

QUALITY MANAGEMENT (FIRM LEVEL): TRACKING DOCUMENT OF REQUIREMENTS IN EXTANT ISQC 1¹ TO NEW PROPOSALS

This document compares the requirements in extant ISQC 1 to the proposed requirements in **Agenda Item 2–B** and **Agenda Item 2–C**. It is noted that the proposed prescribed quality objectives, quality risks, and responses in **Agenda Item 2–C** are illustrative only and the Quality Control Task Force (QCTF) will further consider whether additional or more enhanced requirements are necessary. This includes an analysis of whether the requirements in extant ISQC 1 have been fully addressed in the proposed revisions.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
Introduction Scope of this ISQC		Introduction Scope of this ISQC	
1	This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.	1	This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality management and applies to all firms of professional accountants who perform audits and reviews of financial statements, and other assurance and related services engagements. This ISQC sets forth requirements and guidance for the design, implementation and operation of the firm’s system of quality management.
2	Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220, ² for example, deals with quality control procedures for audits of financial statements.	2	Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality management for specific types of

¹ 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*

² ISA 220, *Quality Control for an Audit of Financial Statements*

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
			engagements. ISA 220, ³ for example, deals with quality management for audits of financial statements. Law, regulation or relevant ethical requirements may also establish additional responsibilities for the firm in relation to quality management beyond those described in this ISQC.
		The Firm’s System of Quality Management	
3	A system of quality control consists of policies designed to achieve the objective set out in paragraph 11 and the procedures necessary to implement and monitor compliance with those policies.	3	A firm’s system of quality management supports the firm in complying with professional standards and applicable legal and regulatory requirements and issuing reports that are appropriate in the circumstances. A firm’s system of quality management comprises the following components: <ul style="list-style-type: none"> (a) Governance and leadership, including the organization, culture and strategy of the firm. (Ref. Para A1) (b) Information and communication, together with documentation of the firm’s system of quality management. (Ref. Para A2) (c) The quality management process, which is the process by which the firm establishes its quality objectives, identifies and assesses quality risks to meeting those objectives, designs and implements responses to those quality risks, monitors its system of quality management and implements remedial actions to address identified deficiencies. (Ref. Para A3–A4)
		4	In order for the system of quality management to properly function, these components operate in conjunction with each

³ ISA 220, *Quality Control for an Audit of Financial Statements*

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			other and are interrelated to form the system of quality management.
		5	This ISQC establishes governance principles in relation to quality that provide the basis for the design, implementation and operation of the firm’s system of quality management. The firm is required to implement actions to address these principles, which include the culture of the firm, the responsibility and accountability of firm leadership, the organization of the firm and the firm’s consideration of its stakeholders. (Ref. Para A1)
		6	The quality management process assists the firm in tailoring the system of quality management according to the circumstances of the firm, through establishing quality objectives that are specific to the firm and identifying the risks that, individually or in combination, may adversely affect the firm's ability to achieve its quality objectives. This enables the firm to design and implement responses that are responsive to the quality risks, thereby promoting the effective use of the firm’s resources and the effective management of quality. Factors that may affect the firm’s system of quality management include, for example, the size and operating characteristics of the firm and whether it is part of a network, the types of services the firm provides, the industries in which it operates, or the nature of the entities to which those services are provided. (Ref. Para A3–A4)
		7	This ISQC includes quality objectives that form the basis for the quality objectives established by the firm, i.e., the firm identifies specific quality objectives relevant to the firm’s circumstances, based on the quality objectives set out in the standard. The firm identifies quality risks in relation to such quality objectives,

