

Proposed ISQC 1 (Revised)¹: Issues

Objective of the CAG discussion

The objective of this Agenda Item is to obtain the Representatives' views on key issues in relation to the Exposure Draft (ED) of Proposed ISQC 1 (Revised), set out in **Agenda Item C.2**.

Introduction

1. This paper should be read in conjunction with **Agenda Item C.2**, the clean version of draft proposed ISQC 1 (Revised). The following additional agenda papers have also been provided:
 - (a) **Agenda Item C.3**: Proposed ISQC 1 (Revised) (Track changes from March 2018). References to **Agenda Item C.2** in this document also refer to **Agenda Item C.3**.
 - (b) **Agenda Item C.4** (For Reference): Practical examples demonstrating the implementation of proposed ISQC 1 (Revised) across firms of varying size and complexity.
 - (c) **Agenda Item C.5** (For Reference): Illustration of potential frequently asked questions for proposed ISQC 1 (Revised).
2. The key issues addressed in this paper in relation to proposed ISQC 1 (Revised) (**Agenda Item C.2**) on which the views of Representatives are being sought are:
 - (a) Simplicity and understandability;
 - (b) Public interest;
 - (c) Professional judgment and professional skepticism;
 - (d) Information and communication: external communications;
 - (e) Networks; and
 - (f) Scalability.
3. In addition to addressing feedback from the CAG in March 2018 and the IAASB's March 2018 and June 2018 discussions, some of the changes made to proposed ISQC 1 (Revised) since the previous discussion with the CAG are to address input received from various outreach activities that took place between March and May 2018. A summary of the feedback was included in the appendix of [Agenda Item 5](#) of the IAASB's June 2018 meeting.
4. The QCTF has engaged in various coordination activities with the International Ethics Board for Accountants (IESBA) on proposed ISQC 1 (Revised), which included various interactions with IESBA representatives to obtain their views on **Agenda Item C.2**. This paper includes the QCTF's considerations on key issues raised by the IESBA in relation to the matters discussed in this paper.

¹ Proposed International Standard on Quality Control (ISQC) 1 (Revised), *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements*

Simplicity and Understandability

5. At the March 2018 CAG Meeting, Representatives raised concern regarding the overall complexity of the standard, including its structure and length. Representatives suggested an alternative approach whereby the responses would be established in a manner that is more direct, and the risk identification and assessment would be undertaken after taking into consideration the required responses.
6. The QCTF noted that identifying quality risks after taking into consideration responses would be inconsistent with the risk-based approach in the ED of ISA 315 (Revised).² Furthermore, in June 2018 the IAASB agreed that the responses required in the standard address quality risks, and the reasons for the quality risks and the assessment of the quality risks have an effect on how the firm designs and implements the required responses. **Agenda Item C.4** demonstrates how the requirements of proposed ISQC 1 (Revised) may be scaled according to the nature and circumstances of the firm and its engagements, which includes an illustration of how the responses required by the standard would be affected by the quality risks. The approach suggested by the Representatives in March 2018 would be inconsistent with these concepts, since it would have the effect of removing the linkage between the required responses and quality risks.
7. The QCTF is of the view that the difficulty with the readability and understandability of the March 2018 draft of the standard was largely created by:
 - (a) A lack of upfront explanation of the components, how they interrelate and how the firm's risk assessment process (RAP) applies to the components.
 - (b) The overall length of the standard, in particular the additional appendix that was included in the March 2018 draft.
 - (c) Complexity in the drafting and language, including various cross-referencing.
8. Accordingly, the QCTF has made various revisions to the standard to address the length, simplicity, readability and understandability of the standard, including:
 - (a) Undertaking a critical evaluation of the content of proposed ISQC 1 (Revised) in an effort to reduce the length of the standard and to improve the simplicity of the language. This included:
 - (i) Simplification of terminology and reducing the length of sentences.
 - (ii) Critically reviewing the quality objectives and responses required across the standard to determine their appropriateness and reduce duplication between the quality objectives and responses and duplication across components.
 - (iii) Removing application material, for example, because it addresses a specific scenario that might not be common, addresses a matter that is obvious, or unnecessarily duplicates requirements or other application material.
 - (b) The introduction of a description of the firm's RAP in the introductory section. The description includes clarity on the expectations relating to the quality objectives and responses required by the standard, and explicitly states that the responses required by the standard alone are not sufficient to address the quality risks.

² Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

- (c) Replacing the appendix with a more succinct description of the components and their interrelationship.

Matters for CAG Consideration

1. Representatives are asked to share their views about whether the simplicity and understandability of the standard has been improved and what further actions, if any, may be taken to enhance the simplicity and understandability.

Public Interest

9. In its March 2018 meeting, the IAASB suggested that the standard include the concept that firms are expected to comply with the spirit and letter of professional standards. Given the challenges that could arise in interpreting the terms 'spirit' and 'letter', the QCTF sought alternative ways to explain this concept. Paragraph 3 of **Agenda Item C.2** explains that the performance of quality engagements involves planning and performing engagements and reporting on them in compliance with professional standards and applicable legal and regulatory requirements (i.e., the letter), including applying professional judgment and exercising professional skepticism in achieving the objective of professional standards and applicable legal and regulatory requirements (i.e., the spirit).
10. Furthermore, in the March 2018 discussion the IAASB generally supported how the public interest had been addressed in the introduction of the standard, however there were some concerns raised about the reference to the 'legitimate interests of relevant stakeholders'. During the various outreach events in May 2018, outreach participants had varying views about how the standard describes the firm's responsibility to act in the public interest, with some seeking more direct reference to 'acting in the public interest', and others also raising concern about whether the phrase 'the legitimate interests of relevant stakeholders' would be consistently interpreted. Accordingly, the QCTF made various amendments to the material in the introduction section addressing public interest to clarify:
 - (a) That engagements are performed in the public interest.
 - (b) The meaning of performing engagements in the public interest, i.e., the consistent performance of quality engagements.
 - (c) The meaning of consistent performance of quality engagements, including the need to comply with the spirit and the letter of professional standards.
 - (d) The purpose of the system of quality management (SOQM), which is to support the consistent performance of quality engagements.
11. As part of the coordination with the IESBA, the QCTF and the IESBA representatives discussed how the public interest is described in proposed ISQC 1 (Revised), and how it is articulated in the IESBA *International Code of Ethics for Professional Accountants* (including *International Independence Standards*) (the IESBA Code).³ The QCTF and the IESBA representatives agreed that since the responsibility to act in the public interest under the IESBA Code is an overarching obligation for all professional accountants and includes professional accountants who perform engagements, the obligation to perform engagements in the public interest is a subset of the obligation under the IESBA

³ The [IESBA Code](#) issued by the IESBA in April 2018.

Code to act in the public interest. Accordingly, the QCTF believes that the description of public interest in proposed ISQC 1 (Revised) is not inconsistent with the IESBA Code.

12. The QCTF has also amended the quality objective in the governance and leadership section, which previously addressed the interest of stakeholders, to more explicitly refer to the public interest (see paragraph 26(c) of **Agenda Item C.2**).

Matters for IAASB Consideration

2. Representatives are asked to share their views regarding how the public interest has been addressed in proposed ISQC 1 (Revised).

