. The firm's judgments may be affected by quantitative and qualitative factors relevant to the finding. In some circumstances, the firm may determine it appropriate to investigate the root cause(s) of a finding in order to determine whether a finding is a deficiency.

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) is of such significance that it results in a deficiency

Quality risks and responses

- If the finding relates to a response:
 - The design of the response.
 - The nature of the assessed quality risk to which the response relates, and the extent to which the finding 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 finding and its pervasiveness

- The nature of the finding. For example, a finding related to leadership's actions and behaviors may be qualitatively significant, given the pervasive effect this may have on the system of quality management as a whole.

	<ul style="list-style-type: none">• Whether the finding, 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. <p><i>Error rates and population size</i></p> <ul style="list-style-type: none">• The design of the monitoring activity from which the finding 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 finding 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 finding was identified, relative to the total number of engagements selected. <p>A175A. Evaluating findings and identifying deficiencies, evaluating the severity and pervasiveness of a deficiency and investigating the root cause(s) of a deficiency are iterative.</p> <p><i>Examples of the iterative nature of evaluating findings and identifying deficiencies, evaluating identified deficiencies, and investigating the root cause(s) of deficiencies</i></p> <ul style="list-style-type: none">• In investigating the root cause(s) of a deficiency, the firm identifies a circumstance that also existed in relation to another finding that is not considered a deficiency. As a result, the firm adjusts its evaluation of the other finding and classifies it 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.
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	<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> <p><i>Example of how external inspection findings may reveal information about the effectiveness of the monitoring and remediation process</i></p> <p>External inspection findings may indicate findings in the system of quality management that have not been identified by the firm’s monitoring and remediation process, which may highlight a deficiency in that process.</p>
<p><i>Evaluating Identified Deficiencies</i></p> <p>48. The firm shall establish policies or procedures addressing: (Ref: Para. A175A)</p> <p>(a) The investigation of the root cause(s) of the identified deficiencies, including that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity; and (Ref: Para. A179–A182A)</p> <p>(b) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of</p>	<p><i>Root Cause of the Identified Deficiencies (Ref: Para. 48(a))</i></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. The nature and circumstances of the firm, such as the complexity and operating characteristics of the firm, 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, may also affect the nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency.</p> <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

<p>quality management. (Ref: Para. A183–A183A)</p>	<p>issued that was inappropriate or the identified deficiency relates to leadership’s actions and behaviors regarding quality.</p> <ul style="list-style-type: none"> • 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. • Nature and circumstances of the firm: 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 since the finding has occurred across multiple engagements. However, the firm observes several other engagements without these 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. In contrast, for the engagements with the findings, the engagement partners were not actively involved. By contrasting the engagements, the firm</p>
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concludes that the root cause of the deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagement.

A182. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.

Example of identifying a root cause(s) that is appropriately specific

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 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.

A182A. Although not required by this ISQM, investigating the root cause of positive outcomes may reveal opportunities for the firm to improve, or further enhance, the system of quality management.

Evaluating the Severity and Pervasiveness of Identified Deficiencies (Ref: Para. 48(b))

A183. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:

- 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 underlying finding occurred; and

	<ul style="list-style-type: none"> • 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>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>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 in 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 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>A184A. In some circumstances, the remedial action may include establishing additional quality objectives, or modifying the assessed quality risks or responses, 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:</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. • Communicating the matter to the service provider.
<p>50. The individual(s) assigned operational responsibility for monitoring and</p>	

<p>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>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 modify the remedial actions 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</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>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>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, identifying deficiencies and if it is determined that 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><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 provides the basis for the evaluation of the system of quality management, as required by paragraph 65A.</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>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>	
<p>Network Requirements or Network Services</p>	<p>Network Requirements or Network Services (Ref: Para. 58)</p>
<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</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</p>

requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);

(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

(c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A194)

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 requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A13, A195)

and responses that are common across the network will depend on the firm's arrangements with the network.

Examples of network requirements

- 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.

Examples of network services

- Services or resources that are optional for the firm to use as a response in its system of quality management, such as voluntary training programs, or a service delivery center established at the network level, or by another firm or group of firms within the same network.

A194. The network may establish responsibilities for the firm in implementing the network requirements or network services.

Example of responsibilities for the firm in implementing network requirements or network services

	<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. <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.
<p>59. Based on the understanding, the firm shall:</p> <p>(a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality management, including how they are to be implemented; and (Ref: Para. A196)</p> <p>(b) Evaluate whether and if so, how the network requirements or</p>	<p><i>Network Requirements or Network Services in the Firm’s System of Quality Management (Ref: Para. 59)</i></p> <p>A196. The characteristics of the network requirements or network services are a factor in identifying and assessing quality risks as part of the firm’s risk assessment process.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Example of a network requirement or network service that gives rise to a quality risk</i></p> <p>A network requires the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This gives rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.</p> </div>