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			including the quality risks set out in this ISQC that are relevant to all firms. Furthermore, this ISQC includes responses that firms are required to implement to address the quality risks set out in this standard, however such responses may not fully address the quality risks, including due to the circumstances of the firm, and the firm may need to design and implement additional responses. (Ref. Para A4)
		8	Quality management is a continuous, dynamic process that involves an ongoing consideration of the relevance and appropriateness of the firm’s system of quality management. Changes in the circumstances affecting the firm (e.g., the types of services the firm provides or the nature of the entities to which those services are provided) or other information (e.g., the results of the firm’s monitoring activities or information received through the firm’s whistleblowing program) may indicate the need for the firm to consider the continued relevance and appropriateness of its system of quality management and modify it, as necessary.
Authority of this ISQC		Authority of this ISQC	
4	This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.	9	This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
5	This ISQC contains the objective of the firm in following the ISQC, 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, as discussed further in paragraph 8, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.	10	This ISQC contains the objective of the firm in following the ISQC, 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, as discussed further in paragraph 13, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
6	The objective provides the context in which the requirements of this ISQC are set, and is intended to assist the firm in: <ul style="list-style-type: none"> • Understanding what needs to be accomplished; and • Deciding whether more needs to be done to achieve the objective. 	11	The objective provides the context in which the requirements of this ISQC are set, and is intended to assist the firm in: <ul style="list-style-type: none"> • Understanding what needs to be accomplished; and • Determining what needs to be done to achieve the objective.
7	The requirements of this ISQC are expressed using “shall.”	12	The requirements of this ISQC are expressed using “shall.”
8	Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may: <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples of policies and procedures that may be appropriate in the circumstances. <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 ISQC. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within</p>	13	Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may: <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples that may be appropriate in the circumstances. <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 ISQC. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within</p>

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.		the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.
9	This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, 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 Control, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQC. It also includes descriptions of other terms found in this ISQC to assist in common and consistent interpretation and translation.	14	This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, 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 Control, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQC. It also includes descriptions of other terms found in this ISQC to assist in common and consistent interpretation and translation.
Effective Date		Effective Date	
10	Systems of quality control in compliance with this ISQC are required to be established by December 15, 2009.	15	Systems of quality management in compliance with this ISQC are required to be established by December 15, 20XX.
Objective		Objective	
11	The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:	16	The objective of the firm is to establish and maintain a system of quality management to provide the firm with reasonable assurance that:

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.</p>		<p>(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.</p>
Definitions		Definitions	
12	In this ISQC, the following terms have the meanings attributed below:	17	In this ISQC, the following terms have the meanings attributed below:
			(a) Causal analysis – A process for identifying the underlying cause(s) of an identified deficiency, in order that the underlying cause(s) can be appropriately addressed by the firm.
	(a) Date of report – The date selected by the practitioner to date the report.		(b) Date of report – The date selected by the practitioner to date the report.
			(c) Deficiency in the firm’s system of quality management – [Placeholder for further consideration]
	(b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).		(d) 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).
	(c) Engagement partner ⁴ – The partner or other person in the firm who is responsible for the engagement and its		(e) Engagement partner ⁵ – The partner or other person in the firm who is responsible for the engagement and its

⁴ “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

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Para. Ref	Paragraph	Para. Ref	Paragraph
	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.		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.
	(d) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.		(f) Engagement quality control review – [TO BE UPDATED]
	(e) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.		(g) Engagement quality control reviewer – [To be updated]
	(f) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external		(h) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external

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	auditor complies with the requirements of ISA 610 (Revised 2013). ⁶		auditor complies with the requirements of ISA 610 (Revised 2013). ⁷
		(i)	External inspections – Inspections of the firm’s system of quality management or engagements performed by the firm that are undertaken by an external oversight authority.
(g)	Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.	(j)	Firm – A sole practitioner, partnership or corporation or other entity of professional accountants
(h)	Inspection – In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures.		<i>[The QCTF agreed that this definition should not be retained as inspections may be broader than inspection of completed engagements, and this definition created a conflict with the meaning of the term inspections used in other contexts. For example, inspections undertaken by an external oversight authority may also include inspections of the overall system of quality management.]</i>
(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.	(k)	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.
(j)	Monitoring – A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to	(l)	Monitoring – A process comprising ongoing and periodic evaluations of whether the firm’s system of quality management provides the firm with reasonable assurance that its overall objectives have been achieved.

⁶ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

⁷ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

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Para. Ref	Paragraph	Para. Ref	Paragraph
	provide the firm with reasonable assurance that its system of quality control is operating effectively.		
(k)	Network firm – A firm or entity that belongs to a network.	(m)	Network firm – A firm or entity that belongs to a network
(l)	Network – A larger structure: (i) That is aimed at cooperation, and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.	(n)	Network – A larger structure: (i) That is aimed at cooperation, and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
(m)	Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.	(o)	Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
(n)	Personnel – Partners and staff.	(p)	Personnel – Partners and staff. [To be considered as “staff” includes only professional staff]
(o)	Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements</i> , and relevant ethical requirements.	(q)	Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements</i> , and relevant ethical requirements.
		(r)	Quality objectives – The objectives established by the firm to achieve the firm’s overall objective for the firm’s system of quality management.

