

*The purpose of this document is to demonstrate the proposals of the Quality Control Task Force (QCTF) in relation to the prescribed quality objectives and quality risks. The QCTF is seeking the views of the IAASB on the proposed level of specificity of the quality risks, rather than specific feedback on the proposed wording set out in this Agenda Item. The proposed requirements will be further refined once the IAASB has provided its views.*

## Quality Management: Draft Prescribed Quality Objectives and Quality Risks

1. This document includes the proposed prescribed quality objectives and quality risks that could be included in proposed ISQC 1<sup>1</sup> (see **Agenda Item 1-A**). These are illustrative only and the QCTF will further refine the text of the requirements in response to respondents' views to the Invitation to Comment<sup>2</sup> and the IAASB's feedback. Furthermore, the application material supporting the proposed prescribed quality objectives and quality risks will be further considered by the QCTF in due course.

### Draft Prescribed Quality Objectives and Quality Risks

Quality Objective 1
The firm, its personnel and, where applicable, others subject to relevant ethical requirements (including network firm personnel, as applicable) fulfill relevant ethical requirements.
Risk 1
<p>The firm, its personnel and, when applicable, others subject to relevant ethical requirements (including network firm personnel, as applicable) do not fulfill relevant ethical requirements, including independence requirements, including as a result of:</p> <ul style="list-style-type: none"> <li>(a) Insufficient understanding of relevant ethical requirements, including in relation to:               <ul style="list-style-type: none"> <li>(i) Circumstances that may cause a breach of independence;</li> <li>(ii) Their responsibilities in relation to circumstances where there is non-compliance with laws and regulations;</li> </ul> </li> <li>(b) A failure to:               <ul style="list-style-type: none"> <li>(i) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements;</li> <li>(ii) Evaluate the threats identified;</li> </ul> </li> </ul>

<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*

<p>(iii) 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, when withdrawal is possible under applicable law or regulation; or</p> <p>(iv) 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.</p>
<b>Quality Objective 2</b>
<p>The firm accepts and continues client relationships and specific engagements for which the firm is:</p> <p>(a) Satisfied with the integrity and ethical values of management, and, when appropriate, those charged with governance; and</p> <p>(b) Able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.</p>
<b>Risk 2</b>
<p>The firm accepts or continues a client relationship or specific engagement, in circumstances when management, and, when appropriate, those charged with governance, lack integrity and ethical values, including as a result of a failure to obtain or generate and communicate information to support the firm's consideration of the integrity and ethical values.</p>
<b>Risk 3</b>
<p>In accepting or continuing a client relationship or specific engagement, the firm does not assess its ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.</p>
<b>Risk 4</b>
<p>The firm does not obtain the acknowledgement and understanding by management, and, when appropriate, those charged with governance, of their responsibilities in relation to the engagement.</p>
<b>Risk 5</b>
<p>The firm does not determine whether there is, or will be, appropriate access to the information that is necessary to be able to perform the engagement.</p>
<b>Risk 6</b>

The firm does not appropriately consider, or respond appropriately, in circumstances when the firm becomes aware of information that:

- (a) Would have caused it to decline an engagement had that information been available prior to accepting or continuing a client relationship or specific engagement; or
- (b) Affects the firm's decision to continue a client relationship or specific engagement.

### Quality Objective 3

The firm has sufficient and appropriate resources, including financial resources, human resources, technology resources and intellectual resources, that are suitably used or allocated in order to:

- (a) Support the functioning of the firm's system of quality management;
- (b) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- (c) Promote consistency in the quality of engagement performance.

*Risks – The quality risks related to resources need to be further developed. Below are examples of quality risks in relation to human resources, however these are only an initial indication of the possible risks that could be included.*

### Risk 7

The firm does not attract, develop or retain human resources that have:

- (a) Sufficient capacity to effectively support the functioning of the firm's system of quality management and perform quality engagements;
- (b) Appropriate competence and experience to perform engagements, including knowledge or experience regarding:
  - (i) The professional standards, including relevant ethical requirements, and applicable law or regulation in relation to the engagement being performed;
  - (ii) The industry in which the entity operates;
  - (iii) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information; or
- (c) Competence and experience to perform functions in relation to the operation of the firm's system of quality management.

### Risk 8

The firm does not undertake performance evaluations or establish compensation and promotion mechanisms that incentivize the maintenance and development of the competence and experience of firm personnel, including those performing engagements.

#### **Quality Objective 4**

The firm and its personnel achieve the objective of managing quality at the engagement level, including performing engagements in accordance with professional standards and applicable legal and regulatory requirements and issuing reports that are appropriate in the circumstances.

#### **Risk 9**

Quality at the engagement level is not achieved, as a result of a failure by the firm to:

- (a) Assign responsibility and authority for each engagement to an engagement partner and clearly define and communicate such responsibilities;
- (b) Determine and communicate responsibilities in relation to engagements, including responsibilities in relation to:
  - (i) Adequate direction and supervision of the engagement team and review of the work of the engagement team;
  - (ii) The appropriate review by more experienced engagement team members of work performed by less experienced team members;
- (c) Provide appropriate consultation on difficult or contentious matters or to determine responsibilities in relation to consultations, including the agreement and implementation of conclusions resulting from consultations;
- (d) Deal with or resolve 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; or
- (e) Establish an appropriate period of time for the assembly of engagement files after the engagement reports have been finalized and address the retention and maintenance of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards.