

EXPOSURE DRAFT OF INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (REVISED) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

(MARKED FROM MARCH 2018)

(Effective as of TBD)

[CONTENTS PAGE TO BE INSERTED]

Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
 2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) ~~set out additional~~ include requirements for engagement partners and other personnel standards and guidance on the responsibilities of firm personnel regarding quality management ~~for specific types of~~ at the engagements level. ISQC 2,¹ for example, deals with the responsibilities of the engagement quality control reviewer in performing an engagement quality control review and ISA 220 (Revised),² ~~for example,~~ deals with ~~the management of the specific responsibilities of the auditor regarding~~ quality management at the engagement level for ~~an~~ audits of financial statements and ~~the related~~ establishes requirements ~~responsibilities of the engagement partner for the engagement team~~. Law, regulation or relevant ethical requirements may also establish responsibilities for the firm's ~~in relation to the~~ management of quality beyond those described in this ISQC. (Ref: Para. A1)
- 2A. This ISQC applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, regardless of the size or complexity of the firm (i.e., if the firm performs any of these engagements, this ISQC applies). However, this ISQC requires the firm to exercise professional judgment in designing, implementing and operating the system of quality management, taking into consideration the nature and circumstances of the firm and the engagements it performs, including the types of entities for which such engagements are undertaken (referred throughout this ISQC as the nature and circumstances of the firm and its engagements). These factors may change over time, and this ISQC includes requirements for the firm when such changes occur. (Ref: Para. A1A–A1B)

The Firm's System of Quality Management

3. Audits or reviews of financial statements, or other assurance or related services engagements are performed ~~When undertaking engagements, the firm and its personnel accepts their responsibility to act~~ in the public interest. Accordingly, the purpose of a system of quality management is to support

¹ Proposed ISQC 2, Engagement Quality Control Reviews

² Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Control for an Audit of Financial Statements*

~~the consistent performance of quality engagements, through providing the firm with reasonable assurance that the objectives of the system, described in paragraphs 19(a) and (b), are achieved. This involves planning and performing engagements and reporting on them in compliance with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism in achieving the objectives of those standards and legal and regulatory requirements. Acting in the public interest involves applying professional values, ethics and attitudes in making decisions that promote a commitment to quality, and take into consideration the legitimate interests of relevant stakeholders, in particular users of the firm's reports. The legitimate interests of relevant stakeholders may change over time and may change the manner in which the firm's engagements are performed.~~

- ~~4. The firm further promotes the public interest through establishing an environment, including a culture, decision-making process, actions, organization, leadership and resources that supports the performance of engagements in accordance with professional standards and applicable legal and regulatory requirements and judgments and conclusions that are appropriate.~~
5. ~~For the purposes of this ISQC, the system of quality management is organized into the following eight components. A firm's system of quality management is designed to provide the firm with reasonable assurance that the firm achieves its objectives set out in paragraphs 15(a) and (b). The system of quality management comprises the following eight components that operate in an integrated manner, which are further explained in paragraph 19: (Ref: Para. A2–A3)~~
 - ~~(a) The quality management process;~~
 - ~~(ab) Governance and leadership;~~
 - ~~(b) The firm's risk assessment process;~~
 - ~~(c) Information and communication;~~
 - ~~(cd) Relevant ethical requirements;~~
 - ~~(de) Acceptance and continuance of client relationships and specific engagements;~~
 - ~~(ef) Resources;~~
 - ~~(fg) Engagement performance;~~
 - ~~(g) Information and communication; and~~
 - ~~(h) The monitoring and remediation process.~~
- ~~7. The environment in which the other components of the system of quality management operate is established through the firm's governance and leadership because this component addresses the firm's culture, decision-making process, actions, the assignment of responsibility and how the firm obtains and allocates resources.~~
8. ~~This ISQC requires the firm to adopt a risk-based approach to the management of quality, using the firm's risk assessment process. The firm's risk assessment process consists of:~~
 - ~~(a) Establishing quality objectives. The quality objectives established by the firm consist of individual objectives that, taken together, facilitate the firm's achievement of the objective of the standard. The quality objectives that the firm is required to establish are included in this ISQC and are organized by component. However, the firm may determine that additional~~

quality objectives are necessary for the achievement of the objective of the standard given the nature and circumstances of the firm and its engagements.

(b) Identifying and assessing quality risks to the achievement of the firm's quality objectives. The firm is required to identify and assesses its quality risks based on the nature and circumstances of the firm and its engagements.

(c) Designing and implementing responses to address the firm's identified and assessed quality risks. The firm is required to design and implement responses to address quality risks. This ISQC includes certain required responses organized by component that are applicable to all firms because they would be expected in every system of quality management. However, the responses required by this ISQC alone are not sufficient to address the firm's quality risks because:

(i) The design, implementation and operation of these responses alone will not result in the achievement of the quality objectives required by this ISQC or the achievement of the objective of the system of quality management; and

(ii) The nature, timing and extent of the responses that are required to appropriately address a firm's quality risks will vary based on the nature and extent of the quality risks and the reasons given to their assessments.

9. This ISQC requires the firm to evaluate the design, implementation and operation of the system of quality management through the monitoring and remediation process, which involves designing and performing monitoring activities and determining whether the findings from those activities, or other information, indicate a deficiency in the system of quality management. The monitoring and remediation process also includes the appropriate remediation of identified deficiencies.

9A. This ISQC includes components for resources and information and communication, which are necessary to support the operation of the other components of the system of quality management. It also includes components that address subject matter specific topics relevant to the firm's system of quality management.

~~6. Professional judgment in designing, implementing and operating the system of quality management is necessary for the establishment of a system of quality management that is designed to the nature and circumstances of the firm, the engagements it performs and the types of entities for whom such engagements are undertaken. Professional judgment involves applying relevant knowledge and experience to the facts and circumstances. (Ref: Para. A4)~~

~~7. Designing, implementing, and operating a system of quality management includes maintaining and updating the system to address:~~

- ~~• Changes in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken; or~~
- ~~• The results of the firm's monitoring activities, external inspections or other relevant information.~~

Networks

10. In some circumstances, the firm may belong to a network. The network may establish requirements for the firm, or provide other services, that support the firm in designing, implementing and operating a system of quality management (hereinafter referred to as 'network requirements or services'), the purpose of which is to drive consistency in the performance of quality engagements across the firms

in the network. Although the network may establish requirements or provide support, the individual firm is responsible for its system of quality management, which is required to reflect the nature and circumstances of the firm and its engagements. This ISQC includes requirements for the firm in circumstances when the firm belongs to a network and the firm includes network requirements or services in its system of quality management. (Ref: Para. A3A)

Authority of the ISQCs

~~8. ISQC 1 applies to all firms of professional accountants that perform audits or reviews of financial statements, or other assurance or related services engagements.~~

~~139.~~ This ~~ISQCs~~ contains the objective of the firm in following the ~~ISQCs~~, and requirements designed to enable the firm to meet that stated objective. In addition, ~~it they~~ contains related guidance in the form of application and other explanatory material, as discussed further in paragraph ~~162~~, and introductory material that provides context relevant to a proper understanding of the ~~ISQCs~~, and definitions.

~~140.~~ The objective of this ~~ISQC standard~~ provides the context in which the requirements of the ISQC are set, and ~~establishes the desired outcome of the ISQC is intended~~ to assist the firm in:

- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
- Determining ~~whether more at~~ needs to be done to achieve the objective in the particular circumstances of the firm.

~~154.~~ The requirements of this ~~ISQCs~~ are expressed using “shall.”

~~162.~~ Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover; and
- Include examples that illustrate how the requirements might be applied~~may be appropriate in the circumstances~~.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ~~ISQCs~~. Where appropriate, additional considerations specific to public sector audit organizations, ~~or firms that operate as part of a network~~ are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ~~ISQCs~~. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ~~ISQCs~~.

~~173.~~ This ~~ISQCs~~ includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ~~ISQCs~~. These are provided to assist in the consistent application and interpretation of this ~~ISQCs~~, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control*,

Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in these ISQCs.³ (Ref: Para. A4)

Effective Date

184. Systems of quality management in compliance with this ISQC are required to be established by TBD.

Objective

195. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Definitions

2046. In this ISQC, the following terms have the meanings attributed below:

- ~~(a) Date of report – The date selected by the practitioner to date the report.~~
- ~~(ab)~~ Deficiency in the firm’s system of quality management (referred to as ‘deficiency’ in this ISQC) – This exists when:
 - ~~(i) A quality objective is absent or not appropriately specific given the nature and circumstances of the firm and its engagements;~~
 - ~~(ii) A quality risk is not identified or appropriately specific given the nature and circumstances of the firm and its engagements;~~
 - ~~(iii) The design of a A response is not:
 - ~~a. Designed in a manner that effectively in addresssing a related quality risk or the response necessary to address a quality risk is absent. Such a deficiency also is a deficiency in the firm’s quality risk assessment process;~~
 - ~~b.(ii) A response is not iimplemented appropriately; or~~
 - ~~c.(iii) A response does not eOperatinge as designed; or~~~~
 - ~~(iv) A response necessary to address a quality risk is absent.~~
- ~~(be)~~ Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).

³ ~~The Glossary of Terms may also include descriptions of other terms found in the ISQCs to assist in common and consistent interpretation and translation, however which have not been subject to the IAASB’s stated due process.~~

- (cd) Engagement partner⁴ – The partner or other individual designated by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (de) Engagement quality control review – [Refer **Agenda Item B.2**]
- (ef) Engagement quality control reviewer – [Refer **Agenda Item B.2**]
- (fg) Engagement team – All partners and staff performing the engagement, and any other individuals ~~engaged by the firm or a network firm~~ who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The ~~engagement team~~ excludes an auditor's external expert engaged by the firm or by a network firm. ~~The term “engagement team” and~~ also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁵
- (gh) External inspections – Inspections, ~~or~~ investigations or other reviews, undertaken by an external oversight authority, of the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A5)
- (hi) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or ~~where relevant~~, public sector equivalent. (Ref: Para. A65)
- (ij) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
- ~~(k) Monitoring – A process comprising ongoing and periodic evaluations of the design, implementation and operation of the system of quality management.~~
- (j) Network firm – A firm or entity that belongs to a network.
- (km) Network⁶ – A larger structure: (Ref: Para. ~~A6~~–A7)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- ~~(n) Network services – In relation to the firm’s system of quality management: (Ref: Para: A8–A10)
 - ~~(i) Information or assistance provided by, or available from, the network; or~~~~

⁴ “Engagement partner,” and “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

⁵ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

⁶ As defined in the Independent Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (Including the International Independence Standards)* (Code)

- ~~(ii) Requirements established by the network for quality objectives, quality risks or responses.~~
- (le) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- ~~(mp)~~ Personnel – Partners and staff.
- ~~(n) Professional judgment (in the context of ISQC 1) – The application of relevant knowledge and experience, within the context of the quality control standards, in making informed decisions about the design, implementation and operation of the firm’s system of quality management.~~
- (oo) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*, and relevant ethical requirements.
- ~~(r) Quality objectives (in relation to a system of quality management) – The objectives established by the firm that are what the firm needs to achieve to support the design, implementation and operation of the system of quality management.~~
- ~~(s) Quality risk (in relation to a system of quality management) – A risk that has a reasonable possibility of occurring and a reasonable possibility of causing the quality objective(s) not to be achieved, before consideration of any related responses.~~
- (pt) Reasonable assurance – In the context of the ~~is~~ ISQCs, a high, but not absolute, level of assurance.
- (qu) Relevant ethical requirements (in relation to the ISQCs) – ~~E~~thical requirements to which the ~~firm and its personnel engagement team and engagement quality control reviewer~~ are subject ~~in undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements, given the nature and circumstances of the firm and its engagements, which~~ Relevant ethical requirements ordinarily comprise ~~Parts A and B~~ the provisions of the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (Including International Independence Standards)* (IESBA Code) ~~related to audits or reviews of financial statements, or other assurance or related services engagements,~~ together with national requirements that are more restrictive. (Ref: Para. A55)
- ~~(v) Remediation – A process to identify and implement corrective actions to address deficiencies identified in the firm’s system of quality management.~~
- (rw) Response (in relation to a system of quality management) – Policies or procedures ~~designed and~~ implemented by the firm to address a quality risk: (Ref: Para. ~~A811–A913~~)
- (i) Policies are statements of what should, or should not, be done ~~to address a quality risk to achieve the quality objectives~~. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
- (ii) Procedures are actions to implement policies.
- ~~(x) Root cause analysis – A process for investigating the underlying cause(s) of findings from the firm’s monitoring activities, external inspections or any other relevant information.~~
- (sy) Staff – Professionals, other than partners, including any experts the firm employs.

- (t) System of quality management – A system designed, implemented and operated by a firm ~~in accordance with ISQC 1~~ that consists of the following eight inter~~related~~~~grated~~ components:
- (i) Governance and leadership;
 - (ii) The ~~firm's~~quality risk assessment process;
 - ~~(iii) Information and communication;~~
 - ~~(iii)~~ Relevant ethical requirements;
 - (iv) Acceptance and continuance of client relationships and specific engagements;
 - ~~(v)~~ Resources;
 - ~~(vi)~~ Engagement performance;
 - ~~(vii) Information and communication;~~ and
 - (viii) The monitoring and remediation process.

Requirements

Applying, and Complying with, Relevant Requirements

- ~~2147.~~ The individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQC relevant to their responsibilities, including application and other explanatory material, to understand the objective of this ISQC and to apply its requirements properly. (Ref: Para. A104)
- ~~2248.~~ The firm shall comply with each requirement of this ISQC unless, ~~in the circumstances of the firm,~~ the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A115)
- ~~23.~~ The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements in this ISQC is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm determines that the application of the requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm shall take further actions. Such actions shall include consideration of whether additional quality objectives than those required by this ISQC are necessary to support the achievement of the objective of this ISQC.

System of Quality Management

- ~~2419.~~ The firm shall design, implement and operate a system of quality management, in accordance with the requirements of this ISQC, paragraphs 20 to 65, which set forth the requirements regarding each of the eight inter-related components, such that the firm: (Ref: Para. A16–A17)
- ~~(a)~~ Establishes an environment, including a culture, decision-making process, actions, organization and leadership, that supports the design and operation of the other components of the system of quality management (governance and leadership);
 - ~~(b)~~ Identifies risks to the achievement of quality objectives for each component of the system of quality management and assesses the risks as a basis for determining the responses to those risks (quality risk assessment process);

- ~~(c) Obtains, generates or uses relevant information and communicates relevant information internally and externally on a timely basis to support the design, implementation and operation of the system of quality management (information and communication);~~
 - ~~(d) Manages compliance with relevant ethical requirements, in order that the firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), fulfill their respective responsibilities in respect of relevant ethical requirements (relevant ethical requirements);~~
 - ~~(e) Applies appropriate judgment when accepting or continuing client relationships and specific engagements (acceptance and continuance of client relationships and specific engagements);~~
 - ~~(f) Appropriately obtains, develops, uses, maintains and allocates financial resources, human resources, technological resources, and intellectual resources to support the design, implementation and operation of the system of quality management in a timely manner;~~
 - ~~(g) Appropriately performs and documents engagements in accordance with professional standards and legal and regulatory requirements, including making judgments and reaching conclusions that are appropriate; and~~
 - ~~(h) Evaluates the design, implementation and operation of the system of quality management.~~
25. The firm shall exercise professional judgment, taking into consideration the nature and circumstances of the firm and its engagements, in designing, implementing and operating a system of quality management. (Ref: Para. A12)

Governance and Leadership

Quality Objectives

260. The firm shall establish the following quality objectives ~~, in accordance with paragraph 25(a),~~ that address ~~the~~ aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management, including the firm's culture, decision-making process, actions, organization and leadership. ~~In doing so, the firm shall include the following quality objectives: (Ref: Para A18)~~
- (a) The firm's culture promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values, ~~ethics~~ and attitudes, throughout the firm and emphasizes the responsibility of all firm personnel for quality in conducting engagements or performing duties within ~~in relation to~~ the system of quality management. (Ref: Para A1420–A1624)
 - (b) The firm has leadership who are responsible and accountable for quality.
 - (c) The firm's strategic decisions and actions, including financial and operational priorities, reflect the firm's commitment to quality and do not undermine the firm's role in consistently performing quality engagements in the public interest ~~and take into consideration the legitimate interests of relevant stakeholders, including that financial and operational priorities do not override the firm's commitment to quality.~~ (Ref: Para A1722–A1824)
 - (d) The firm has ~~is~~ organizational ~~ed~~ structures with appropriate designation of authority and responsibility, ~~and resources obtained and allocated, in a manner that supports~~ the firm's

~~commitment to quality and the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management. (Ref: Para A1925–A209)~~

