

This document shows the changes in relation to the proposed requirements in **Agenda Item 3–B** and **Agenda Item 3–C** from the requirements proposed earlier in Agenda Item 7–A of the December 2016 and Agenda Item 6–A of the March 2017 IAASB meetings.

International Standards on Quality Control (ISQC) 1 (Revised) – Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements

[The sections below would be included in the Quality Management Process section of ISQC 1 as a prescribed response]

1. ~~The firm shall establish policies and/or procedures that require an engagement quality control review to be performed for all audits of financial statements of listed entities and for all engagements for which an engagement quality control review is required by law or regulation. In addition, the firm shall establish risk-based criteria to identify any other engagements for which an engagement quality control review is required. In establishing the criteria for other engagements, the firm shall take into account: (Ref: Para. A41)~~
 - ~~(a) All audits of financial statements of listed entities; Entities, other than listed entities, for which the firm performs audits of financial statements and the extent to which such entities have risk characteristics similar to listed entities. (Ref: Para. A41a)~~
 - ~~(b) Engagements for which an engagement quality control review is required by law or regulation; and (Ref: Para. A2)~~
 - ~~(b)(c) Other engagements for which the firm has determined through its quality management process that an engagement quality control review is an appropriate response based on the assessed likelihood and impact of the quality risks. (Ref: Para A3) Risks to quality at the engagement level identified by the firm for which an engagement quality control review is an appropriate response. (Ref: Para. A41b-A41d)~~
2. The firm shall document:
 - (a) The policies or procedures in relation to engagements that require an engagement quality control review to be performed that shall be sufficient to enable a consistent understanding and application of the firm's policies or procedures; and
 - (b) The selection of individual engagements subject to engagement quality control review.
3. For engagements subject to an engagement quality control review, the firm shall establish policies or procedures in relation to the selection of the engagement quality control reviewer and performance and documentation of the engagement quality control review in accordance with ISQC 2.¹

¹ ISQC 2, *Engagement Quality Control Review*

ISQC 2 – Engagement Quality Control Review (Exposure Draft: 1st Read)

Criteria for the Eligibility of Engagement Quality Control Reviewers

9. ~~The firm's shall establish policies and or procedures that establish set out~~ the criteria for the eligibility of the engagement quality control reviewer, ~~shall be designed to enable the engagement quality control reviewer to provide an objective evaluation, in a timely manner at appropriate stages during the engagement, of the significant judgments made by the engagement team and the conclusions reached thereon.~~ Such policies and or procedures shall include that the engagement quality control reviewer: (Ref. Para: A46a–A46b)
- ~~(a)~~ Has sufficient time to perform the engagement quality control review; (Ref: Para. A2–A3)
 - ~~(a)~~ Has sufficient technical competence, including knowledge of the entity's industry, and capacity to be able to perform the role of engagement quality control reviewer for the particular engagement; (Ref. Para: A47–A47a and A47c–A47d);
 - ~~(b)~~ Has appropriate experience related to engagements of a similar nature and complexity, and in the case of an engagement quality control review for an audit of financial statements of a listed entity, appropriate experience related to an audit of financial statements of a listed entity; and (Ref. Para: A47b–A47d)
 - ~~(b)~~ Is objective in relation to the engagement subject to the engagement quality control review and the engagement team; (Ref: Para. A4–A7) Maintains their objectivity throughout the engagement, including
 - ~~(c)~~ Complies with the requirements relevant to engagement quality control reviewers within a law and, regulation, if applicable or relevant ethical requirements relating to objectivity, if any; (Ref. Para: A47e–A47j)
 - ~~(c)~~ Has the appropriate authority to evaluate the significant judgments made by the engagement team and the conclusions reached thereon, including through: (Ref: Para. A9–A13)
 - ~~(i)~~ Technical competence and sufficient knowledge of the entity's industry; and
 - ~~(ii)~~ Sufficient and appropriate experience related to engagements of a similar nature and complexity.
10. ~~The firm's policies or procedures shall address circumstances when if during the engagement the engagement quality control reviewer's objectivity may have become impaired during the engagement or the engagement quality control reviewer's ability to perform the review is otherwise determined to be impaired, the firm's policies and procedures and shall provide for the replacement of the engagement quality control reviewer. Such policies or procedures shall include whether, and the extent to which, an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.~~ (Ref: Para. A14–A15A48)