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Para. Ref	Paragraph	Para. Ref	Paragraph
			(s) Quality risk – A risk that, individually or in combination, could reasonably have an adverse impact on the firm's ability to achieve its quality objectives. [To be further considered in conjunction with the ISA 220 Task Force]
	(p) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.		(t) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance. (Ref. Para A5–A6)
	(q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code) together with national requirements that are more restrictive.		(u) Relevant ethical requirements – [To be considered in the context of the IESBA's Restructure Project and whether for purposes of ISQC 1 this should relate to all staff] Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code) together with national requirements that are more restrictive.
			(v) Remediation – Corrective actions implemented by the firm to address deficiencies identified in the firm's system of quality management.
			(w) Response – The firm's actions to address a quality risk, including policies or procedures.
	(r) Staff – Professionals, other than partners, including any experts the firm employs.		(x) Staff – Professionals, other than partners, including any experts the firm employs.
	(s) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another		(y) Suitably qualified external person – [To be considered in context of how this term has been proposed in relation to engagement quality control reviews, i.e., the engagement

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Para. Ref	Paragraph	Para. Ref	Paragraph
	firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.		quality control reviewer does not need to have the competence and capabilities to act as engagement partner] An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.
Requirements Applying, and Complying with, Relevant Requirements		Requirements Applying, and Complying with, Relevant Requirements	
13	Personnel within the firm responsible for establishing and maintaining the firm’s system of quality control shall have an understanding of the entire text of this ISQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.	18	Those assigned ultimate responsibility and accountability for quality, and person(s) within the firm with operational responsibility for the firm’s system of quality management, shall have an understanding of the entire text of this ISQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
14	The firm shall comply with each requirement of this ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of audits and reviews of financial statements, and other assurance and related services engagements. (Ref: Para. A1)	19	The firm shall comply with each requirement of this ISQC unless, in the circumstances of the firm, the requirement is not relevant to the firm. (Ref: Para. A7)
15	The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements is therefore expected to provide a sufficient basis	20	The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this ISQC to meet the stated objective.		requirements is therefore expected to provide a sufficient basis for the achievement of the objective.
Elements of a System of Quality Control		System of Quality Management	
16	The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements: (a) Leadership responsibilities for quality within the firm. (b) Relevant ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring.	21	The firm shall establish and maintain a system of quality management that includes the following components: (a) Governance and leadership, including the organization, culture and strategy of the firm. (b) Information, communication and documentation. (c) A quality management process, that comprises: (i) Establishing quality objectives. (ii) Identifying and assessing quality risks. (iii) Designing and implementing responses to quality risks. (iv) Monitoring and remediation.
		Information, Communication and Documentation <i>Information and Communication</i>	
17	The firm shall document its policies and procedures and communicate them to the firm’s personnel. (Ref: Para. A2–A3)	28	The firm shall obtain, or generate, and communicate appropriate information necessary to enable and support the proper functioning of the firm’s system of quality management, including information: (Ref: Para. A36–A37, A42, A45 and A46)

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			<p>(a) In relation to the firm’s system of quality management that is relevant to engagement teams, in order that engagement teams have the information necessary to perform the engagement; (Ref Para. A38)</p> <p>(b) That is relevant to personnel performing functions in relation to the operation of the firm’s system of quality management, in order that such personnel are able to fulfill their responsibilities in relation to such roles, including those who are ultimately responsible and accountable for quality; and (Ref: Para. A39–A40)</p> <p>(c) Exchanged with parties that are external to the firm. (Ref: Para. A41)</p> <p>In doing so, the firm shall establish policies or procedures that facilitate the communication of such information with relevant parties that enables the firm and relevant parties to take appropriate and timely action in relation to such information. (Ref: Para. A43–A44)</p>
			<i>Documentation</i>
		29	[Placeholder – section to be further developed]
Leadership Responsibilities for Quality within the Firm		Governance and Leadership, including Organization, Culture and Strategy	
18	The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures shall require the firm’s chief executive officer (or equivalent)	22	The firm shall establish governance principles in relation to quality and implement them through actions set out in this ISQC, and other actions as appropriate. Such governance principles shall include: (Ref. Para A8–A11)