Professional Judgment and Professional Skepticism

13. Various changes have been made to the standard to emphasize the need to apply professional judgment in relation the SOQM, including:
 - (a) Introductory material discussing the application of professional judgment in relation to the SOQM (see paragraph 20(n) of **Agenda Item C.2**).
 - (b) A new definition of professional judgment in the context of a SOQM (see paragraph 20(n) of **Agenda Item C.2**).
 - (c) A new requirement for the firm to exercise professional judgment in relation to the design, implementation and operation of its SOQM (see paragraph 2A of **Agenda Item C.2**).
14. Furthermore, at its March 2018 meeting, the IAASB suggested that the standard more explicitly address professional skepticism, including exercising professional skepticism when making judgments about the SOQM. As a result, the QCTF considered:
 - (a) Examples of impediments to professional skepticism at the engagement level and how the SOQM could address such impediments (see Appendix 1 of this document for examples of the QCTF's considerations). The QCTF concluded that there are many aspects of the SOQM that support the exercise of professional skepticism at the engagement level. Accordingly, the QCTF is of the view that the relationship between the SOQM and professional skepticism at the engagement level should be dealt with as a broad concept in proposed ISQC 1 (Revised), rather than linking it to specific topics within the components (see paragraphs 3, 42(b) and A95 of **Agenda Item C.2**).
 - (b) Whether there is a need for the firm to exercise professional skepticism when making judgments about its SOQM. The QCTF noted the IESBA's current consultation on professional skepticism in the context of all professional accountants (see [Professional Skepticism – Meeting Public Expectations](#)), which considers, among other matters, the behavioral characteristics inherent in professional skepticism and whether those characteristics should be applied to professional activities beyond the performance of audits or reviews of financial statements, or other assurance engagements. The QCTF agreed that addressing professional skepticism at the firm level would have similar considerations as those set out in the IESBA's consultation and it would not be appropriate to require the firm to exercise professional skepticism in the context of judgments related to its SOQM at this time, recognizing that the IESBA's consultation is still in progress. The responses to the IESBA's consultation will be monitored and considered by the QCTF as the IESBA further progresses their project. The

QCTF's considerations were discussed with the IESBA Representatives, who supported the suggested approach.

Matters for CAG Consideration

3. Representatives are asked to share their views regarding how proposed ISQC 1 (Revised) has addressed professional skepticism at the engagement level.

Information and Communication: External Communications

15. At the March 2018 meeting, the IAASB agreed that the requirements addressing communication with external stakeholders should strongly encourage firms to communicate externally about the firm's SOQM. The IAASB noted that it would be inappropriate to require external communication in proposed ISQC 1 (Revised) as there may be circumstances when it is not necessary or there are no suitable users of the information.
16. Since March 2018, various revisions were made to the quality objective and response dealing with communication with external parties in order to emphasize that firms are not required to communicate externally, but the firm would consider with whom it should communicate taking into consideration the criteria set out in the standard (see paragraphs 44(e) and 45(b) of **Agenda Item C.2**). In some cases the firm might determine there are no stakeholders with which the firm needs to communicate or that there are not appropriate channels for such communication
17. The QCTF is of the view that the criteria in the standard appropriately address the public interest need of external communication because it reflects a need arising:
 - (a) From the nature of the engagements the firm performs and the types of entities for which such engagements are performed, which have been based on similar considerations in ISA 700 (Revised).⁴
 - (b) Due to the nature and circumstances of the firm itself.

Matters for CAG Consideration

4. Representatives are asked to share their views on the proposed requirements and application material addressing communication with external stakeholders, as set out in paragraphs 44(e), 45(b) and A122–A130 of **Agenda Item C.2**.

Networks

18. In March 2018, certain CAG members expressed the view that the requirements of proposed ISQC 1 (Revised) should address networks directly and should be appropriately robust, yet scalable for the variety of network structures that exist. It was also suggested that networks should provide transparency reports in order to reduce the expectation gap about the relationship between networks and the firms within the networks.

⁴ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

19. Since the March 2018 meeting, some members of the QCTF engaged with certain members of the CAG to further understand their concerns regarding networks. Taking into account the feedback from this discussion, the issues raised in the March 2018 discussion of the CAG and the various challenges explained in the Invitation to Comment (ITC),⁵ the QCTF identified the following key public interest issues in relation to networks:
- (a) Undue reliance on network requirements or services (e.g., network policies or procedures);
 - (b) Transparency of the network structure and operations, including the relationship between the network and the network firms; and
 - (c) Consistency of engagement quality across networks.