- (e) ~~The firm has appropriate resource planning, including anticipation of resource needs, and obtains and allocates resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management. (Ref: Para A21–A22)~~
- (f) The firm complies with the requirements of law, regulation, ~~and~~ professional standards that relate to the governance and leadership of the firm, if applicable. (Ref: Para A139)

Quality Risks

~~21. The firm shall identify and assess the quality risks in relation to governance and leadership in accordance with paragraphs 25(b).~~

Responses to the Quality Risks

~~272. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to governance and leadership. The firm shall design and implement responses in accordance with paragraph 25(c), to address the quality risks in relation to governance and leadership. The responses that are designed and implemented by the firm shall include the following:~~

- (a) Assigning ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or ~~the firm's~~ managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). The individual(s) assuming such responsibility and accountability shall: (Ref: Para. A230)
- (i) ~~Have the appropriate experience and knowledge to assume their assigned responsibility.~~
- (ii) ~~Demonstrate, through their actions, a commitment to quality including recognizing and reinforcing, including the importance of professional ethics, values, ethics and attitudes, and establishing the expected values and behavior of all firm personnel for quality in conducting engagements and performing duties in relation to within the system of quality management. (Ref: Para A1420–A1624)~~
- ~~(ii) Exercise appropriate judgment about the legitimate interests of relevant stakeholders when making decisions in relation to the firm's strategic decisions and actions. (Ref: Para A22–A24)~~
- (iii) Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the ~~following~~ matters ~~below~~ to personnel that ~~fulfill the requirements meet the eligibility criteria set out in paragraph 283. Such assignments shall include:~~ (Ref: Para A2531–A2633)
- a. ~~Operational responsibility for t~~The system of quality management as a whole; and
- b. ~~Operational responsibility for s~~Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which

shall include ~~assigning~~ operational responsibility for compliance with independence requirements and the monitoring and remediation process.

~~(iv) Obtain and allocate resources in a manner that supports the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management. (Ref: Para A25–A29)~~

(b) Establishing policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability₁ and the individual(s) assigned operational responsibility₁ for the matters set out in paragraph 272(a)(iii) to: ~~(Ref: Para. A35–A37)~~

~~(i) Evaluate whether they have fulfilled their responsibilities in relation to the system of quality management; and~~

~~(ii) Hold individuals accountable for the responsibilities assigned to them. (Ref: Para. A2835–A317)~~

~~(c) Establishing policies or procedures for complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the firm that enable reporting by personnel or external parties to appropriate individual(s) within the firm without fear of reprisal and enabling the investigation of such concerns. (Ref: Para. A32–A35)~~

283. The individual(s) assigned operational responsibility for the matters set out in paragraph 272(a)(iii) shall have: (Ref: Para. A2734)

(a) The appropriate experience and knowledge and sufficient time to assume their assigned responsibility;

(b) A direct ~~reporting~~ line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management; and

(c) An understanding of their operational responsibilities for the firm's system of quality management or specific aspects of the system of quality management.

The Firm's Quality Risk Assessment Process

24. ~~The firm shall apply the quality risk assessment process to the following components:~~

~~(a) Governance and leadership;~~

~~(b) Information and communication;~~

~~(c) Relevant ethical requirements;~~

~~(d) Acceptance and continuance of client relationships and specific engagements;~~

~~(e) Resources; and~~

~~(g) Engagement performance.~~

25. ~~In applying the quality risk assessment process, the firm shall: (Ref: Para. A38)~~

~~(a) Establish quality objectives relevant to the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken, that are set at an appropriate level of granularity to enable the firm to identify and assess the quality risks. (Ref: Para. A39)~~

- ~~(b) As a basis for designing responses, identify and assess the quality risks through: (Ref: Para. A40–A42)~~
- ~~(i) Understanding the conditions, events, circumstances, actions or inactions that affect the achievement of the quality objectives in order to identify the quality risks; and~~
 - ~~(ii) Assessing the likelihood of the quality risks occurring and the relative effect of the quality risks on the achievement of the quality objectives.~~
- ~~(c) Design and implement responses to the assessed quality risks in order to reduce the quality risk to an acceptably low level. The nature, timing and extent of such responses shall be based on and be responsive to the reasons for the assessment given to the quality risks. (Ref: Para. A43–A47)~~

29. The firm shall establish the quality objectives required by this ISQC to facilitate the achievement of the objective of this ISQC. (Ref: Para. A36–A39)
30. The firm shall understand the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, taking into consideration the nature and circumstances of the firm and its engagements. (Ref: Para. A36–A37, A40)
31. Based on the understanding obtained in paragraph 30, the firm shall identify quality risks, before consideration of any responses, that: (Ref: Para. A36–A37, A41–A42)
- (a) Have a reasonable possibility of occurring; and
 - (b) If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s). (Ref: Para. A44)
32. The firm shall assess the identified quality risks to provide a basis for the design and implementation of the related responses. (Ref: Para. A36–A37, A45)
33. The firm shall design and implement responses to address the assessed quality risks that are based on and responsive to the reasons for the assessment given to the quality risks. (Ref: Para. A36–A37, A46–A51)
34. In designing and implementing responses in accordance with paragraph 33, the firm shall include the responses required by this ISQC. In doing so, the firm shall determine that the required responses are appropriately designed and implemented in the context of the nature of the quality risks identified by the firm and the likelihood of the quality risks occurring. (Ref: Para. A36–A37, A52)
- ~~3526. The firm shall respond to~~When ~~changes in the nature and circumstances of the firm or its, the engagements occur, performed by the firm, and the types of entities for whom the engagements are undertaken by the firm shall~~ determine~~ing~~ whether the quality objectives, quality risks and responses remain appropriate and if not, modifying them through applying the requirements in paragraphs 29–34~~as necessary~~. (Ref: Para. A36–A37, A53–A54~~A48~~)

Information and Communication [Section moved - located before monitoring and remediation]

Relevant Ethical Requirements

~~Quality Objectives~~

~~362.~~ The firm shall establish the following quality objectives, ~~in accordance with paragraph 25(a),~~ that address the fulfillment of relevant ethical requirements, which as defined include the principles of professional ethics responsibilities by the firm, its personnel and others subject to relevant ethical requirements, as applicable (including network firm personnel), in relation to the relevant ethical requirements. ~~In doing so, the firm shall include the following quality objectives:~~ (Ref: Para. ~~A65–A66~~)

- ~~(a)~~ The firm, its personnel and others subject to relevant ethical requirements, ~~as applicable (including network firm personnel),~~ have an understanding of the relevant ethical requirements, including the independence requirements.
- ~~(b)~~ The firm, its personnel and others subject to relevant ethical requirements, ~~as applicable (including network firm personnel),~~ fulfill their responsibilities in relation to the relevant ethical requirements, including the independence requirements.
- ~~(c)~~ The firm, its personnel and others subject to relevant ethical requirements, ~~as applicable (including network firm personnel),~~ identify and appropriately respond to breaches of the relevant ethical requirements, including the independence requirements, in a timely manner.

~~Quality Risks~~

~~33.~~ ~~The firm shall identify and assess the quality risks in relation to relevant ethical requirements in accordance with paragraph 25(b).~~

~~Responses to the Quality Risks~~

~~374.~~ ~~The firm shall~~ In designing and implementing responses ~~in accordance with paragraph 25(c)~~ to address the quality risks identified by the firm, in relation to relevant ethical requirements. ~~The responses that are designed and implemented by the firm shall include the following responses that relate to relevant ethical requirements:~~ (Ref: Para. ~~A55A, A567, and A761~~)

- ~~(a)~~ Identifying:
 - ~~(i)~~ The relevant ethical requirements applicable to the firm and its personnel because of the nature and circumstances of the firm and its engagements; and
 - ~~(ii)~~ The personnel and others that are required to comply with the relevant ethical requirements, which includes, as applicable, the network, other network firms or personnel in the network or other network firms.
- ~~(b)~~ Establishing policies or procedures that enable the firm and its personnel to identify and evaluate threats to compliance with the relevant ethical requirements and address them appropriately.: (Ref: Para. ~~A57–A58~~~~68~~)
 - ~~(i)~~ ~~Identify threats to compliance with the relevant ethical requirements, including the independence requirements;~~
 - ~~(ii)~~ ~~Evaluate whether identified threats are at an acceptable level; and (Ref: Para. A68)~~

- ~~(iii) — In circumstances when the identified threats are not at an acceptable level, address the threats appropriately. (Ref: Para. A69)~~
- (cb) Establishing policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches. (Ref: Para. A59–A60)~~facilitate appropriate responses to breaches of the relevant ethical requirements, including the independence requirements, and which address:~~
 - ~~(i) — The evaluation of the significance of a breach and its effect on the fulfillment of the relevant ethical requirements;~~
 - ~~(ii) — Taking whatever actions might be available, as soon as possible, to address the consequences of a breach satisfactorily;~~
 - ~~(iii) — Determining whether to report a breach to relevant parties; and~~
 - ~~(iv) — Fulfilling the responsibilities in relation to the provisions of the relevant ethical requirements, including the independence requirements, that set out actions to address identified breaches. (Ref: Para. A70)~~
- (de) Obtaining, at least annually, a documented confirmation of compliance with the independence requirements from all ~~firm~~ personnel required by relevant ethical requirements to be independent.