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
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	or, if appropriate, the firm’s managing board of partners (or equivalent) to assume ultimate responsibility for the firm’s system of quality control. (Ref: Para. A4–A5)		<p>(a) The firm’s internal culture fosters quality, including professional and ethical values, to support the firm’s public interest role; (Ref. Para A12–A15)</p> <p>(b) The firm is organized in a manner that supports the effective design, implementation and operation of the firm’s system of quality management; (Ref. Para A16–A18, A21)</p> <p>(c) The firm has effective leadership with responsibility and accountability for quality; and (Ref. Para A19–A20)</p> <p>(d) The firm enhances stakeholder confidence in the public interest aspects of the firm’s decision-making in relation to quality. (Ref. Para A26–A27)</p>
		23	<p>The firm shall assign ultimate responsibility and accountability for quality to the firm’s chief executive officer (or equivalent) or the firm’s managing board of partners (or equivalent). The person(s) assuming such responsibility and accountability shall have sufficient and appropriate experience, knowledge and capacity to assume that responsibility and: (Ref: Para. A19–A20)</p> <p>(a) Conduct themselves in a manner that promotes an internal culture that fosters quality, including professional and ethical values, to support the firm’s public interest role, and take actions to establish and extend that culture throughout the firm; (Ref: Para. A12–A13)</p> <p>(b) Establish a business strategy that reflects the professional and ethical values of the firm, recognizes the need for the firm to achieve quality in all engagements, supports the firm’s public interest role and recognizes that commercial</p>

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			<p>considerations do not override the quality of work performed; (Ref: Para. A14)</p> <p>(c) Establish an organizational structure that supports the effective design, implementation and operation of the firm's system of quality management; (Ref: Para. A16–A18, A21)</p> <p>(d) Establish the necessary resources to support the design, implementation and operation of the firm's system of quality management and allocate these appropriately; and (Ref: Para. A24–A25)</p> <p>(e) Promote the consideration of the interests and expectations of all stakeholders in formulating decisions in relation to quality. (Ref: Para. A26–A27)</p>
19	The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)	24	Any person(s) that are assigned operational responsibility for the firm's system of quality management shall also have sufficient and appropriate experience, knowledge and capacity to assume that responsibility. (Ref: Para. A22–A23)
		25	<p>The firm shall establish periodic performance evaluations that assess the effectiveness of:</p> <p>(a) The person(s) that are assigned ultimate responsibility or accountability for quality; and</p> <p>(b) Any person(s) that are assigned operational responsibility for the firm's system of quality management.</p> <p>The firm shall implement corrective actions to address performance issues that are identified through performance</p>

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			evaluations and which may affect the firm’s achievement of its quality objectives. (Ref: Para. A11, A28–A29)
		Quality Management Process	
		30–37	All requirements in paragraphs 30–37 are new.
Relevant Ethical Requirements			
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. (Ref: Para. A7–A10)	QR4 ⁸	<p>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:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> • 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

⁸ Throughout this Agenda Item, “QR” and “R” refer to the quality risks and responses in Agenda Item 2–C.

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			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.
<i>Independence</i>			
21	<p>The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to: (Ref: Para. A10)</p> <p>(a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.</p>	QR4	<p>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:</p> <p>(a) Insufficient knowledge of the relevant ethical requirements, including the independence requirements;</p> <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"> • Identify threats to compliance with the principles of the relevant ethical requirements, including readily determining whether they satisfy independence requirements;

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
			<ul style="list-style-type: none"> • 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.
		R5	<p>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:</p> <ul style="list-style-type: none"> (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). <p>Such information shall include:</p> <ul style="list-style-type: none"> (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;

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
			<p>(c) Circumstances and relationships that create a threat to independence so that appropriate and timely action can be taken;</p> <p>(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;</p> <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>
		R6	See below for text.
22	<p>Such policies and procedures shall require: (Ref: Para. A10)</p> <p>(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;</p> <p>(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</p> <p>(c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p>(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</p>	R5	See above for text.
		R6	<p>The firm shall establish policies or procedures that enable the firm to:</p> <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>