Undue Reliance on Network Requirements or Services

20. The requirements in paragraphs 60–65 of **Agenda Item C.2** have been designed to address undue reliance on network requirements or services, since they place the onus on the firm to determine that the network requirements or services are appropriate for use in the firm's SOQM, thereby ensuring that the firm retains responsibility for its own SOQM. The requirements have been designed in a manner that is adaptable for various network structures, and can be applied in circumstances when the firm uses services provided by other structures within a network (e.g., a geographical region) or other network firms. A further discussion of the changes to these paragraphs since the March 2018 draft is included in paragraph 29 below.
21. The QCTF has noted that although these requirements are focused on the firm, it has an implicit effect on the network. For example, it would likely:
- (a) Create the need for increased communication and transparency between the network and network firms.
 - (b) Drive consistency across the network because the network would seek ways to effectively and efficiently manage requests from all of its network firms.
22. The QCTF considered whether the undue reliance on network requirements or services could be addressed through establishing requirements at the network level regarding the design, implementation and operation of the network requirements or services. However, the QCTF is of the view that such an approach would not be adaptable to the variety of network requirements or services that may be used by a firm, and doing so would not be effective in enhancing quality since:
- (a) It would reduce the responsibility of the firm for its SOQM.
 - (b) Networks are generally not subject to regulatory inspections or overseen by audit oversight authorities.⁶
23. The QCTF also explored imposing requirements on the firm that allow the firm to use the network requirements or services if certain conditions are met at the network level. However, the QCTF identified that such an approach is not practicable, because:

⁵ Invitation to Comment, *Enhancing Audit Quality in the Public Interest*

⁶ As explained in the Audit Quality Framework, regulators are a critical element in the financial reporting supply chain and the requirements of auditing and other relevant standards are most effective if they are properly enforced through the legal status of standards, inspection of audits, the investigation of allegations of audit failure, and where appropriate, disciplinary action being taken.

- (a) The conditions would need to be adaptable for the variety of network requirements or services used by the firm in its SOQM.
- (b) It may not be adaptable for circumstances when the firm uses services provided by other structures within a network or other network firms.

Transparency of the Relationship between the Network and its Network Firms

24. The QCTF recognizes that there may be an expectation gap regarding how the public may perceive the relationship between networks and the network firms, and the reality of how they are established and operate. The QCTF notes that the requirements in the information and communication component addressing the firm's communication with external parties have been established in a principles-based manner, i.e., they do not prescribe the nature, timing and extent of communication, or the content of the communication. Nevertheless, the QCTF agreed that it would be helpful to encourage firms to consider being transparent about the relationship between the firm and the network through application material in the information and communication component (see paragraph A129 of **Agenda Item C.2**).

Consistency of Engagement Quality across Networks

25. The QCTF agreed that networks contribute positively to quality because:
- (a) They may impose requirements on the firms in the network and hold the firms accountable for complying with the requirements. The requirements imposed by the network may be more onerous and rigorous than those required by professional standards or law or regulation.
 - (b) For many networks, the network undertakes monitoring to determine that the firms are complying with the network requirements and professional standards.
 - (c) They fulfill functions in relation to the SOQM that the firm would otherwise have to perform, for example, the development of a methodology. Such functions may therefore be of a higher quality than if the firm were to fulfill the function at the firm level.
26. The QCTF is of the view that proposed ISQC 1 (Revised) should emphasize the positive influence the network can have on the consistency of quality across the firms in the network, which has been included in the introduction (see paragraph 10 of **Agenda Item C.2**).
27. The Forum of Firms establishes membership obligations for the member networks in order for them to be accepted as members and retain their membership. These are summarized in Appendix 2. While the membership obligations include a requirement to have common policies or procedures and methodologies supporting audits and globally coordinated monitoring activities, which contribute positively to consistent quality, proposed ISQC 1 (Revised) cannot impose similar requirements on networks because networks vary in terms of the requirements or services they provide to firms (membership of the Forum of Firms is voluntary, whereas compliance with proposed ISQC 1 (Revised) is not voluntary). Such requirements may also not be capable of practical implementation by all networks due to the differences in the manner in which networks are established and structured.
28. This is consistent with the feedback from respondents to the ITC (summarized in [Agenda Item 4–A](#) of the June 2017 IAASB meeting), who were generally supportive of the IAASB taking action to address the issues at the firm level or engagement level, although recognized the challenges associated with developing requirements at the network level. These challenges included the varying

network structures that exist and the inability of the IAASB to develop requirements that would be adaptable to the wide variety of circumstances that can and do arise in practice.