Appointment of the Engagement Quality Control Reviewer

11. The firm shall assign the responsibility for the appointment of the engagement quality control reviewer(s) ~~to an engagement(s)~~ to an individual(s) who possesses sufficient knowledge to be able to objectively assess whether the eligibility criteria in paragraph 9 have been met.; (Ref: Para. A1649–A1950)
- ~~(a)~~ Possesses sufficient knowledge to be able to assess whether the individual(s) is eligible to perform

- ~~the engagement quality control review; and~~
- (b) ~~Is not part of the engagement team unless, in exceptional circumstances, it is not practicable.~~

Execution Performance of the Engagement Quality Control Review

12. ~~The firm's shall establish policies and or procedures shall set out related to the performance of the engagement quality control review, including: (Ref: Para: A42-A44)~~
- (a) ~~Procedures to be performed as part of the review sufficient to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon; (Ref: Para. A21–A22)The nature of the matters to be considered by the engagement quality control reviewer.~~
 - (b) ~~The timing of the review, including that that the review shall be undertaken at appropriate points in time during the engagement and the engagement report shall not be dated until completion of the review; and (Ref: Para. A23–A24)procedures to be performed by the engagement quality control reviewer, including that the procedures be performed at appropriate stages during the engagement.~~
 - (c) ~~Other matters that may be relevant to the engagement, including, as applicable, consideration of the results of monitoring and remediation activities. (Ref: Para. A25)The extent of the procedures to be performed by the engagement quality control reviewer, that enable the engagement quality control reviewer to conclude on the appropriateness of the judgments made by the engagement team.~~
 - (d) ~~The extent of the documentation required to record the performance, results and conclusions of the review performed by the engagement quality control reviewer.~~
13. ~~The procedures to be performed as part of the engagement quality control review shall includeAt a minimum, the firm's policies and procedures shall require the engagement quality control reviewer to:~~
- (a) ~~A dDiscussion of the significant judgments with the engagement partner;~~
 - (b) ~~A rReview of the financial statements or other subject matter of the proposed reportinformation;~~
 - (c) ~~Perform pProcedures to evaluate significant judgments, if any, made by the engagement team, including a review of selected engagement documentation and an evaluation of whether the documentation reflects the work performed and supports the conclusions reached by the engagement team, in relation to: (Ref: Para: A2644a–A3045a)~~
 - (i) ~~The strategy, or similar and plan, for undertaking the engagement, if applicable;~~
 - (ii) ~~The execution of the engagement; and~~
 - (iii) ~~The overall conclusions reached by the engagement team; and~~
 - (iv) ~~Tthe proposed engagement report.(d) Evaluate the documentation prepared by the engagement team in relation to the areas selected for review by the engagement quality control reviewer, including whether the documentation reflects the work performed in relation to significant judgments and supports the conclusions reached by the engagement team. (Ref: Para. A45b)~~

14. For audits of financial statements, the procedures to be performed as part of the engagement quality control review shall include a consideration of:~~the firm shall establish policies and procedures that require the engagement quality control reviewer to consider:~~ (Ref: Para. A45–A46)
- (a) The engagement team’s evaluation of the firm’s independence in relation to the specific engagement; and
 - (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.
15. The engagement quality control reviewer shall perform the engagement quality control review in accordance with the firm’s policies or procedures, and shall determine whether, in the engagement quality control reviewer’s professional judgment, the procedures performed are sufficient to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon.

Documentation

16. The firm shall document its policies or procedures in relation to the selection of the engagement quality control reviewer and performance of the engagement quality control review. Such documentation shall be sufficient to enable a consistent understanding and application of the firm’s policies or procedures. (Ref: Para. A31–A32)
17. The firm shall establish policies or procedures on documentation of: (Ref: Para. A31)
- (a) The firm’s appointment of the engagement quality control reviewer(s);
 - (b) The performance of the engagement quality control review, which shall include requirements for the engagement quality control reviewer to document: (Ref: Para. A33–A34)
 - (i) The nature, timing and extent of the procedures performed, and the results of those procedures;
 - (ii) Significant matters, if any, arising during the engagement quality control review and how these were resolved to support the engagement quality control reviewer’s conclusion that the significant judgments the engagement team made and the conclusions it reached were appropriate; and
 - (iii) The date of completion of the engagement quality control review.
18. The engagement quality control reviewer shall document the performance of the engagement quality control review in accordance with the firm’s policies or procedures. (Ref: Para. A31)