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<ul style="list-style-type: none"> (ii) The firm can maintain and update its records relating to independence; and (iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level. 		<ul style="list-style-type: none"> (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.
23	<p>The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Personnel to promptly notify the firm of independence breaches of which they become aware; (b) The firm to promptly communicate identified breaches of these policies and procedures to: <ul style="list-style-type: none"> (i) The engagement partner who, with the firm, needs to address the breach; and (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. 	R5	See above for text.
		R7	<p>The firm shall establish policies or procedures that enable the firm to promptly address breaches of the independence requirements, that include:</p> <ul style="list-style-type: none"> (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.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
24	At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10–A11)	R5	See above for text.
25	The firm shall establish policies and procedures: (Ref: Para. A10) (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)	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: (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.
Acceptance and Continuance of Client Relationships and Specific Engagements			
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: (a) Is competent to perform the engagement and has the	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

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>capabilities, including time and resources, to do so; (Ref: Para. A18, A23)</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. (Ref: Para. A19–A20, A23)</p>		<p>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>
		QR4	See above for text.
27	<p>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. (Ref: Para. A21, A23)</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>(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.</p>	R1	<p>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>
		R6	See above for text.
28	The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information	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

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>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. (Ref: Para. A22–A23)</p>		<p>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>
Human Resources			
29	<p>The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:</p> <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. (Ref: Para. A24–A29)</p>	QR7	<p>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:</p> <p>(a) The professional standards, including relevant ethical requirements, and applicable law or 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>
		QR10	<p>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</i></p>

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
			<i>highlight the four resources: financial, human, technological and intellectual)</i>
<i>Assignment of Engagement Teams</i>			
30	<p>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>(b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and</p> <p>(c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)</p>	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.
		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.
		QR7	<p>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:</p> <p>(a) The professional standards, including relevant ethical requirements, and applicable law or 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>
		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.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
		R10	See below for text.
31	<p>The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities 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. (Ref: Para. A31)</p>	QR7	See above for text.
		QR9	The engagement team does not have sufficient time to undertake the engagement.
		R10	<p>The firm shall establish policies or procedures that address the competence and experience of firm personnel performing engagements, including:</p> <p>(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;</p> <p>(b) The professional education requirements, including continuing professional development, necessary to develop and maintain the required competence in performing engagements; and</p> <p>(c) Performance evaluations, compensation and promotion that incentivize the maintenance and development of the competence and experience of firm personnel performing engagements.</p>
Engagement Performance			
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	QR8	There is inadequate direction, supervision and review of the engagement team.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:</p> <ul style="list-style-type: none"> (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33) (b) Supervision responsibilities; and (Ref: Para. A34) (c) Review responsibilities. (Ref: Para. A35) 		
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.	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.
<i>Consultation</i>			
34	<p>The firm shall establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are 	R12	<p>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"> (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.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	implemented. (Ref: Para. A36–A40)		
<i>Engagement Quality Control Review</i>			
35	<p>The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:</p> <p>(a) Require an engagement quality control review for all audits of financial statements of listed entities;</p> <p>(b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41)</p> <p>(c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b).</p>	R13	<p>The firm shall establish policies or procedures that require an engagement quality control review to be performed for:</p> <p>(a) Audits of financial statements of listed entities;</p> <p>(b) Engagements for which an engagement quality control review is required by law or regulation; and</p> <p>(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.</p>
36	The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review. (Ref: Para. A42–A43)		The proposals of the QCTF in relation to engagement quality control reviews were presented to the IAASB in September 2016, December 2016 and March 2017. The QCTF has included a section in Agenda Item 2–B regarding the possible development of a separate standard for engagement quality control reviews. A tracking of the extant requirements to the proposed requirements will be presented to the IAASB in the
37	The firm shall establish policies and procedures to require the engagement quality control review to include:		

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<ul style="list-style-type: none"> (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements or other subject matter information and the proposed report; (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) 		IAASB's next discussion in relation to engagement quality control reviews, i.e., after the June 2016 meeting.
38	<p>For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:</p> <ul style="list-style-type: none"> (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A45–A46) 		