Other Changes to the Network Requirements or Services

29. Since March 2018, the QCTF has made multiple changes to the requirements and application material addressing networks. Key changes include:
- (a) Removing the definition of network services and replacing it with the term 'network requirements or services' in the requirements with a supporting description (see paragraph 60 of **Agenda Item C.2**). The QCTF is of the view that the new term is clearer that some things are required by the network, while other services are available for use by the firm.
 - (b) An explicit statement in the requirements that the firm retains responsibility for its SOQM.
 - (c) Restructuring the requirements for networks to link them to the relevant components of the SOQM and clarifying that these requirements are additional for those components. The QCTF is of the view that this structure makes it clearer where and how the network requirements or services affect the firm's SOQM (see, for example, paragraphs 61 and 62 of **Agenda Item C.2**).
 - (d) Removal of the requirement for the firm to obtain an understanding of the network's processes for the network requirements or services, given various concerns that the requirement was onerous and implied that another level of assurance is needed. Instead, the firm is required to determine that the network requirements or services are appropriate for use (see paragraph 61 of **Agenda Item C.2**), and the firm applies judgment in determining how to do so. Application material has been included to assist the firm in this determination (see paragraph A165 of **Agenda Item C.2**).
 - (e) Reinstating the requirement in paragraph 54 of extant ISQC 1 that addresses the communication by the network of the overall scope, extent and results of the monitoring activities across the network and deficiencies in other network firm's SOQM (see paragraph 63(a) of **Agenda Item C.2**). This requirement has been adapted to clarify its meaning and to ensure consistency with the new requirements addressing networks. The application material has also been redrafted to provide clarity about how the information may be used by the firm (see paragraphs A169–A171 of **Agenda Item C.2**).

Matters for CAG Consideration

5. Representatives are asked to share their views regarding the requirements and application material for networks, including whether the public interest issues in relation to networks have been appropriately addressed in the standard.

Scalability and Additional Guidance

30. In March 2018, the CAG raised concerns that small and medium sized-practices (SMPs) may struggle to apply the standard and encouraged the QCTF to:
- (a) Improve the scalability of the standard.
 - (b) Develop guidance that addresses varying sizes and complexities of firms.

31. The IAASB has also encouraged the development of further guidance to address different sizes and complexity of firms.
32. As explained in paragraphs 5–8, the QCTF has made various amendments to the standard to improve the simplicity and understandability of proposed ISQC 1 (Revised). However, the QCTF notes that the purpose of this project is to enhance quality, and in addition to retaining the robustness of the standard, the ITC highlighted various issues that needed to be addressed to enhance quality. This has had the effect of increasing firms' responsibilities in relation to their SOQM under proposed ISQC 1 (Revised).
33. The QCTF also recognizes the concerns about the scalability, which the QCTF views as largely arising from the overall complexity of the standard. While the standard is inherently scalable because of the risk-based approach that has been introduced, the QCTF has taken the following actions to highlight the judgment that is applied by the firm in the context of its SOQM and the application of the standard to firms of varying size and complexity:
 - (a) Emphasize professional judgment. Applying professional judgment is critical to ensuring that the SOQM is designed according to the nature and circumstances of the firm and the engagements it performs. Accordingly, as explained in paragraph 13, several requirements and explanations have been introduced that highlight professional judgment. There is also an explanation of the factors that may affect the firm's decisions about matters related to the firm's SOQM (see paragraph A12 of **Agenda Item C.2**). Certain other application material also includes factors for the firm to consider in applying the related requirement (see, for example, paragraphs A153 of **Agenda Item C.2**).
 - (b) Include an explicit note regarding the applicability of the standard to firms of varying size or complexity. A new paragraph has been included in the introduction to explain the application of the standard to all firms (see paragraph 2A of **Agenda Item C.2**).
 - (c) Provide examples for SMPs. There are specific examples provided throughout the application material that explain the application of the related requirement for an SMP (see paragraphs A10, A16, A19, A23, A25, A30, A35, A48, A82, A87, A97, A117 and A181 of **Agenda Item C.2**).
 - (d) Note that some requirements may not be relevant. The standard explains that in some cases the requirements may not be relevant, and the application material provides examples of when requirements may not be relevant (see paragraphs 22 and A11 of **Agenda Item C.2**). The QCTF considered whether it is possible to expand these examples to SMPs more broadly, however the QCTF could not identify a particular requirement that would likely not be applicable to SMPs, since the requirements are generally applicable to all firms.
 - (e) Emphasize the scalability of responses required by the standard. Although the responses required by the standard are applicable to all firms, the standard emphasizes that the firm takes into consideration the reasons for the assessment given to the quality risks identified by the firm in designing and implementing the required responses (i.e., there is still a level of flexibility within the responses required by the standard) (see paragraphs 34 and A48 of **Agenda Item C.2**). There are also some responses that have been drafted in a more specific manner to emphasize the scalability. For example, paragraph 45(b) of **Agenda Item C.2** requires the firm to take into consideration various factors in determining with whom to communicate externally (which may be no one in some cases) and the nature, timing and extent of such communication. Furthermore, paragraph 49 of **Agenda Item C.2** requires the firm to establish

