

The purpose of this document is to demonstrate the proposals of the Quality Control Task Force (QCTF) in the context of adopting a quality management approach in ISQC 1.<sup>1</sup>

## QUALITY MANAGEMENT (FIRM LEVEL): PRESCRIBED QUALITY OBJECTIVES, QUALITY RISKS AND RESPONSES

1. This document includes the proposed prescribed quality objectives, quality risks, and responses that could be included in ISQC 1 (see paragraphs 32, 35 and 37 of **Agenda Item 2–B**). These are illustrative only and the QCTF will further consider whether additional or more enhanced requirements are necessary in response to respondents' views to the Invitation to Comment,<sup>2</sup> after receiving feedback from the IAASB. The QCTF is not, at this stage, seeking the IAASB's views on specific aspects of the proposed prescribed quality objectives, quality risks, and responses.
2. This document is presented in two formats (the content is identical in each of the formats):
  - (a) A table format, which comprises two tables that map (i) the quality risks to the quality objectives and related responses, and (ii) the responses to the quality risks. The tables also include a reference to the extant requirements in ISQC 1 in order to illustrate how the extant requirements have been transitioned into quality risks and responses, and to confirm the retention of all of the requirements in extant ISQC 1. In some cases, the QCTF has introduced a possible new requirement or the enhancement of an extant requirement which will be further discussed with the IAASB in September 2017.
  - (b) A linear format, which sets out the prescribed quality objectives, quality risks and responses.

### Table Format

#### *Quality Objectives:*

- QO1. The firm accepts and continues client relationships and specific engagements for which the firm is satisfied with the integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, and their competence in relation to the subject matter of the engagement.
- QO2. The firm accepts and continues client relationships and specific engagements for which the firm is able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

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

<sup>2</sup> Invitation to Comment, *Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits*

QO3. The firm performs engagements in accordance with professional standards and applicable legal and regulatory requirements.

QO4. Reports issued by the firm or engagement partners are appropriate in the circumstances.

*Quality Risks:*

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
<p>QR1. The firm inappropriately accepts and continues a client relationship or specific engagement as a result of having insufficient information in relation to:</p> <p>(a) The competence, integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, including their acknowledgement and understanding of their responsibilities in relation to the engagement; or</p> <p>(b) The purpose of the engagement, the underlying subject matter or the criteria to be applied in the preparation of the subject matter information and its availability to the intended users.</p>	✓	✓	✓		R1 and R2	<p>Enhancement of extant requirement:</p> <p>26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <p>(a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so;</p> <p>(b) Can comply with relevant ethical requirements; and</p> <p>(c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.</p>

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
QR2. The judgment applied by the firm in considering the information relevant to evaluating the acceptance and continuance of a client relationship or specific engagement is inappropriate.	✓	✓			R2, R9, R11 and R13	New risk.
QR3. The firm does not communicate the identity and role of the engagement partner to key members of client management and those charged with governance.		✓			R3	30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:  (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;  ...
QR4. The firm, its personnel and, where applicable, others subject to relevant ethical requirements (including network firm personnel) do not comply with relevant ethical requirements, including independence requirements, as a result of:  (a) Insufficient knowledge of the relevant ethical requirements, including the independence requirements;	✓	✓	✓		R4, R5, R6, R7, R8 and R9	20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.  21. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
<p>(b) Insufficient knowledge of the client or the engagements undertaken in relation to the client;</p> <p>(c) Inadequate communication and documentation of matters related to compliance with the relevant ethical requirements, including independence requirements;</p> <p>(d) A failure by the firm and its personnel to:</p> <ul style="list-style-type: none"> <li>• Identify threats to compliance with the principles of the relevant ethical requirements, including readily determining whether they satisfy independence requirements;</li> <li>• Evaluate the threats identified; and</li> <li>• Take appropriate and timely action in relation to threats identified, including prompt communication of breaches of the independence requirements and further communication of such breaches within the firm in a timely manner and addressing the threats by eliminating or reducing them to an acceptable level.</li> </ul>						<p>applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements.</p> <p>26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <p>...</p> <p>(b) Can comply with relevant ethical requirements; and</p> <p>...</p>