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
Criteria for the Eligibility of Engagement Quality Control Reviewers			
39	<p>The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority; and (Ref: Para. A47)</p> <p>(b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity. (Ref: Para. A48)</p>		
40	The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. (Ref: Para. A49–A51)		
41	The firm’s policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer’s ability to perform an objective review may be impaired.		
Documentation of the Engagement Quality Control Review			
42	<p>The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:</p> <p>(a) The procedures required by the firm’s policies on engagement quality control review have been performed;</p> <p>(b) The engagement quality control review has been completed on or before the date of the report; and</p>		

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.		
Differences of Opinion			
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. (Ref: Para. A52–A53)	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: (a) The implementation of the conclusions reached; and (b) The report not to be dated until the matter is resolved.
44	Such policies and procedures shall require that: (a) Conclusions reached be documented and implemented; and (b) The report not be dated until the matter is resolved.		
Engagement Documentation Completion of the assembly of final engagement files			
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. (Ref: Para. A54–A55)	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	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.

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
Confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation			
46	The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56–A59)	QR15	The confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation is not maintained.
		R16	The firm shall establish policies or procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
Retention of engagement documentation			
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. (Ref: Para. A60–A63)	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.
		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.
Monitoring Monitoring the firm’s quality control policies and procedures		<i>Monitoring and Remediation</i> Establishing a Monitoring and Remediation Process	
48	The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:	38	The firm shall establish a monitoring and remediation process in order to evaluate whether the firm’s system of quality management provides the firm with reasonable assurance that its overall objective has been achieved. (Ref: Para. A71–A72)

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>(a) Include an ongoing consideration and evaluation of the firm’s system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;</p> <p>(b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and</p> <p>(c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement. (Ref: Para. A64–A68)</p>	39	<p>The firm shall design and perform monitoring activities that are sufficient to provide the firm with an evaluation of whether the system of quality management provides the firm with reasonable assurance that the overall objective has been achieved, including whether: (Ref: Para. A73)</p> <p>(a) The governance principles in relation to quality have been implemented and the firm’s leadership has assumed ultimate responsibility and accountability for quality;</p> <p>(b) The firm’s information and communication policies or procedures enable and support the proper functioning of the firm’s system of quality management;</p> <p>(c) The quality management process of the firm includes appropriate quality objectives and is appropriately identifying, assessing, and responding to the quality risks; and</p> <p>(d) The firm’s monitoring and remediation appropriately enable the evaluation of the firm’s system of quality management.</p>
		40	<p>The firm shall determine the scope and frequency of the monitoring activities, taking into consideration: (Ref: Para. A74–A80)</p> <p>(a) The design and implementation of the firm’s system of quality management;</p> <p>(b) Changes in factors that have impacted the firm’s system of quality management;</p> <p>(c) The results of previous monitoring activities and remedial actions, including whether the previous monitoring</p>

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
			<p>activities continue to be relevant in evaluating the firm’s system of quality management; and</p> <p>(d) Other information that may suggest deficiencies exist in the firm’s system of quality management, including information from external inspections that may indicate the need for the firm to conduct monitoring activities.</p>
		41	<p>As part of the monitoring activities, the firm shall establish policies or procedures requiring the inspection of completed engagements. Such policies or procedures shall set out criteria for the selection of completed engagements for inspection that sufficiently support the firm in its evaluation of its system of quality management. Such criteria shall include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (Ref: Para. A81–A83)</p>
		42	<p>The firm shall:</p> <p>(a) Assign operational responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and</p> <p>(b) Determine that those performing the monitoring activities have sufficient and appropriate experience, knowledge and capacity to perform the monitoring activity and are sufficiently objective from the activity subject to monitoring. (Ref: Para. A84–A85)</p>