the criteria for engagement inspections, and paragraph 51 of **Agenda Item C.2** requires the firm to determine the policies or procedures for the root cause analysis (e.g., what is subject to the root cause analysis and how it would be done).

34. Furthermore, the QCTF has developed a straw case for a practical example to demonstrate how particular aspects of the standard would be applied in the case of firms with different circumstances (see **Agenda Item C.4**). The QCTF has also initially developed a frequently asked questions to explain some of the more complex areas of the standard in a manner that is less formal, while staying within the bounds of the standard (see **Agenda Item C.5**).
35. The QCTF has not concluded how the practical examples and frequently asked questions would ultimately be published, since the QCTF is aware that additional support materials are likely to be developed for the IAASB's projects on ISA 540 (Revised)⁷ and ISA 315 (Revised). Therefore, the support materials for ISQC 1 (Revised) may need to be handled in a similar manner to those developed for these projects.

Matters for CAG Consideration

6. Representatives are asked to share their views about how scalability has been addressed in proposed ISQC 1 (Revised), and what further actions, if any, could be taken to address scalability, for example, additional types of guidance.

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Appendix 1

Examples of Impediments to Professional Skepticism at the Engagement Level and How Proposed ISQC 1 (Revised) Addresses such Impediments

The examples of impediments included below were some of the impediments discussed by the QCTF, and is not an exhaustive list of all impediments that could arise or all of the aspects of proposed ISQC 1 (Revised) that address such impediments.

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
<p>The culture of the firm and the tone set by leadership may not promote the importance of quality, and the need to exercise professional skepticism when performing engagements.</p>	<ul style="list-style-type: none"> • The firm is required to establish a culture that promotes a commitment to quality throughout the firm and emphasizes the responsibility of personnel for quality in conducting engagements. • The firm is required to have leadership who are responsible and accountable for quality. Such leaders are in turn required to demonstrate a commitment to quality through their actions, including demonstrating appropriate professional ethics, values and attitudes, and establishing the expected ethics, values and behavior of personnel in conducting engagements.
<p>The client’s management may be difficult to deal with, which may give rise to a more accepting mindset (e.g., putting pressure on, or persuading, less experienced auditors to accept its position as the appropriate or only position).</p>	<ul style="list-style-type: none"> • Acceptance and continuance decisions are required to take into consideration the integrity and ethical values of client management, and, when appropriate, those charged with governance. • The firm is required to establish policies or procedures addressing consultation, including the engagement team’s responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented (this supports the engagement team in exercising professional skepticism in relation to the matters on which consultation takes place).
<p>Resource constraints such as financial (e.g., inappropriate fees) or human resources (i.e., limited time) may act as an impediment to the exercise of professional skepticism.</p>	<ul style="list-style-type: none"> • The firm’s strategic decisions and actions, including financial and operational priorities, are required to reflect the firm’s commitment to quality and should not undermine the firm’s role in serving the public interest to consistently perform quality engagements. • The firm is required to have appropriate resource planning, including anticipation of resource needs, and obtain and allocate resources in a manner that supports the firm’s commitment to quality and the design, implementation and operation of the firm’s SOQM. • Acceptance and continuance decisions are required to take into consideration whether the firm is able to perform the