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
QR5. Reports issued by the firm or engagement partners are inappropriate as a result of the firm, its personnel and, where applicable, others subject to relevant ethical requirements (including network firm personnel) not complying with relevant ethical requirements, including independence requirements.				✓	R5, R6, R7, R8, R9, R13 and R14	20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.
QR6. Responsibility for each engagement is not assigned to an engagement partner, the responsibilities of the engagement partner are not clearly defined and communicated to that partner or the engagement partner does not have the authority to perform the role.	✓		✓		R11	30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:  ...  (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.
QR7. The engagement team assigned, including the engagement partner, does not have the appropriate combination of competence and experience to perform the engagement, including knowledge or experience regarding:  (a) The professional standards, including relevant ethical requirements, and applicable law or		✓	✓		R10 and R11	Enhancement of extant requirement:  29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
<p>regulation in relation to the engagement being performed;</p> <p>(b) The industry in which the entity operates; or</p> <p>(c) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information.</p>						<p>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:</p> <p>...</p> <p>(b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and</p> <p>...</p> <p>31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:</p>

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
						<p>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>
QR8. There is inadequate direction, supervision and review of the engagement team.		✓	✓		R11	<p>32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:</p> <p>(a) Matters relevant to promoting consistency in the quality of engagement performance;</p>

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
						(b) Supervision responsibilities; and (c) Review responsibilities.
QR9. The engagement team does not have sufficient time to undertake the engagement.		✓	✓			31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to: (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
QR10. The firm does not establish, obtain or maintain sufficient and appropriate resources in order for the engagement team to effectively undertake the engagement and to promote consistency in the quality of engagement performance. <i>(Application material to highlight the four resources: financial, human, technological and intellectual)</i>		✓	✓		R10	Enhancement of extant requirement: 29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and



Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
						<p>commitment to ethical principles necessary to:</p> <p>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>
QR11.The judgments applied in the performance of the engagement are inappropriate, including in relation to complex areas or difficult or contentious matters.		✓	✓	✓	R9, R10, R11, R12, R13 and R14	This is an overarching risk that relates to various responses that exist in extant ISQC 1, including paragraphs 34 and 43 of extant ISQC 1 (the related responses are aligned with the extant requirements below).
QR12.The firm’s policies or procedures to enable the communication of concerns that originate from within or outside the firm in relation to the commitment to quality of the firm or its personnel are insufficient to capture deficiencies in the firm’s system of quality management.			✓		Also refer paragraphs 26–27 of <b>Agenda Item 2–B</b>	<p>55. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <p>(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and</p>

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
						applicable legal and regulatory requirements; and  (b) Allegations of non-compliance with the firm's system of quality control.
QR13.The firm does not respond appropriately to concerns that originate from within or outside the firm in relation to the commitment to quality of the firm or its personnel.			✓		Also refer paragraphs 26–27 of <b>Agenda Item 2–B</b>	As per above – paragraph 55 of extant ISQC 1.
QR14.Engagement files are not assembled on a timely basis after the engagement reports have been finalized, or engagement documentation is not retained for a period sufficient to meet the needs of the firm or as required by law or regulation.			✓		R15	45. The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized  47. The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.
QR15.The confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation is not maintained.			✓		R16 and R17	46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and

Quality risks	Quality Objectives				Responses	Extant ISQC 1 reference, possible new requirement or enhancement of extant requirement
	QO1.	QO2.	QO3.	QO4.		
						retrievability of engagement documentation