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
		Identifying and Remediating Identified Deficiencies	
		43	The firm shall assess the results of the monitoring activities and external inspections, in order to: (Ref: Para. A86–A88) (a) Identify deficiencies in the firm’s system of quality management; (b) Determine the cause of deficiencies and evaluate their effect; and (c) Implement appropriate remedial actions.
		45	The firm shall determine the cause(s) of deficiencies. The nature, timing and extent of the procedures undertaken by the firm to determine the cause(s) of deficiencies shall be determined by the firm based on the nature of the deficiencies. (Ref: Para. A89–A94)
<i>Evaluating, Communicating and Remediating Identified Deficiencies</i>			
49	The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either: (a) Instances that do not necessarily indicate that the firm’s system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.	46	The firm shall evaluate the effect(s) of deficiencies, taking into account the identified cause(s). In doing so the firm shall: (a) Determine whether the cause(s) are systemic, repetitive or other causes that require timely remedial action. (b) Consider the continued relevance of the firm’s quality objectives, whether all quality risks have been identified and appropriately assessed and whether the responses to quality risks remain appropriate. (Ref: Para. A95)

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
50	The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A69)		See paragraph 49 below.
51	Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following: (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; (b) The communication of the findings to those responsible for training and professional development; (c) Changes to the quality control policies and procedures; and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.	47	The firm shall implement remedial actions, as appropriate, that are responsive to the cause(s) of deficiencies and the related effect. (Ref: Para. A96)
		Assessing the Effectiveness of the Monitoring and Remediation Process	
		48	The firm, including those assigned ultimate responsibility and accountability for quality, shall monitor the effectiveness of the remedial actions designed and implemented to address the cause(s) and evaluate whether the remedial actions appropriately address the deficiencies identified. (Ref: Para. A97)
52	The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.	44	In circumstances when a deficiency identified relates to an engagement and there is an indication that the report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm shall: (a) Determine what further action is necessary to comply with relevant professional standards and applicable legal and regulatory requirements; and (b) Consider whether to obtain legal advice.
53	The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm,	49	The firm shall communicate, on a timely basis or at least annually, relevant information about the results of the firm's monitoring and remediation to engagement teams, personnel

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	<p>including the firm’s chief executive officer or, if appropriate, its managing board of partners. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:</p> <ul style="list-style-type: none"> (a) A description of the monitoring procedures performed. (b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. 		<p>performing functions in relation to the operation of the firm’s system of quality management, including those who are ultimately responsible and accountable for quality, and parties that are external to the firm, as appropriate. Information communicated shall include the following: (Ref: Para. A40, A98–A99)</p> <ul style="list-style-type: none"> (a) A description of the monitoring procedures performed. (b) Information about deficiencies, the causes of such deficiencies and remedial actions. (c) The conclusions drawn from monitoring and remediation.
		Considerations Relating to Networks	
54	<p>Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the firm’s policies and procedures shall require that:</p> <ul style="list-style-type: none"> (a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and (b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken, 	50	<p>[Placeholder – networks to be further considered] Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies or procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the firm’s policies or procedures shall require that:</p> <ul style="list-style-type: none"> (a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and (b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken,

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
	in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.		in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.
<i>Complaints and Allegations</i>		<i>Whistleblowing</i>	
55	<p>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 applicable legal and regulatory requirements; and</p> <p>(b) Allegations of non-compliance with the firm’s system of quality control.</p> <p>As part of this process, the firm shall establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: Para. A70)</p>	26	<p>The firm shall establish policies or procedures that: (Ref: Para. A30–A33)</p> <p>(a) Enable reporting, without fear of reprisal, of concerns in relation to the commitment to quality of the firm or its personnel; and</p> <p>(b) Enable the investigation of concerns raised by the firm, its personnel or external parties.</p>
		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.
		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.
56	If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm’s quality control policies and procedures or non-compliance with the firm’s system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph 51. (Ref: Para. A71–A72)	27	If during the investigations into concerns, deficiencies in the design, implementation or operation of the firm’s system of quality management are identified, the firm shall determine and evaluate the cause(s) of the deficiencies and implement remedial actions. (Ref: Para. A34–A35)

Extant ISQC 1		Proposals in Agenda Item 2–B and Agenda Item 2–C	
Para. Ref	Paragraph	Para. Ref	Paragraph
Documentation of the System of Quality Control		Information, Communication and Documentation	
57	The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A73–A75)		Still to be considered by the QCTF.
58	The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm’s compliance with its system of quality control, or for a longer period if required by law or regulation.		Still to be considered by the QCTF.
59	The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.		Still to be considered by the QCTF.