<p>network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A197)</p>	<p>A197. The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the firms that operate as part of the network. The firm may be expected by the network to implement the network requirements, however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and the engagements it performs.</p> <p><i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i></p> <table border="1"> <thead> <tr> <th data-bbox="821 508 1293 597">Network requirement or network service</th> <th data-bbox="1304 508 1927 597">How the firm adapts or supplements the network requirement or network service</th> </tr> </thead> <tbody> <tr> <td data-bbox="821 605 1293 878"> <p>The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.</p> </td> <td data-bbox="1304 605 1927 878"> <p>As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the assessed quality risks that are required by the network.</p> </td> </tr> <tr> <td data-bbox="821 886 1293 1312"> <p>The network requires that the firm design and implement certain responses.</p> </td> <td data-bbox="1304 886 1927 1312"> <p>As part of designing and implementing responses, the firm determines:</p> <ul style="list-style-type: none"> How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and the engagements performed by the firm (e.g., tailoring a methodology to include matters related to law or regulation). </td> </tr> </tbody> </table>	Network requirement or network service	How the firm adapts or supplements the network requirement or network service	<p>The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.</p>	<p>As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the assessed quality risks that are required by the network.</p>	<p>The network requires that the firm design and implement certain responses.</p>	<p>As part of designing and implementing responses, the firm determines:</p> <ul style="list-style-type: none"> How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and the engagements performed by the firm (e.g., tailoring a methodology to include matters related to law or regulation).
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		<ul style="list-style-type: none"> Which assessed quality risks the responses address.
<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i></p> <p>60. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:</p> <p>(a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities performed in accordance with paragraphs 44–45; (Ref: Para. A199)</p> <p>(b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and</p> <p>(c) As part of evaluating findings and identifying deficiencies in paragraph 47, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A200)</p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i> (Ref: Para. 60)</p> <p>A199. The monitoring activities undertaken by the network may affect the nature, timing and extent of the firm's monitoring activities.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of how monitoring activities undertaken by the network affect the firm's monitoring activities</i></p> <p>The network undertakes inspections of completed engagements of the firm. The firm determines, in the context of the scope and results of the network's inspection of the firm's engagements, the extent of engagements that will be selected by the firm in inspecting completed engagements.</p> </div> <p>A200. The results of the network's monitoring activities of the firm's system of quality management may include information such as:</p> <ul style="list-style-type: none"> A description of the monitoring activities, including their nature, timing and extent; Findings from the monitoring activities and deficiencies identified; and The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the deficiencies and recommended remedial actions. 	

<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>61. The firm shall:</p> <p>(a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;</p> <p>(b) At least annually, obtain information from the network about the overall results of the monitoring activities undertaken by the network across the network firms, if applicable, and communicate the information to engagement teams and other individuals, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and (Ref: Para. A201–A202A)</p>	<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: Para. 61)</i></p> <p>A201. The information from the network about the overall results of the monitoring activities it undertakes across the network firms’ systems of quality management may be an aggregation or summary of the information described in paragraph A200, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:</p> <ul style="list-style-type: none"> • Be used by the firm: <ul style="list-style-type: none"> • In identifying and assessing quality risks. • As part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management. • Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a firm within the network who are subject to common network requirements (e.g., common quality objectives, quality risks and responses). <p>A202. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm’s system of quality management that affects the firm. The network may also gather information from the network firms regarding the results of external inspections over the network firms’ systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network or may restrict the specificity of such information.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Example of when information about another network firm’s system of quality management affects the firm</i></p> <p>Another network firm performs work for the firm’s engagements, such as in the capacity of a component auditor.</p> </div>
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<p>(c) Based on the understanding, and if applicable, the information provided by the network, consider the effect of the monitoring activities undertaken by the network across the network firms on the firm's system of quality management. (Ref: Para. A201)</p>	<p>A202A. In circumstances when the network does not provide the information about the overall results of the monitoring activities undertaken by the network across the network firms, the firm may take further actions, such as:</p> <ul style="list-style-type: none"> • Discussing the matter with the network; and • Determining the effect on the firm's engagements, and communicating the effect to engagement teams.
<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i></p> <p>62. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A203–A204)</p> <p>(a) Communicate to the network relevant information about the identified deficiency; and</p> <p>(b) In accordance with paragraph 49, design and implement remedial actions to address the effect of the identified deficiencies in the network requirements or network services.</p>	<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i> (Ref: Para. 62)</p> <p>A203. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this ISQM regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Example of when a network requirement or network service is monitored by both the network and the firm</i></p> <p>A network undertakes monitoring activities at a network level for a common methodology. The firm also monitors the methodology through the performance of engagement inspections.</p> </div> <p>A204. In designing and implementing the remedial actions to address the effect of the identified deficiencies in the network requirements or network services, the firm may:</p> <ul style="list-style-type: none"> • Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and • Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiencies and their related root cause(s).

