

**International Standard on Quality Control (ISQC) 1 (The sections below would be included in the Quality Management Process section of ISQC 1 as a prescribed response)****Requirements****Scope of Engagements Subject to an Engagement Quality Control Review**

1. The firm shall establish policies or procedures that require an engagement quality control review to be performed for: (Ref: Para. A1)
  - (a) All audits of financial statements of listed entities;
  - (b) Engagements for which an engagement quality control review is required by law or regulation; and (Ref: Para. A2)
  - (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)
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.<sup>1</sup>

**Application Material****Scope of Engagements Subject to an Engagement Quality Control Review (Ref. Para: 1)**

- A1. Paragraph 1 requires the firm, in responding to a quality risk(s), to establish policies or procedures regarding the scope of engagements for which an engagement quality control review is required to be performed. The firm may identify other responses that may be undertaken when an engagement quality control review is not required by the firm's policies or procedures or in some circumstances, the firm may determine that in order to effectively address a quality risk, additional responses may be implemented. For example, other forms of engagement reviews may be undertaken by the firm (e.g., specified reviews of engagement team work on significant risks or reviews by individuals within the firm who have specialized technical expertise). Furthermore, there may be circumstances when it is determined by the firm based on the circumstances of a particular engagement that an engagement quality control review should be performed, and such engagement is not within the scope of the firm's policies or procedures. Regardless of the circumstances in which the firm determines an engagement is to be subject to an engagement quality control review, the requirements of ISQC 2 apply. [Note: additional application material will be considered to address

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<sup>1</sup> ISQC 2, *Engagement Quality Control Review*

circumstances when the engagement partner may determine that an engagement quality control review should be performed for an engagement not within the scope of the firm's policies or procedures. This application material will be developed in collaboration with the ISA 220 Task Force]

- A2. Law or regulation may require an engagement quality control review for engagements other than audits of listed entities, for example, audits of financial statements of entities:
- That are characterized in such law or regulation as public interest entities;
  - Operating in the public sector;
  - That operate in certain industries, for example, banks, insurance companies and pension funds;
  - That meet an asset threshold determined by law or regulation;
  - That are under judicial management; or
  - That are recipients of a government grant.
- A3. Characteristics of other engagements for which the firm may determine that an engagement quality control review is an appropriate response may include:
- Engagements performed by the firm for entities that may be of significant public interest because of the nature and size of the business or because they have a large number and wide range of stakeholders. Examples of such entities may include financial institutions (such as banks, insurance companies and pension funds), entities that are undergoing, or plan to undergo, an initial public offering and other entities for which the report may be widely distributed (such as charities, entities operating in the public sector or that are supported by public funding, or entities that have a substantial number of employees or members). In some circumstances, entities that may be of significant public interest may be characterized in law or regulation as public interest entities.
  - Engagements that involve a high level of complexity or judgment or where previous issues have been encountered on the engagement, for example:
    - A history of misstatements or deficiencies in internal controls, significant internal or external inspection findings, a material restatement of comparative information in the financial statements or an auditor's report that required reissuance.
    - Circumstances when there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
  - The identification of unusual circumstances or risks in an engagement or class of engagements (e.g., risks identified as part of the firm's client acceptance process or engagements in a certain industry sector).
  - Engagements with quality risks associated with the composition of the engagement team, for example, long association of a senior engagement team member or a newly appointed engagement partner.

#### *Considerations in Relation to the Size and Complexity of the Firm*

- A4. As part of its quality management process, the firm identifies those engagements for which an engagement quality control review is an appropriate response, based on the assessed likelihood and impact of the quality risks. In some cases, the firm may determine that there are no engagements for which an engagement quality control review is an appropriate response.

*Considerations Specific to Public Sector Audit Organizations*

[OUTREACH WITH THE PUBLIC SECTOR WILL BE UNDERTAKEN TO UPDATE THESE CONSIDERATIONS]

- A5. Listed entities are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.