*Responses to Quality Risks:*

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>R1. The firm shall establish policies or procedures that address obtaining or generating and communicating information in relation to:</p> <p>(a) The competence, integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, and their acknowledgement and understanding of their responsibilities in relation to the engagement;</p> <p>(b) The purpose of the engagement, the underlying subject matter or the criteria to be applied in the preparation of the subject matter information and its availability to the intended users.</p>	QR1	<p>27. Such policies and procedures shall require:</p> <p>(a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.</p> <p>...</p> <p>(c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved. <i>[documentation to be further considered as the documentation requirements in ISQC 1 are developed]</i></p>
<p>R2. The firm shall establish policies or procedures addressing circumstances when the firm becomes aware of information after determining to accept or continue an engagement with a new or existing client, and such information may adversely affect the</p>	QR1 and QR2	<p>Enhancement of extant requirement:</p> <p>28. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>firm's decision to continue the engagement. Such policies or procedures shall include consideration of:</p> <p>(a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <p>(b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.</p>		<p>information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:</p> <p>(a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <p>(b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.</p>
<p>R3. The firm shall establish policies or procedures addressing the communication of the identity and role of the engagement partner to key members of client management and those charged with governance.</p>	<p>QR3</p>	<p>30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:</p> <p>(a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;</p> <p>...</p>
<p>R4. The firm shall assign operational responsibility for compliance with the independence requirements to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.</p>	<p>QR4</p>	<p>New requirement.</p>
<p>R5. The firm shall establish policies or procedures that address obtaining or generating and communicating information on a</p>	<p>QR4 and QR5</p>	<p>21. ...Such policies and procedures shall enable the firm to:</p> <p>(a) Communicate its independence requirements to its</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>timely basis in relation to the relevant ethical requirements, including independence requirements, with:</p> <ul style="list-style-type: none"> <li>(a) Engagement teams;</li> <li>(b) Personnel performing functions in relation to the operation of the firm’s system of quality management; and</li> <li>(c) Parties that are external to the firm (including network firm personnel).</li> </ul> <p>Such information shall include:</p> <ul style="list-style-type: none"> <li>(a) The requirements of the relevant ethical requirements, including the independence requirements so that the firm and its personnel can readily determine whether they satisfy independence requirements;</li> <li>(b) Information about client engagements, including the scope of services, to enable the firm and its personnel to readily determine whether the independence requirements have been met;</li> <li>(c) Circumstances and relationships that create a threat to independence so that appropriate and timely action can be taken;</li> <li>(d) Written confirmation, at least annually, of compliance with the firm’s policies or procedures on independence from all firm personnel required to be independent by relevant ethical requirements;</li> </ul>		<p>personnel and, where applicable, others subject to them; and</p> <p>...</p> <p>22. Such policies and procedures shall require:</p> <ul style="list-style-type: none"> <li>(a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;</li> <li>(b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and</li> <li>(c) The accumulation and communication of relevant information to appropriate personnel so that: <ul style="list-style-type: none"> <li>(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</li> <li>(ii) The firm can maintain and update its records relating to independence; and</li> <li>(iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.</li> </ul> </li> </ul> <p>23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>(e) The conclusions resulting from the evaluation of the threats identified and the actions to address the threats; and</p> <p>(f) Other relevant information to support compliance with the relevant ethical requirements.</p>		<p>to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:</p> <p>(a) Personnel to promptly notify the firm of independence breaches of which they become aware;</p> <p>(b) The firm to promptly communicate identified breaches of these policies and procedures to:</p> <p>(i) The engagement partner who, with the firm, needs to address the breach; and</p> <p>(ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and</p> <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.</p> <p>24. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements.</p>
<p>R6. The firm shall establish policies or procedures that enable the firm to:</p>	<p>QR4 and QR5</p>	<p>21. ...Such policies and procedures shall enable the firm to:</p> <p>...</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to independence,</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>(a) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements;</p> <p>(b) Evaluate the threats identified;</p> <p>(c) Address the threats by eliminating or reducing them to an acceptable level, by applying safeguards, declining the engagement or, if considered appropriate, withdrawing from the engagement, where withdrawal is possible under applicable law or regulation;</p> <p>(d) Evaluate whether the actions taken to address the threats to compliance with the fundamental principles have eliminated those threats or reduced them to an acceptable level; and</p> <p>(e) Require the engagement report not to be dated until the actions taken to address the threats have eliminated or reduced them to an acceptable level.</p>		<p>and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.</p> <p>22. Such policies and procedures shall require:</p> <p>...</p> <p>(c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p>...</p> <p>(iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.</p> <p>27. Such policies and procedures shall require:</p> <p>...</p> <p>(b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.</p> <p>...</p>
<p>R7. The firm shall establish policies or procedures that enable the firm to promptly address breaches of the independence requirements, that include:</p> <p>(a) The responsibility of the engagement partner who, with the firm, needs to address the breach, and communicate</p>	<p>QR4 and QR5</p>	<p>23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>actions taken to resolve the matter in order that the firm is able to evaluate such actions; and</p> <p>(b) The responsibility of other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action.</p>		<p>(a) Personnel to promptly notify the firm of independence breaches of which they become aware;</p> <p>(b) The firm to promptly communicate identified breaches of these policies and procedures to:</p> <p>(i) The engagement partner who, with the firm, needs to address the breach; and</p> <p>(ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and</p> <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.</p>
<p>R8. The firm shall establish policies or procedures that address the long association of personnel with an audit or assurance client in compliance with relevant ethical requirements and include:</p> <p>(a) Criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and</p> <p>(b) A requirement for the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period</p>	<p>QR4 and QR5</p>	<p>25. The firm shall establish policies and procedures:</p> <p>(a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and</p> <p>(b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation</p>



Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
in compliance with relevant ethical requirements in relation to audits of financial statements of listed entities.		requirements, after a specified period in compliance with relevant ethical requirements.
R9. The firm shall establish policies or procedures that promote appropriate consultation on difficult or contentious matters in relation compliance with the relevant ethical requirements.	QR2, QR4, QR5 and QR11	New requirement.
<p>R10. The firm shall establish policies or procedures that address the competence and experience of firm personnel performing engagements, including:</p> <ul style="list-style-type: none"> <li>(a) Effective recruitment policies or procedures that support the selection of individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm’s work and possess the appropriate characteristics to enable them to perform competently;</li> <li>(b) The professional education requirements, including continuing professional development, necessary to develop and maintain the required competence in performing engagements; and</li> <li>(c) Performance evaluations, compensation and promotion that incentivize the maintenance and development of the competence and experience of firm personnel performing engagements.</li> </ul>	QR7, QR10 and QR11	<p>31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:</p> <ul style="list-style-type: none"> <li>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</li> <li>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</li> </ul>
R11. The firm shall establish policies or procedures that establish the responsibility of the engagement partner in managing quality at the engagement level and includes policies or procedures addressing engagement direction, supervision	QR2, QR6, QR7, QR8 and QR11	33. The firm’s review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members.

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
<p>and review that shall be based on the premise that the work of less experienced team members is reviewed by more experienced engagement team members.</p>		
<p>R12. The firm shall establish policies or procedures that address appropriate consultation on difficult or contentious matters, that shall require:</p> <ul style="list-style-type: none"> <li>(a) The agreement by both the individual seeking consultation and the individual consulted on the conclusion resulting from such consultation; and</li> <li>(b) The implementation of the conclusion.</li> </ul>	<p>QR11</p>	<p>34. The firm shall establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> <li>(a) Appropriate consultation takes place on difficult or contentious matters;</li> <li>(b) Sufficient resources are available to enable appropriate consultation to take place;</li> <li>(c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and</li> <li>(d) Conclusions resulting from consultations are implemented.</li> </ul>
<p>R13. The firm shall establish policies or procedures that require an engagement quality control review to be performed for:</p> <ul style="list-style-type: none"> <li>(a) Audits of financial statements of listed entities;</li> <li>(b) Engagements for which an engagement quality control review is required by law or regulation; and</li> <li>(c) Other engagements where the firm has identified a risk of a significant impact to the public or a reputational risk for the firm as a result of the engagement not being performed in accordance with professional standards and applicable legal and regulatory requirements, and</li> </ul>	<p>QR2, QR5 and QR11</p>	<p>There are various requirements in extant ISQC 1 in relation to engagement quality control reviews that are being considered by the QCTF.</p>

Responses	Quality Risks	Extant ISQC 1 reference / possible new requirement
the issuance of the report by the firm or the engagement partner being inappropriate in the circumstances.		
<p>R14. The firm shall establish policies or procedures that address dealing with and resolving differences of opinion that may arise within the engagement team, with the engagement quality control reviewer or with personnel performing functions in relation to the operation of the firm's system of quality management, including those who provide consultation. Such policies or procedures shall also include:</p> <p>(a) The implementation of the conclusions reached; and</p> <p>(b) The report not to be dated until the matter is resolved.</p>	QR5 and QR11	<p>43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.</p> <p>44. Such policies and procedures shall require that:</p> <p>(a) Conclusions reached be documented and implemented; and</p> <p>(b) The report not be dated until the matter is resolved.</p>
R15. The firm shall establish policies or procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.	QR14	45. The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized
R16. The firm shall establish policies or procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.	QR15	46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation
R17. The firm shall establish policies or procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.	QR15	47. The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

## Linear Format

### *Quality Objectives:*

- QO1. The firm accepts and continues client relationships and specific engagements for which the firm is satisfied with the integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, and their competence in relation to the subject matter of the engagement.
- QO2. The firm accepts and continues client relationships and specific engagements for which the firm is able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- QO3. The firm performs engagements in accordance with professional standards and applicable legal and regulatory requirements.
- QO4. Reports issued by the firm or engagement partners are appropriate in the circumstances.