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
	<p>engagement in accordance with professional standards and applicable legal and regulatory requirements, including whether the firm has appropriate resources to perform the engagement.</p>
<p>Human resources may not have the competence and capabilities to be in a position to exercise professional skepticism.</p>	<ul style="list-style-type: none"> • Acceptance and continuance decisions are required to take into consideration whether the firm is able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements, including whether the firm has appropriate resources to perform the engagement. • The firm is required to attract, develop and retain personnel, including engagement partners, who have the competence and capabilities to consistently perform quality engagements. • The firm is required to assign engagement partners and other personnel to each engagement that have appropriate competence and capabilities, including sufficient time, to consistently perform quality engagements. • Personnel are required to demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable by the firm through timely evaluations, compensation, promotion and other incentives. • The firm is required to establish policies or procedures addressing consultation, including the engagement team's responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented (this supports the engagement team in exercising professional skepticism in relation to the matters on which consultation takes place).
<p>The firm's evaluation, promotion and compensation of human resources may create incentives for auditors that do not appropriately encourage professional skepticism.</p>	<ul style="list-style-type: none"> • The firm is required to establish policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for matters related to the SOQM. • Personnel are required to demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable by the firm through timely evaluations, compensation, promotion and other incentives.
<p>Engagement team members may not have the appropriate experience to identify potential</p>	<ul style="list-style-type: none"> • The firm is required to assign engagement partners and other personnel to each engagement that have appropriate

Examples of Impediments	Examples of How Proposed ISQC 1 (Revised) Addresses the Impediment
<p>areas of risk and exercise of professional skepticism.</p>	<p>competence and capabilities, including sufficient time, to consistently perform quality engagements.</p> <ul style="list-style-type: none"> • The firm is required to ensure that personnel understand and fulfill their responsibilities for the engagement, including the engagement partner’s responsibility for achieving quality on the engagement and being sufficiently and appropriately involvement throughout the engagement, and the appropriate direction and supervision of the engagement team and review of the work performed. This includes establishing policies or procedures that require more experienced engagement team members to direct and supervise the engagement team and the work performed by less experienced team members to be reviewed by more experienced engagement team members.
<p>Engagement team members may rely on the firm’s resources and merely follow procedures without thinking critically and probing (e.g., IT applications or checklists).</p>	<ul style="list-style-type: none"> • The firm is required to obtain or develop, implement and maintain, technological resources to appropriately support the operation of the firm’s system of quality management and the consistent performance of quality engagements. • The firm is required to obtain or develop, implement and maintain, intellectual resources to appropriately support the consistent performance of quality engagements, and such intellectual resources are required to be consistent with professional standards and applicable legal and regulatory requirements, where applicable. • The firm is required to ensure that personnel are able to appropriately apply or use the firm’s technological and intellectual resources.

Forum of Firms Membership Obligations

1. The Forum of Firms membership obligations are as follows:
 - (a) Maintain quality control standards in accordance with ISQC 1 in addition to relevant national quality control standards;
 - (b) Conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews;
 - (c) Have policies and methodologies for the conduct of transnational audits that are based, to the extent practicable, on the ISAs;
 - (d) Have policies and methodologies that conform to the IESBA Code of Ethics for Professional Accountants and national codes of ethics; and
 - (e) Agree to submit to the Secretary of the Forum an annual report, in an approved format, indicating that it meets the membership obligations set forth above.

2. A transnational audit is defined in the constitution of the transnational audit committee as follows:

Transnational audit means an audit of financial statements which are or may be relied upon outside the audited entity's home jurisdiction for purposes of significant lending, investment or regulatory decisions; this will include audits of all financial statements of companies with listed equity or debt and other public interest entities which attract particular public attention because of their size, products or services provided.