

QUALITY MANAGEMENT COMPARISON OF EXTANT REQUIREMENTS IN THE ELEMENTS¹ OF ISQC 1² TO THE PROPOSED PRESCRIBED QUALITY RISKS

This document compares the requirements in the elements of extant ISQC 1 to the proposed prescribed quality risks in **Agenda Item 1-B**.

Extant ISQC 1		Proposed Prescribed Quality Risks	
Para. Ref	Risk. No	Risk. No	Paragraph
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)	Risk 1	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:...
<i>Independence</i>			
21	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) (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and (b) Identify and evaluate circumstances and relationships that	Risk 1	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: (a) Insufficient understanding of relevant ethical requirements, including in relation to: (i) Circumstances that may cause a breach of independence; ... (b) A failure to:

¹ Elements refers to the following elements in extant ISQC 1: (i) relevant ethical requirements, (ii) acceptance and continuance of client relationships and specific engagements, (iii) human resources, and (iv) engagement performance.

² 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*

Extant ISQC 1		Proposed Prescribed Quality Risks	
Para. Ref	Risk. No	Risk. No	Paragraph
	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.		<ul style="list-style-type: none"> (i) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements; (ii) Evaluate the threats identified; (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 (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.
22	<p>Such policies and procedures shall require: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (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; (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 (c) The accumulation and communication of relevant information to appropriate personnel so that: <ul style="list-style-type: none"> (i) The firm and its personnel can readily determine whether they satisfy independence 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"> (a) Insufficient understanding of relevant ethical requirements, including in relation to: <ul style="list-style-type: none"> (i) Circumstances that may cause a breach of independence; ... (b) A failure to:

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Para. Ref	Risk. No	Risk. No	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"> (i) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements; (ii) Evaluate the threats identified; (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 (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.
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 	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> <p>...</p> <ul style="list-style-type: none"> (b) A failure to: <ul style="list-style-type: none"> (i) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements; (ii) Evaluate the threats identified;

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	<p>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>(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>
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)		<i>The QCTF needs to further consider how this requirement will be included in the revised ISQC 1.</i>
25	<p>The firm shall establish policies and procedures: (Ref: Para. A10)</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 requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)</p>	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> <p>(b) A failure to:</p> <p>(i) Identify threats to compliance with the principles of the relevant ethical requirements, including the independence requirements;</p> <p>(ii) Evaluate the threats identified;</p> <p>(iii) Address the threats by eliminating or reducing them to an acceptable level, by applying safeguards, declining the engagement or, if considered</p>

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			<p>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>
Acceptance and Continuance of Client Relationships and Specific Engagements			
26	<p>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; (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>Risk 2</p> <p>Risk 3</p> <p>Risk 4</p> <p>Risk 5</p>	<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> <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> <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> <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>

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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>	<p>Risk 2</p> <p>Risk 4</p> <p>Risk 5</p>	<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> <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> <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>
28	<p>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 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</p>	Risk 6	<p>The firm does not appropriately consider, or respond appropriately, in circumstances when the firm becomes aware of information that:</p> <p>(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</p> <p>(b) Affects the firm's decision to continue a client relationship or specific engagement.</p>

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	from both the engagement and the client relationship. (Ref: Para. A22–A23)		
Human Resources		<i>The risks related to resources need to be further developed by the QCTF.</i>	
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>	<p>Risk 7</p> <p>The firm does not attract, develop or retain human resources that have:</p> <p>(a) Sufficient capacity to effectively support the functioning of the firm’s system of quality management and perform quality engagements;</p> <p>(b) Appropriate competence and experience to perform engagements, including knowledge or experience regarding:</p> <p>(i) The professional standards, including relevant ethical requirements, and applicable law or regulation in relation to the engagement being performed;</p> <p>(ii) The industry in which the entity operates;</p> <p>(iii) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information; or</p> <p>(c) Competence and experience to perform functions in relation to the operation of the firm’s system of quality management.</p> <p>Risk 8</p> <p>The firm does not undertake performance evaluations or establish compensation and promotion mechanisms that incentivize the maintenance and development of the</p>	

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			competence and experience of firm personnel, including those performing engagements.
<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>	<p>Risk 7</p> <p>The firm does not attract, develop or retain human resources that have:</p> <p>(a) Sufficient capacity to effectively support the functioning of the firm's system of quality management and perform quality engagements;</p> <p>(b) Appropriate competence and experience to perform engagements, including knowledge or experience regarding:</p> <p>(i) The professional standards, including relevant ethical requirements, and applicable law or regulation in relation to the engagement being performed;</p> <p>(ii) The industry in which the entity operates;</p> <p>(iii) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information; or</p> <p>(c) Competence and experience to perform functions in relation to the operation of the firm's system of quality management.</p> <p>Risk 8</p> <p>The firm does not undertake performance evaluations or establish compensation and promotion mechanisms that incentivize the maintenance and development of the</p>	

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		Risk 9	<p>competence and experience of firm personnel, including those performing engagements.</p> <p>Quality at the engagement level is not achieved, as a result of a failure by the firm to:</p> <p>(a) Assign responsibility and authority for each engagement to an engagement partner and clearly define and communicate such responsibilities;</p> <p>...</p>
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>	Risk 7	<p>The firm does not attract, develop or retain human resources that have:</p> <p>(a) Sufficient capacity to effectively support the functioning of the firm's system of quality management and perform quality engagements;</p> <p>(b) Appropriate competence and experience to perform engagements, including knowledge or experience regarding:</p> <p>(i) The professional standards, including relevant ethical requirements, and applicable law or regulation in relation to the engagement being performed;</p> <p>(ii) The industry in which the entity operates;</p> <p>(iii) The underlying subject matter or the criteria to be applied in the preparation of the subject matter information; or</p>

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		Risk 8	(c) Competence and experience to perform functions in relation to the operation of the firm's system of quality management. 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.
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 or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include: (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)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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; ...
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.	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (c) Determine and communicate responsibilities in relation to engagements, including responsibilities in relation to: ...

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			(ii) The appropriate review by more experienced engagement team members of work performed by less experienced team members;
<i>Consultation</i>			
34	The firm shall establish policies and procedures designed to provide it with reasonable assurance that: (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 implemented. (Ref: Para. A36–A40)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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; ...
<i>Engagement Quality Control Review</i>			
<i>Differences of Opinion</i>			
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)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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

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			management, including those who provide consultation; or ...
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.	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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 ...
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)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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.

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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)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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.
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)	Risk 9	Quality at the engagement level is not achieved, as a result of a failure by the firm to: ... (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.