### *Quality Risks:*

- QR1. The firm inappropriately accepts and continues a client relationship or specific engagement as a result of having insufficient information in relation to:
- (a) The competence, integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, including their acknowledgement and understanding of their responsibilities in relation to the engagement; or [QO 1]
  - (b) The purpose of the engagement, the underlying subject matter or the criteria to be applied in the preparation of the subject matter information and its availability to the intended users. [QO1, QO2 and QO3]
- QR2. The judgment applied by the firm in considering the information relevant to evaluating the acceptance and continuance of a client relationship or specific engagement is inappropriate. [QO1 and QO2]
- QR3. The firm does not communicate the identity and role of the engagement partner to key members of client management and those charged with governance. [QO2]
- QR4. The firm, its personnel and, where applicable, others subject to relevant ethical requirements (including network firm personnel) do not comply with relevant ethical requirements, including independence requirements, as a result of: [QO1, QO2 and QO3]
- (a) Insufficient knowledge of the relevant ethical requirements, including the independence requirements;
  - (b) Insufficient knowledge of the client or the engagements undertaken in relation to the client;
  - (c) Inadequate communication and documentation of matters related to compliance with the relevant ethical requirements, including independence requirements;
  - (d) A failure by the firm and its personnel to:
    - Identify threats to compliance with the principles of the relevant ethical requirements, including readily determining whether they satisfy independence requirements;
    - Evaluate the threats identified; and

- Take appropriate and timely action in relation to threats identified, including prompt communication of breaches of the independence requirements and further communication of such breaches within the firm in a timely manner and addressing the threats by eliminating or reducing them to an acceptable level.
- QR5. Reports issued by the firm or engagement partners are inappropriate as a result of the firm, its personnel and, where applicable, others subject to relevant ethical requirements (including network firm personnel) not complying with relevant ethical requirements, including independence requirements. [QO4]
- QR6. Responsibility for each engagement is not assigned to an engagement partner, the responsibilities of the engagement partner are not clearly defined and communicated to that partner or the engagement partner does not have the authority to perform the role. [QO1 and QO3]
- QR7. The engagement team assigned, including the engagement partner, does not have the appropriate combination of competence and experience to perform the engagement, including knowledge or experience regarding: [QO2 and QO3]
- (a) The professional standards, including relevant ethical requirements, and applicable law or regulation in relation to the engagement being performed;
  - (b) The industry in which the entity operates; or
  - (c) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information.
- QR8. There is inadequate direction, supervision and review of the engagement team. [QO2 and QO3]
- QR9. The engagement team does not have sufficient time to undertake the engagement. [QO2 and QO3]
- QR10. The firm does not establish, obtain or maintain sufficient and appropriate resources in order for the engagement team to effectively undertake the engagement and to promote consistency in the quality of engagement performance. [QO2 and QO3] (*Application material to highlight the four resources: financial, human, technological and intellectual*)
- QR11. The judgments applied in the performance of the engagement are inappropriate, including in relation to complex areas or difficult or contentious matters. [QO2, QO3 and QO4]
- QR12. The firm's policies or procedures to enable the communication of concerns that originate from within or outside the firm in relation to the commitment to quality of the firm or its personnel are insufficient to capture deficiencies in the firm's system of quality management. [QO3]
- QR13. The firm does not respond appropriately to concerns that originate from within or outside the firm in relation to the commitment to quality of the firm or its personnel. [QO3]
- QR14. Engagement files are not assembled on a timely basis after the engagement reports have been finalized, or engagement documentation is not retained for a period sufficient to meet the needs of the firm or as required by law or regulation. [QO3]
- QR15. The confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation is not maintained. [QO3]

**Responses:**

- R1. The firm shall establish policies or procedures that address obtaining or generating and communicating information in relation to: [QR1]

- (a) The competence, integrity, ethical values or diligence of management, and, where appropriate, those charged with governance, and their acknowledgement and understanding of their responsibilities in relation to the engagement;
  - (b) The purpose of the engagement, the underlying subject matter or the criteria to be applied in the preparation of the subject matter information and its availability to the intended users.
- R2. The firm shall establish policies or procedures addressing circumstances when the firm becomes aware of information after determining to accept or continue an engagement with a new or existing client, and such information may adversely affect the firm's decision to continue the engagement. Such policies or procedures shall include consideration of: [QR1 and QR2]
- (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
  - (b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.
- R3. The firm shall establish policies or procedures addressing the communication of the identity and role of the engagement partner to key members of client management and those charged with governance. [QR3]
- R4. The firm shall assign operational responsibility for compliance with the independence requirements to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. [QR4]
- R5. The firm shall establish policies or procedures that address obtaining or generating and communicating information on a timely basis in relation to the relevant ethical requirements, including independence requirements, with: [QR4 and QR5]
- (a) Engagement teams;
  - (b) Personnel performing functions in relation to the operation of the firm's system of quality management; and
  - (c) Parties that are external to the firm (including network firm personnel).