	<p><i>Example of circumstances when supplementary remedial actions may be needed by the firm to address an identified deficiency in a network requirement or network service</i></p> <ul style="list-style-type: none"> • The network has not taken appropriate remedial actions. • The network's remedial actions will take time to effectively address the identified deficiency.
<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. 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.</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. The evaluation may be undertaken more frequently than annually, such as in circumstances when the identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance that the objectives of the system have been achieved.</p> <div style="border: 1px solid black; padding: 5px;"> <p>A209C. Scalability examples to demonstrate how the information to support the evaluation of the system of quality management may be obtained</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. • In a more complex firm, the firm may need to establish processes to collate, summarize and communicate the information needed to evaluate of the system of quality management. </div>

65AA. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude ~~that either whether~~ (Ref: Para. A209D–A210A, A210DA)

(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. A210D–A210DA)

(b) ~~Except for matters to which specific deficiencies relate that have been determined to have a severe effect on the design, implementation and operation of an aspect(s) 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. A210AA)

(c) ~~The system of quality management does not provide the firm with reasonable assurance that the objectives of~~

A209D. Given the inherent limitations of a system of quality management, the identification of deficiencies is an expected and 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.

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 whether~~ the system of quality management ~~provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved~~, 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:

- The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management;
- ~~Whether identified deficiencies have been remediated, or are being actively remediated (i.e., whether~~ The actions taken thus far by the firm to remediate the identified deficiencies, ~~and whether these~~ are appropriate, ~~and including whether remedial actions~~ 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.

A210AA. Example of a specific deficiency that that has been determined to have a severe 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

the system of quality management are being achieved. (Ref: Para. A210AB)

regulatory requirements, and the engagement reports were appropriate in the circumstances.

A210AB. The 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 pervasivethe evaluation and conclusion at a point in time of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved~~

~~When identified deficiencies are severe and pervasive, have not been remediated or actively remediated, and the effect of the deficiencies have not been appropriately corrected, it may be determined that the system does not provide reasonable assurance that the objectives of the system of quality management are being achieved. A deficiency may be considered severe and pervasive when, for example, it relates to the firm's governance and leadership, which and affects the overall environment that supports the operation of the system of quality management.~~

~~When identified deficiencies are severe but not pervasive, have not been remediated or actively remediated, and the effect of the deficiencies have not been appropriately corrected, it may be determined that, except for the matters to which the deficiencies relate, the system nevertheless provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. A deficiency may be considered severe but not pervasive when, for example, 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 an engagement that would otherwise not have been accepted.~~

A210DA. This ISQM does not require the firm to obtain an independent assurance report on its system of quality management.

<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 individual(s) assigned ultimate responsibility and accountability for the system of quality management firm shall: (Ref: Para. A210DAA)</p> <p>(a) Take prompt and appropriate action in accordance with their responsibilities; 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)9(e)(iv). (Ref: Para. A210DD)</p>	<p><u>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 further action.</u></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 <u>through assigning more resources or developing more guidance</u> and <u>to</u> 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> <p><i>A210DD. 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. • 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.
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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)

Performance Evaluations (Ref: Para. 65D)

A210E. Periodic performance evaluations promote accountability. In considering the performance of these individuals, the firm may take into account:

- 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.

Scalability examples to demonstrate how the firm may undertake the performance evaluations

- 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.

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.

Public Sector Considerations

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

	<p>undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.</p>
<p>Documentation</p>	<p>Documentation (Ref: Para. 66–69)</p>
<p>66. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A211–A213)</p> <p>(a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the firm’s system of quality management;</p> <p>(b) Support the consistent implementation and operation of the responses; and</p> <p>(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	<p>A211. Documentation provides evidence that the firm complies with this ISQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the retention of organizational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this ISQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.</p> <p>A212. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the firm’s judgments about the form, content and extent of documentation, including how often documentation is updated, may include:</p> <ul style="list-style-type: none"> • The complexity of the firm and the number of offices; • The nature and complexity of the firm’s practice and organization; • The nature of engagements the firm performs and the nature of the entities for whom engagements are performed; • The extent to which the documentation may be reviewed by an external party, such as a professional, legal or regulatory body; • Whether the documentation would support an understanding of the system of quality management by an individual who is knowledgeable of matters related to quality management; • The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter; and

	<ul style="list-style-type: none"> • The frequency and extent of changes in the system of quality management. <p>In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.</p> <p>A213. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.</p>
<p>67. The firm shall prepare documentation that includes:</p> <ul style="list-style-type: none"> (a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management; (b) The firm's quality objectives and assessed quality risks; (Ref: Para. A214) (c) A description of the responses and how the firm's responses address the assessed quality risks; 	<p>A214. In documenting the assessed quality risks, the firm may document the reasons for the assessment of the quality risks.</p>

<p>(d) Regarding the monitoring and remediation process:</p> <ul style="list-style-type: none">(i) Evidence of the monitoring activities performed;(ii) The evaluation of findings, and identified deficiencies and their related root cause(s);(iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions;(iv) Communications about monitoring and remediation; and <p>(e) The basis for the conclusion whether the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p>	
<p>68. The firm shall document the matters in paragraph 67 as they relate to network requirements or network services and the evaluation of the network</p>	<p>A215. The documentation may be provided by the network.</p>

<p>requirements or network services in accordance with paragraph 59(b). (Ref: Para. A215)</p>	
<p>69. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation.</p>	