Acceptance and Continuance of Client Relationships and Specific Engagements

Quality Objectives

385. The firm shall establish the following quality objectives,~~in accordance with paragraph 25(a), that address applying appropriate judgment when making decisions in relation to the acceptance and~~ continuance of client relationships and specific engagements that are appropriate in the circumstances.~~In doing so, the firm shall include the following quality objectives:~~ (Ref: Para. A62)
- ~~(a) — The firm obtains sufficient and appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance, before accepting and continuing the client relationship or specific engagement. (Ref: Para. A71a–A76)~~
 - (ab) The firm obtains sufficient appropriate information and makes appropriate judgments about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance. (Ref: Para. A7632–A766)
 - (be) The firm makes appropriate judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements, including that the firm has: (Ref: Para. A77–A678)
 - (i) ~~The firm has a~~Appropriate resources to perform the engagement,~~including that financial and operational priorities do not override the firm's commitment to quality; and~~
 - (ii) ~~The firm has a~~Access to information, or the persons from whom the firm determines it is necessary to obtain information, necessary to be able to perform the engagement,~~;~~and
 - ~~(iii) — The firm is able to fulfill relevant ethical requirements, including independence.~~

- (c) ~~Financial and operational priorities do not inappropriately influence the firm's decision to accept and continue client relationships and specific engagements. (Ref: Para. A68)~~
- (d) The firm responds appropriately in circumstances when ~~subsequent to client or engagement acceptance~~ the firm becomes aware of information ~~subsequent to client or engagement acceptance~~ that: (Ref: Para. A709)
- (i) 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
 - (ii) Affects the firm's decision to continue a client relationship or specific engagement.

~~Quality Risks~~

~~36. The firm shall identify and assess the quality risks in relation to the acceptance and continuance of client relationships and specific engagements in accordance with paragraph 25(b).~~

~~Responses to the Quality Risks~~

~~397. The firm shall In designing and implementing responses ~~in accordance with paragraph 25(c)~~ to address the quality risks identified by the firm, ~~in relation to acceptance and continuance of client relationships and specific engagements.~~ The responses that are designed and implemented by the firm shall ~~include~~ establishing policies or procedures that address:~~

- ~~(a) Obtaining and evaluating sufficient information to make appropriate judgments regarding the firm's decisions to accept, continue, or discontinue the client relationship or specific engagement. (Ref: Para. A72–A76)~~
- ~~(b) Obtaining confirmation from management of the entity, and, when appropriate, those charged with governance, that they acknowledge and understand their responsibilities in relation to the engagement before accepting and continuing the client relationship or specific engagement.~~
- ~~(c) Circumstances when the firm is obligated by law or regulation to accept the client relationship or specific engagement, if applicable. (Ref: Para. A71–A7280)~~

Resources

~~Quality Objectives~~

~~4038. The firm shall establish the following quality objectives, ~~in accordance with paragraph 25(a)~~, that address appropriately obtaining, developing, using, maintaining and allocating resources, including financial resources, human resources, technological resources, and intellectual resources, in a timely manner to support the design, implementation and operation of the system of quality management. ~~In doing so, the firm shall include the following quality objectives: (Ref: Para. A73–A76)~~~~

- ~~(a) The firm obtains, develops uses, maintains and allocates resources to support the performance of engagements and the operation of the system of quality management, including: (Ref: Para. A81–A83)~~
 - ~~(i) Adequate anticipation of resource needs; and~~
 - ~~(ii) That resource needs are appropriately addressed as a result of changes in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken.~~

- (~~ab~~) The firm attracts, develops ~~and~~ retains personnel, including engagement partners, who have the competence and capabilities to: (Ref: Para. A~~7784~~–A~~7985~~)
- (i) ~~Appropriate technical competence, professional skills and professional values, ethics and attitudes to p~~Consistently perform quality engagements, including knowledge or experience regarding professional standards, ~~including relevant ethical requirements,~~ and applicable law or regulation ~~in relation to~~for the engagements the firm performs; or
 - (ii) ~~Competence and experience to p~~Perform duties in relation to the operation of the firm's system of quality management.
- (~~be~~) The firm assigns an engagement partner and other human resources~~personnel~~ to each engagement that have sufficient time, appropriate technical competence, professional skills and professional values, ethics and attitudes and capabilities, including being given sufficient time, to effectively consistently perform quality engagements. (Ref: Para. A~~8086~~–A~~817~~)
- (~~c~~) The firm assigns human resources to perform duties within the system of quality management that have appropriate competence and capabilities to perform such duties.
- (~~d~~) ~~Firm p~~Personnel ~~fulfill their responsibilities in relation to the system of quality management and demonstrate~~ a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives. for their commitment to quality. (Ref: Para. A~~828~~–A~~849~~)
- (~~e~~) The firm obtains or develops, implements and maintains, technological resources to appropriately support the operation of the firm's system of quality management and the consistent performance of quality engagements. (Ref: Para. A~~8590~~–A~~892~~)
- (~~f~~) The firm obtains or develops, implements and maintains, intellectual resources to appropriately support the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A~~903~~–A~~91~~)
- (~~g~~) ~~Firm p~~Personnel are able to appropriately apply or use the firm's technological and intellectual resources. (~~Ref: Para. A92~~)

Quality Risks

~~39. The firm shall identify and assess the quality risks in relation to resources in accordance with paragraph 25(b).~~

Responses to the Quality Risks

~~40. The firm shall design and implement responses in accordance with paragraph 25(c) to address the quality risks in relation to resources. The responses that are designed and implemented by the firm shall include the following:~~

- (~~a~~) ~~Establishing policies or procedures addressing the assignment of engagement partners and personnel to engagements according to the nature and circumstances of the engagement.~~ (Ref: Para. A~~86~~–A~~87~~)

- ~~(b) Supporting the development of firm personnel through appropriate training that develops knowledge, skills, and abilities with respect to their roles and responsibilities and in response to changes in the nature and circumstances of the firm, the engagements it performs and the types of entities for whom such engagements are undertaken, including changes in relation to professional standards and technology. (Ref: Para. A84–A85)~~
- ~~(c) Evaluating, in a timely manner, firm personnel's commitment to quality and their maintenance and development of the technical competence, professional skills and professional values, ethics and attitudes to perform their roles. (Ref: Para. A88)~~
- ~~(d) Establishing policies or procedures, appropriate to the nature and circumstances of the firm, that address compensation, promotion and other incentives with regard to firm personnel that demonstrate the firm's commitment to quality. (Ref: Para. A89)~~
- ~~(e) Establishing policies or procedures addressing how technology is obtained or developed, and maintained, or implemented, that include: (Ref: Para. A90–A92)~~
 - ~~(i) Determining whether the technology obtained or developed is designed in a manner that is suitable for its intended purpose;~~
 - ~~(ii) Establishing and maintaining an infrastructure or other resources appropriate to the firm's circumstances to support the firm's technological resources;~~
 - ~~(iii) The necessary security to prevent inappropriate access to the firm's technology; and~~
 - ~~(iv) The firm personnel's responsibilities and supplementary actions that are required in order to use the technology at the engagement level or in the system of quality management.~~
- ~~(f) Establishing policies or procedures addressing how intellectual resources are obtained, developed or maintained, that include the firm personnel's responsibilities and supplementary actions that are required in order to use the intellectual resources at the engagement level or in the system of quality management. (Ref: Para. A93)~~

Engagement Performance

~~Quality Objectives~~

~~424. The firm shall establish the following quality objectives, in accordance with paragraph 25(a), that address the appropriate performance and documentation of qualitythe engagements in accordance with professional standards and legal and regulatory requirements, including making judgments and reaching conclusions that are appropriate. In doing so, the firm shall include the following quality objectives:~~