Such information shall include:

- (a) The requirements of the relevant ethical requirements, including the independence requirements so that the firm and its personnel can readily determine whether they satisfy independence requirements;
- (b) Information about client engagements, including the scope of services, to enable the firm and its personnel to readily determine whether the independence requirements have been met;
- (c) Circumstances and relationships that create a threat to independence so that appropriate and timely action can be taken;
- (d) Written confirmation, at least annually, of compliance with the firm's policies or procedures on independence from all firm personnel required to be independent by relevant ethical requirements;
- (e) The conclusions resulting from the evaluation of the threats identified and the actions to address the threats; and

- (f) Other relevant information to support compliance with the relevant ethical requirements.
- R6. The firm shall establish policies or procedures that enable the firm to: [QR4 and QR5]
- (a) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements;
  - (b) Evaluate the threats identified;
  - (c) Address the threats by eliminating or reducing them to an acceptable level, by applying safeguards, declining the engagement or, if considered appropriate, withdrawing from the engagement, where withdrawal is possible under applicable law or regulation;
  - (d) Evaluate whether the actions taken to address the threats to compliance with the fundamental principles have eliminated those threats or reduced them to an acceptable level; and
  - (e) Require the engagement report not to be dated until the actions taken to address the threats have eliminated or reduced them to an acceptable level.
- R7. The firm shall establish policies or procedures that enable the firm to promptly address breaches of the independence requirements that include: [QR4 and QR5]
- (a) The responsibility of the engagement partner who, with the firm, needs to address the breach, and communicate actions taken to resolve the matter in order that the firm is able to evaluate such actions; and
  - (b) The responsibility of other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action.
- R8. The firm shall establish policies or procedures that address the long association of personnel with an audit or assurance client in compliance with relevant ethical requirements and include: [QR4 and QR5]
- (a) Criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
  - (b) A requirement for the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements in relation to audits of financial statements of listed entities.
- R9. The firm shall establish policies or procedures that promote appropriate consultation on difficult or contentious matters in relation compliance with the relevant ethical requirements. [QR2, QR4, QR5 and QR11]
- R10. The firm shall establish policies or procedures that address the competence and experience of firm personnel performing engagements, including: [QR7, QR10 and QR11]
- (a) Effective recruitment policies or procedures that support the selection of individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently;
  - (b) The professional education requirements, including continuing professional development, necessary to develop and maintain the required competence in performing engagements; and

- (c) Performance evaluations, compensation and promotion that incentivize the maintenance and development of the competence and experience of firm personnel performing engagements.
- R11. The firm shall establish policies or procedures that establish the responsibility of the engagement partner in managing quality at the engagement level and includes policies or procedures addressing engagement direction, supervision and review that shall be based on the premise that the work of less experienced team members is reviewed by more experienced engagement team members. [QR2, QR6, QR7, QR8 and QR11]
- R12. The firm shall establish policies or procedures that address appropriate consultation on difficult or contentious matters that shall require: [QR11]
- (a) The agreement by both the individual seeking consultation and the individual consulted on the conclusion resulting from such consultation; and
  - (b) The implementation of the conclusion.
- R13. The firm shall establish policies or procedures that require an engagement quality control review to be performed for: [QR2, QR5 and QR11]
- (a) Audits of financial statements of listed entities;
  - (b) Engagements for which an engagement quality control review is required by law or regulation; and
  - (c) Other engagements where the firm has identified a risk of a significant impact to the public or a reputational risk for the firm as a result of the engagement not being performed in accordance with professional standards and applicable legal and regulatory requirements, and the issuance of the report by the firm or the engagement partner being inappropriate in the circumstances.
- R14. The firm shall establish policies or procedures that address dealing with and resolving differences of opinion that may arise within the engagement team, with the engagement quality control reviewer or with personnel performing functions in relation to the operation of the firm's system of quality management, including those who provide consultation. Such policies or procedures shall also include: [QR5 and QR11]
- (a) The implementation of the conclusions reached; and
  - (b) The report not to be dated until the matter is resolved.
- R15. The firm shall establish policies or procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. [QR14]
- R16. The firm shall establish policies or procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. [QR15]
- R17. The firm shall establish policies or procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. [QR15]