- ~~(a) Firm p~~Personnel understand and fulfill their responsibilities in connection withrespect of the engagement, including, as applicable: (Ref: Para. A924–A935)
 - ~~(i) The engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement; and~~
 - ~~(ii) The appropriate direction and supervision of the engagement team and review of the work of the engagement team performed; and~~

- ~~(ii) The review by more experienced engagement team members of work performed by less experienced team members.~~
- (b) ~~Judgments made by e~~Engagement teams make appropriate judgments and reach appropriate conclusions in accordance with professional standards and applicable legal and regulatory requirements, and exercise professional skepticism in performing engagements ~~and the conclusions reached are appropriate and undertaken in accordance with professional standards and applicable legal and regulatory requirements.~~ (Ref: Para: A956–A97)
- ~~(c) [Placeholder for alignment with proposed ISA 220 (Revised) regarding the responsibilities of the engagement partner]~~
- (cd) The engagement documentation is appropriately assembled and retained.
- ~~Engagement files are assembled within an appropriate period of time after the engagement reports have been finalized, and engagement documentation is retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A101–A106)~~

Quality Risks

- ~~42. The firm shall identify and assess the quality risks in relation to engagement performance in accordance with paragraph 25(b).~~

Responses to the Quality Risks

43. ~~The firm shall~~ In designing and implementing responses in accordance with paragraph 25(c) to address the quality risks identified by the firm, the firm shall include the following in relation to engagement performance. The responses that relate to engagement performance that are designed and implemented by the firm shall include establishing policies or procedures addressing:
- (a) Establishing policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including the direction and supervision of the engagement team by more experienced engagement team members and the review by more experienced engagement team members of the work performed by less experienced team members. (Ref: Para. A92–A93)
- (b) Communicating the engagement team’s responsibility for:
- (i) Implementing the firm’s responses that are applicable at the engagement level; and
- (ii) Planning and performing the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- ~~(c) Establishing policies or procedures addressing c~~Consultation, including ~~firm personnel~~the engagement team’s responsibilities ~~in relation to~~for consultations, the matters on which consultation is required and how the conclusions should be agreed and implemented. (Ref: Para. A968–A979)
- ~~(d)~~ Establishing policies or procedures addressing Ddifferences of opinion that arise within the engagement team, or between the engagement team and the engagement quality control reviewer or personnel performing duties ~~in relation to~~within the operation of the firm’s system of quality management, including those who provide consultation. (Ref: Para. A98400)

~~(ee)~~ [Refer to **Agenda Item B.3**]

~~(f)~~ Establishing policies or procedures addressing assembly and retention of documentation that require:

~~(i)~~ The engagement files to be assembled within an appropriate period of time after the engagement reports have been finalized; and (Ref: Para. A110)

~~(ii)~~ The engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A111–A114)

Information and Communication [Section moved - previously located before relevant ethical requirements]

Quality Objectives

~~4427.~~ The firm shall establish the following quality objectives, ~~in accordance with paragraph 25(a),~~ that address obtaining, generating or using relevant information and communicating relevant information internally and externally on a timely basis to support the design, implementation and operation of the system of quality management. ~~In doing so, the firm shall include the following quality objectives:~~ (Ref: Para. A~~11549~~)

~~(a)~~ The firm has an information system that identifies, captures, processes and maintains ~~obtains or generates~~ relevant and reliable information, whether from ~~both~~ internal ~~and~~ external sources, to support the design, implementation and operation of the components of the system of quality management. (Ref: Para. A~~116–A11850~~)

~~(be)~~ [Moved from (c)] The firm communicates relevant and reliable information in a timely manner to firm personnel, the nature, timing and extent of which is sufficient to enable personnel such that they are able to understand and carry out their responsibilities in relation to the performance of engagements and duties in relation to within the system of quality management. (Ref: Para. A~~11954~~)

~~(cb)~~ The firm's ~~culture creates an environment that~~ promotes and emphasizes the responsibility of personnel for the exchange of ~~appropriate~~ information with among the firm and among its personnel. (Ref: Para. A119)

~~(d)~~ and emphasizes the responsibility of all firm personnel for communicate relevant and reliable information when ~~in performing~~ conducting engagements and performing duties in relation to within the system of quality management. (Ref: Para. A~~11954~~)

~~(e)~~ [Moved to (b)]

~~(ed)~~ The firm communicates information about the system of quality management to external parties when: (Ref: Para. A122–A125)

~~(i)~~ as ~~+~~ Required by law, regulation or relevant ethical requirements; or

~~(ii)~~ Otherwise as appropriate, ~~and obtains or communicates other information relevant to the system of quality management, as appropriate, with parties that are external to the firm,~~ unless prohibited by law or regulation.

(Ref: Para. A51, A58–A64)

~~Quality Risks~~

~~28. The firm shall identify and assess the quality risks in relation to information and communication in accordance with paragraph 25(b).~~

~~Responses to the Quality Risks~~

~~4529. The firm shall In designing and implementing responses in accordance with paragraph 25(c) to address the quality risks identified in relation to information and communication. The responses that are designed and implemented by the firm, the firm shall include the following responses that relate to information and communication:~~

- ~~(a) Establishing policies or procedures that address the identification, capture, process and maintenance of information to support the operation of the components of the system of quality management. (Ref: Para. A50)~~
- ~~(b) Communicating the engagement team's responsibilities with respect to the implementation of responses and establishing policies or procedures addressing the exchange of information between the firm and engagement teams, in order to enable and support the proper functioning of the system of quality management. (Ref: Para. A44)~~
- ~~(c) Establishing policies or procedures that address the exchange of information between the firm and personnel performing duties in relation to the operation of the firm's system of quality management, including the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the system of quality management.~~
- ~~(d) Communicating on a timely basis to firm personnel information in relation to the firm's system of quality management that is relevant to their responsibilities, including changes in the firm's system of quality management and the results of the evaluation of the system of quality management in paragraph 55. (Ref: Para. A52)~~
- ~~(e) Establishing clearly defined channels within the firm that enable reporting by firm personnel or external parties to appropriate individual(s) within the firm, of concerns in relation to the commitment to quality of the firm or its personnel, without fear of reprisal and establishing policies or procedures that enable the investigation of such concerns. (Ref: Para. A53–A57)~~
- (a) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated, including: (Ref: Para. A119–A120)
 - (i) Changes in the system of quality management.
 - (ii) The information that the engagement team is required to provide the firm to support the design, implementation and operation of the firm's system of quality management, including information that is required to be communicated in accordance with professional standards, law or regulation.
 - (iii) In circumstances when the firm is part of a network, matters to be communicated by the firm to the network. (Ref: Para. A121)
- (bf) Establishing policies or procedures addressing the Communication of information about the firm's system of quality management to parties external to the firm, including identifying external parties with whom communication is necessary, if any, and the nature, timing and extent of such communication. ~~as appropriate~~. Such policies and procedures shall take into

~~consideration the following factors regarding the nature, timing and extent of such communications:~~ (Ref: Para A~~122–A12358~~, A~~12664–A12964~~)

- (i) The communication requirements set out in law, regulation or professional standards, where relevant; ~~(Ref: Para A125)~~
- (ii) The ~~legitimate interests of the~~ firm's relevant stakeholders, ~~including the extent to which they use information about the firm's system of quality management to support their understanding of the quality of the engagements performed by the firm;~~ and ~~(Ref: Para A59)~~
- (iii) The nature of the engagements the firm performs and the types of entities for which ~~them~~ such engagements are performed, ~~including whether, and the extent to which, the firm performs engagements for entities that have a significant public interest.~~ (Ref: Para A~~13060~~)

Monitoring and Remediation Process

464. The firm shall establish ~~the following quality objectives that address the firm's~~ monitoring and remediation process that ~~support the evaluation of~~ the design, implementation and operation of the ~~components of the~~ system of quality management ~~and whether the quality objectives have been achieved, through:~~ (Ref: Para. A~~13107~~)

- ~~(a) Designing and performing activities to monitor the design, implementation and operation of the responses;~~
- ~~(b) Evaluating the findings of the monitoring activities, the results of external inspections and other relevant information; and~~
- ~~(c) Taking appropriate actions based on the results of internal monitoring activities, external inspections and other relevant information.~~
- (a) The firm's monitoring and remediation process provides relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management.
- (b) The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are effectively remediated on a timely basis.
- (c) The firm's monitoring and remediation process provides information to the individual(s) assigned ultimate responsibility and accountability for the system of quality management sufficient to support their evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

47. The firm shall design and implement responses for the monitoring and remediation process in accordance with paragraphs 48–59.

Designing and Performing Monitoring Activities ~~to Monitor the Design, Implementation and Operation of the Responses~~

485. In designing and implementing monitoring activities, tThe firm shall determine the nature, ~~timingscope~~ and ~~extentfrequency~~ of the monitoring activities, including the appropriate combination of ongoing

and periodic monitoring activities. ~~In doing so, the firm shall~~ take into consideration: (Ref: Para. A13208–A13610)

- (a) ~~For a response. The assessment of the quality risks and~~ the design of the responses and the identified and assessed to the quality risks, including the classes-nature of engagements where quality risks have been assessed as more likely to occur ~~or may result in a greater likelihood that a quality objective would not be met~~; (Ref: Para. A111)
- (b) For monitoring activities over the firm's risk assessment process, the design of the process;
- (c) Changes in factors that have affected the firm's system of quality management; (Ref: Para. A14012)
- (d) ~~The p~~Previous monitoring activities and remedial actions, including whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management; and (Ref: Para. A113)
- (e) Other relevant information that may suggest deficiencies exist in the firm's system of quality management, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A113–A113a)

496. ~~The firm shall design and implement monitoring activities to determine whether the responses that are required to be implemented at the engagement level have been implemented. As part of its~~ Such monitoring activities, ~~the firm shall~~ include establish policies or procedures requiring the inspection of completed engagements based on. Such policies or procedures shall establish criteria established by the firm that take into consideration the factors set out in paragraph 485 and which include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (Ref: Para. A1444–A14617)

5047. The firm shall ~~perform the monitoring activities as designed. In doing so, the firm shall~~ establish policies or procedures that:

- (a) ~~Determine that~~ Require those performing the monitoring activities to have sufficient time and the competence, experience and knowledge ~~and sufficient time~~ to perform the monitoring activities ~~effectively and are objective in relation to the activity subject to monitoring~~; and
- (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality control reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A147) ~~Determine whether the findings arising from the monitoring activities include deficiencies. (Ref: Para. A119–A121)~~

48. ~~The firm shall determine whether the results of external inspections and any other relevant information include deficiencies. (Ref: Para. A118–A121)~~

49. ~~The firm shall also evaluate the design, implementation and operation of the monitoring and remediation process, through considering the findings arising from the monitoring activities and the results of external inspections and any other relevant information and determining whether there are deficiencies in the monitoring and remediation process. (Ref: Para. A122)~~

Identifying Root Cause Analysis and Evaluating the Deficiencies

~~50. The firm shall investigate the root cause(s) of the deficiencies and in doing so shall: (Ref: Para. A123–A127)~~

- ~~(a) Consider the nature of the deficiencies and their possible severity in determining the nature, timing and extent of the procedures to investigate the root cause;~~
- ~~(b) Consider whether the deficiency is in the design, implementation or operation of a response; and~~
- ~~(c) Evaluate the effect of the deficiencies on the achievement of the quality objectives, through considering the severity and pervasiveness of the deficiencies.~~

51. The firm shall establish policies or procedures addressing:

- (a) The evaluation of the findings arising from the monitoring activities, the results of external inspections and any other relevant information to determine whether one or more deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A148–A151)
- (b) The investigation of the root cause(s) of the deficiencies, including that the nature, timing and extent of the procedures to be performed take into consideration the nature of the deficiencies and their possible severity. (Ref: Para. A152–A156)
- (c) The evaluation of the severity and pervasiveness of the deficiencies, including the effect of the deficiencies on the system of quality management as a whole. (Ref: Para. A157)

Responding Appropriately to the Results of Internal Monitoring Activities, External Inspections and Other Relevant Information to Identified Deficiencies

~~54.~~ [Moved to paragraph 54]

52. The firm shall design and implement remedial actions to address the deficiencies ~~and their related root cause(s)~~ that are responsive to the results of the root cause analysis, ~~including. In doing so, the firm shall~~ determining whether the quality objectives, quality risks or responses remain appropriate. (Ref: Para. A1~~5829–A130~~)

53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management or the individual assigned operational responsibility for the system of quality management, shall evaluate whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s) and determine whether they have been implemented. ~~(Ref: Para. A131)~~

Findings in Relation to a Particular Engagement

~~54.~~ [Moved from paragraph 51] In circumstances when a ~~deficiency finding identified~~ relates to an engagement and there is an indication that the report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm shall: (Ref: Para. A1~~5928~~)

- (a) Determine what further action is necessary to comply with relevant professional standards and applicable legal and regulatory requirements; and
- (b) Consider whether to obtain legal advice.

Ongoing Communication Related to Monitoring and Remediation

554. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: ~~(Ref: Para. A132)~~
- (a) A description of the monitoring activities performed;
 - (b) The deficiencies identified by the firm ~~through the findings from the firm's monitoring activities, the results of external inspections and other relevant information~~, including the severity and pervasiveness of such deficiencies; and
 - (c) The remedial actions to address the deficiencies, including the planned communication to ~~firm~~ personnel and parties that are external to the firm, as necessary.
565. The firm shall communicate ~~on a timely basis to firm personnel information in relation to the firm's monitoring and remediation process as the matters~~ described in paragraph 554 to personnel to the extent that it is relevant to their responsibilities. ~~The nature, timing and extent of the information communicated shall be sufficient and~~ to enable the ~~firm~~ personnel to take prompt and appropriate action in accordance with their responsibilities. (Ref: Para. A16033–A135)
576. The firm shall communicate information in relation to the results of the firm's monitoring and remediation process to external parties; on timely basis, in accordance with paragraph 4529(bf).

Evaluating the Effectiveness of the System of Quality Management

587. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides the firm with reasonable assurance ~~in accordance with paragraph 15 in relation to the objectives described in paragraph 19(a) and (b), taking into consideration: (Ref: Para. A16137)~~
- (a) The severity and pervasiveness of the deficiencies;
 - (b) The evaluation in paragraph 53 regarding whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s), and have been implemented; and
 - (c) Whether there has been appropriate communication of matters related to monitoring and remediation internally and with external parties.
- ~~(a) On an annual basis; or~~
 - ~~(b) In circumstances when the deficiencies identified are of a severity and pervasiveness that indicate that the system may not be providing the firm reasonable assurance.~~
- 58A. The evaluation shall be performed at least annually or when the effect of the deficiencies is of a severity and pervasiveness that indicates that the system may not be providing the firm with such reasonable assurance.
598. If the evaluation indicates that the firm does not have reasonable assurance, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall take prompt and appropriate action in accordance with their responsibilities, including communicating this fact to personnel to the extent that it is relevant to their responsibilities. (Ref: Para. A162–A163)~~n~~

~~circumstances when the firm's evaluation in paragraph 57 indicates that the firm has not achieved reasonable assurance in accordance with paragraph 15, the firm shall: (Ref: Para. A138)~~

- ~~(a) Promptly communicate to firm personnel information relevant to their responsibilities about the deficiency(ies) and the remedial actions to be taken; and~~
- ~~(b) If appropriate, communicate relevant information about the firm's evaluation to parties that are external to the firm.~~

Considerations Relating to Networks Requirements or Services

~~6059. In circumstances w~~When the firm operates as part of a network, the firm shall understand the requirements established by the network in relation to the firm's system of quality management and identify any other services offered by the network that the firm intends to use in its system of quality management. Notwithstanding the firm's use of network requirements or services, the firm remains responsible for its system of quality management, including the firm's risk assessment process. (Ref: Para. A164)

- ~~(a) Understand the network services available to the firm that may be relevant to the firm's system of quality management and the expected form, timing and content of communications between the firm and the network in relation to the network services; and~~
- ~~(b) Identify the network services that the firm is required to use or intends to use in its system of quality management.~~

The Firm's Risk Assessment Process

~~61. For the network requirements or services, in addition to complying with the requirements in paragraphs 29–34, the firm shall: (Ref: Para. A16539–A16641)~~

- ~~(a) As part of the establishment of quality objectives, determine whether quality objectives identified by the network, if any, are appropriate for use in the firm's system of quality management;~~
- ~~(b) As part of the identification and assessment of quality risks, determine whether quality risks identified by the network, if any, are appropriate for use in the firm's system of quality management; and~~
- ~~(c) As part of the design and implementation of responses, determine whether responses designed by the network, if any, are appropriate for use in the firm's system of quality management. (Ref: Para. A167)~~

Resources

~~61A. For the network requirements or services, the firm's responses for resources in paragraph 45 shall include determining the firm's responsibilities in implementing the resources provided by the network, if applicable, including any related actions by the firm.~~

Information and Communication

~~62. For the network requirements or services, the firm's responses for information and communication in paragraph 45 shall include determining the expected form, timing and content of communications between the firm and the network. (Ref: Para. A168)~~

~~60. In relation to the identified network services to be used by the firm, the firm shall:~~

- ~~(a) Obtain an understanding of the network's process(es) related to the design, implementation, operation, as applicable, of the service(s), in order to evaluate and conclude whether, and the extent to which, the service is appropriate for use in the firm's system of quality management; and (Ref: Para. A142–A143)~~
- ~~(b) Determine the firm's responsibilities and supplementary actions that need to be implemented by the firm in order to use the services provided by the network. (Ref: Para. A144)~~

Monitoring and Remediation Process

~~634. If the network performs monitoring activities in relation to the firm's system of quality management, the firm shall: obtain the results of such monitoring activities and include them in the evaluation of the results of the external inspections and any other relevant information, as required by paragraph 48. (Ref: Para. A16945–A17347)~~

~~(a) As part of designing and implementing monitoring activities in paragraph 48:~~

- ~~(i) Determine whether the monitoring activities performed by the network are appropriate for use in the firm's system of quality management;~~
- ~~(ii) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and~~
- ~~(iii) Obtain, at least annually, information about the overall scope, extent and results of the monitoring activities across the network firms' systems of quality management to determine whether it suggests deficiencies in the firm's system of quality management;~~

~~(b) As part of identifying and evaluating deficiencies in paragraph 51, obtain the results of the monitoring activities of the firm's system of quality management from the network in a timely manner; and~~

~~(c) Obtain information about the deficiencies identified in other network firms' systems of quality management, if relevant to the firm, so that the firm can take prompt and appropriate action, unless prohibited by law or regulation.~~

~~642. As part of identifying and evaluating deficiencies in paragraph 51, if the monitoring activities performed by the firm identifies deficiencies in the network's requirements and services, the firm shall communicate to the network relevant information about the identified deficiencies. (Ref: Para. A172)~~

~~653. As part of designing and implementing remedial actions in paragraph 52, for deficiencies are identified in relation to the network requirements or services used by the firm, the firm shall: (Ref: Para. A173)~~

- ~~(a) Understand the planned remedial actions by the network;~~
- ~~(b) Understand whether the network's remedial actions are effectively designed and implemented to address the deficiencies relevant to the firm and their related root cause(s); and~~
- ~~(c) Determine the supplementary remedial actions needed by the firm, if any.~~

Considerations Relating to Use of Service Providers

664. ~~In circumstances w~~When the firm intends to obtain or use services/resources provided by a service provider ~~in relation to~~ performing engagements or designing, implementing and operating its system of quality management, the firm's ~~shall responses for resources shall include:~~ (Ref: Para. A148)
- (a) Establishing the nature and scope of the services, including the firm's responsibilities in using the ~~services provided by the service provider~~resources, and determining the ability of the firm to fulfill relevant ethical requirements in relation to their use, if applicable; (Ref: Para. A174–A177/449)
 - (b) Obtaining an understanding of the service provider and determining the expected form, timing and content of communications between the firm and the service provider; (Ref: Para. A178/50)
 - (c) Determining that the reputation or ~~technical~~competence and capabilities, professional skills and professional values, ethics and attitudes of the service provider are appropriate in the context of the service provided; and (Ref: Para. A151)
 - ~~(d) Obtain an understanding of the service provider's processes in relation to the service, including how the service is evaluated and remediated; and (Ref: Para. A152)~~
 - ~~(de) Conclude on~~Determining whether the resourceit is appropriate ~~for~~to use in the system of quality management, including where periodic changes are made to the resources provided. (Ref: Para. A179) ~~the services of the service provider and periodically understand whether there are changes in the service provider's services or circumstances in relation to the matters in (a) to (d).~~

Notwithstanding the firm's use of a service provider(s), the firm remains responsible for its system of quality management.

675. As part of identifying and evaluating ~~if~~ deficiencies in paragraph 51, if the firm ~~are~~ identifies deficiencies ~~in relation to the resources services~~ provided by the service provider, ~~either through the firm's monitoring activities or communications received from the service provider,~~ the firm shall communicate to the service provider information about the identified deficiencies. The firm shall also:
- ~~(a) Include the deficiency in the evaluation of the results of the external inspections and any other relevant information, as required by paragraph 48;~~
 - ~~(ab)~~ Understand the planned remedial actions by the service provider and consider whether the service provider's remedial actions are effectively designed and implemented to address the deficiencies relevant to the firm and their related root cause(s);
 - ~~(be)~~ Determine the supplementary remedial actions needed by the firm, if any; and
 - ~~(cd)~~ Consider whether to continue using the services provided by the service provider.

Documentation

686. The firm shall prepare documentation of its system of quality management that is sufficient and appropriate to: (Ref: Para. A180/53–A182/55)
- (a) Support a consistent understanding of the system of quality management by ~~firm~~ personnel, including an understanding of their roles and responsibilities with respect to the firm's system of quality management;
 - (b) Support the consistent implementation and operation of the responses; and

- (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management.

697. The documentation shall include: (Ref: Para. A1~~8356~~)

- (a) The firm's quality objectives and quality risks;
- (b) A description of the responses and how the firm's responses address the ~~firm's~~ quality risks;
- ~~(c) When relevant, the results of periodic performance evaluations, as contemplated by paragraph 22(b);~~
- ~~(cd)~~ In relation to the monitoring and remediation process:
 - (i) Evidence of the monitoring activities performed;
 - (ii) The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information, including the identified deficiencies and their related root cause(s);
 - (iii) Remedial actions to address deficiencies ~~and their related root cause(s)~~, and the evaluation of the design and implementation effectiveness of such remedial actions;
 - (v) Communications ~~in relation to~~ about monitoring and remediation;
 - (vi) The basis for the evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in accordance with paragraph 195(a) and (b).

~~(e) [Placeholder for engagement quality control review]~~

7068. ~~In circumstances w~~When network requirements or services or resources provided by service providers are used in the firm's system of quality management~~the firm uses network services or service providers~~, the documentation shall include:

- (a) The matters in paragraph 69 as they relate to network requirements or services or ~~other services/resources from service providers that are~~ used by the firm in its system of quality management, ~~to the extent that they include the matters set out in paragraph 67; and~~
- (b) The firm's basis for ~~concluding on the~~ determining that it is appropriate to use ~~of the~~ network requirements or services or the resources from a service provider in its system of quality management services.

7169. The firm shall establish a period of time for the retention of documentation ~~in relation to~~ for the system of quality management that is ~~for a period of time~~ sufficient to permit those performing monitoring procedures to evaluate the firm's ~~compliance with its~~ system of quality management control, or for a longer period if required by law or regulation.

Application and Other Explanatory Material

Scope of this ISQC (Ref: Para. 2–2A)

A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)⁷ and ISAE 3000 (Revised),⁸ also establish requirements for the engagement ~~team partner in relation to~~for the management of quality at the engagement level.

A1A. The nature and circumstances of the engagements performed by the firm may affect the system of quality management. For example, a firm that performs varying types of engagements for a wide variety of entities will likely have a more complex system of quality management than a firm that performs only reviews of financial statements or compilation engagements for non-complex entities that are not listed or do not have significant public interest.

A1B. [Moved from paragraph A4] Professional judgment is necessary ~~in relation to~~for the design, implementation and operation of the entire system of quality management, including decisions about:

- The appropriate structures, reporting lines or authority and responsibility that support the firm's commitment to quality.
- ~~The~~ granularity of the quality objectives that the firm establishes and whether additional quality objectives are necessary to achieve the overall objective of the standard~~that should be established.~~
- ~~The application of the threshold above which quality risks are identified.~~
- The identification and assessment of the quality risks.
- The appropriate nature, timing and extent of the responses to address the quality risks.
- The resources and information and communication that are appropriate to support the design, implementation and operation of the components of the system of quality management.
~~The nature, timing and extent of the monitoring activities to monitor the design, implementation and operation of the responses.~~
- ~~The evaluation of the results of the monitoring activities, external inspections and other relevant information.~~
- ~~How to appropriately respond to the results of monitoring activities, external inspections and other relevant information, including the nature and extent of communications about the results.~~
- The evaluation of ~~Whether~~ the system of quality management provides the firm with reasonable assurance in relation to the objectives described in accordance with paragraph 195 (a) and (b), taking into consideration the evaluation of the results of the monitoring activities, external inspections and other relevant information.
- ~~The conclusion on~~determination of whether, ~~and the extent to which,~~ a network requirement or service or service resource provided by a service provider is appropriate for use in the firm's

⁷ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁸ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

system of quality management and the further actions that need to be taken by the firm in using the network requirement or service, or the resource provided by a service provider.

- ~~• The nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken may affect the firm's judgments in relation to the system of quality management.~~

The Firm's System of Quality Management (Ref: Para. 3–7)

A2. Reasonable assurance is a high, but not absolute, level of assurance and is obtained when the firm's system of quality management reduces to an acceptably low level the risk that the objectives set out in paragraphs 195(a) and (b) are not achieved ~~to an acceptably low level. However, r~~ Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a firm's system of quality management. Such limitations include the reality that human judgment in decision-making can be faulty and that breakdowns in the firm's system of quality management may occur because of human error or behavior.

~~A3.—[Moved to appendix]~~

~~A4.—[Moved to paragraph A1B]~~

~~A3A. Given the integration of the components, the application material of this ISQC describes examples of relationships between the components.~~

Networks (Ref: Para. 10)

~~A3B. Although a network may impose requirements on the network firms to promote consistency across the network, differences ordinarily arise across firms within the network because of the effect of jurisdictional circumstances.~~

Authority of the ISQCs (Ref: Para. 17)

~~A4. The Glossary of Terms may also include descriptions of other terms found in the ISQCs to assist in common and consistent interpretation and translation.~~

Definitions

External Inspections (Ref: Para. 16(g))

~~A5. Other reviews undertaken by an external oversight authority may include, for example, informal reviews undertaken by an external oversight authority to assess a firm's preparation for the implementation of a new professional standard, or reviews of specific areas of focus that contribute to the improvement of engagement quality.~~

Firm (Ref: Para. 16(h))

~~A65. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ISQC. For example, the IESBA Code defines the "firm" as:~~

- ~~(a) A sole practitioner, partnership or corporation of professional accountants;~~
- ~~(b) An entity that controls such parties through ownership, management or other means; and~~
- ~~(c) An entity controlled by such parties through ownership, management or other means.~~

~~In complying with the requirements in this ISQC, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.~~

Network (Ref: Para. 16(~~km~~))

~~A76. The definitions of “network” or “network firm” in relevant ethical requirements may differ from the definitions set out in this ISQC. The IESBA Code also provides guidance in relation to the terms “network” and “network firm.” Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The network may establish requirements in relation to the firm’s system of quality management (referred to as “network requirements” in this ISQC), and the network may provide other services for the firm to use in its system of quality management (referred to as “network services” in this ISQC). In some instances, other firms or organizations within the network may also provide services that are used by the firm in its system of quality management. These are also considered “network services” for the purposes of this ISQC.The provisions in this ISQC in relation to networks apply to any structures that do not form part of the firm, but that exist within the network.~~

~~A7. In some instances, the network may concentrate or centralize processes or activities in a particular operating unit or location, for example, the network may centralize the independence function or provide resources that perform certain engagement procedures from a central location for multiple engagements across the network. Such centralized processes or activities may also be established by other firms within the network. Throughout this ISQC, in circumstances when reference is made to a network, it includes centralized processes or activities established by the network or another firm within the network, which are used by the firm.~~

Network Services (Ref: Para. 16(n))

~~A8. [Moved to paragraph A164]~~

~~A9. The assistance provided by, or available from, the network may include services that the firm is not required to implement, but may choose to do so. For example, the network may develop training modules that firms within the network may use voluntarily.~~

~~A10. [Moved to paragraph A171]~~

Response (Ref: Para. ~~1620~~(rw))

~~A814. Policies are implemented through the actions of the firm and its personnel and other individuals whose actions are subject to the policies, or through their restraint from taking actions that would conflict with such policies.~~

~~A912. Procedures may be mandated, through formal documentation or other communication, or may result from behaviors that are not mandated but are rather conditioned by the firm’s culture. Procedures may be enabled through the application of information technology.~~

~~A13. This ISQC establishes requirements that set out the responses the firm is required to implement in relation to the quality risk assessment process and monitoring and remediation process.~~

Applying, and Complying with, Relevant Requirements (Ref: Para. ~~2147–2348~~)

~~A104. In some instances the individual(s) assigned ultimate responsibility and accountability for the system of quality management may also assumehave operational responsibility for the system of quality~~

management. ~~For example, this may be the case in smaller firms. There may also be circumstances when the individual(s) assigned operational responsibility for independence and monitoring are the same as the individual(s) assigned ultimate responsibility and accountability for the system of quality management or the individual(s) assigned operational responsibility for the system of quality management, such as in the case of a smaller firm.~~

~~A115. The requirements are designed to enable the firm to achieve the objective of this ISQC stated in paragraph 15. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective of this ISQC. This ISQC does not call for compliance with requirements that are not relevant. Paragraph 4 of Appendix 1 provides examples of the requirements of this ISQC that may not be relevant. Examples of when a requirement of this ISQC may not be relevant include in the circumstances when the firm is of a sole practitioner or when the firm only performs engagements that are related services engagements.~~

System of Quality Management (Ref: Para. 2549)

~~A16. In order for the firm to achieve the objective stated in paragraph 15, this ISQC requires the firm to establish eight components that operate in an integrated manner, i.e., all eight components collectively reduce, to an acceptable level, the risk of the system of quality management not achieving the objectives in paragraph 15(a) and (b). [Remainder of paragraph moved to appendix]~~

~~A127. Firms may have a variety of internal and external factors that affect the manner in which they operate. Factors that may affect the firm's decisions about matters related to the firm's system of quality management. There are a variety of factors that may affect the firm's system of quality management that the firm may take into consideration in designing and implementing the system of quality management, including when identifying quality risks that affect the achievement of the firm's quality objectives. Examples of the internal and external factors include:~~

- ~~• The nature and circumstances of the firm, for example, its size and operating characteristics of the firm, including and the firm's strategic decisions and actions, including such as those in relation to about financial and operational matters, the geographical dispersion and the extent to which the firm concentrates or centralizes its processes or activities. The nature and circumstances of the firm may also be affected by external factors, for example, law or regulation, economic stability and social factors. Furthermore, when the firm is within a network, the firm's decisions may be affected by the nature of the network, how the network is organized, the nature of what is performed at the network level and the extent to which the firm intends to use the network requirements or services in the system of quality management.~~
- ~~• The nature of the engagements performed provided by the firm, for example, whether (e.g., the firm performs only compilation engagements or performs a variety of engagements, including audits of financial statements). These may also be affected by external factors, such as relevant professional standards and law or regulation. The nature of the engagements is also affected by the nature types of the entities for to which such engagements are undertaken, for example, the industries in which the entities operate and whether the entities are owner-managed, listed or have significant public interest. An engagement may have significant public interest because it has a large number and wide range of stakeholders and considering the nature and size of the business. or the industries in which they operate (e.g., engagements provided to owner-managed entities, entities that are listed entities or entities that are of significant public interest).~~

- ~~In circumstances when the firm is within a network, the nature of the network, how the network is organized, the nature of what is performed at the network level, the network's requirements and expectations for the network firms, and the nature of what is provided by the network and the extent to which the firm uses it. The firm's stakeholders, for example, users of the firm's reports, regulatory authorities, preparers and those charged with governance, professional standards, laws, and regulations, economic stability and social factors.~~

Governance and Leadership (Ref: Para. ~~260~~–~~283~~)

~~A18.~~ [Moved to appendix]

A139. Law, regulation or other professional standards may prescribe additional matters related to the governance of the firm, for example, the firm may be required to follow an audit firm governance code that may incorporate specific governance principles and require adherence to specific provisions.

Culture (Ref: Para. ~~260~~(a) and ~~272~~(a)(i))

A1420. The firm's culture is an important factor in influencing the behavior of ~~the firm's~~ personnel, while at the same time accomplishing the firm's ~~strategic financial and operational~~ goals. ~~Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ISQC. A firm with a quality-focused culture recognizes and reinforces the importance of p~~Professional values, ~~ethics~~ and attitudes ~~may through~~include, for example, ~~a commitment to~~:

- ~~Technical competence and professional skills;~~
- ~~Ethical behavior;~~
- ~~Professional manner, for example, due care, timeliness, courteousness, respect, accountability, responsivenessresponsibility, and dependabilityreliability;~~
- ~~A commitment to teamwork;~~
- ~~Maintaining an open mind to new ideas or different perspectives in the professional environment.~~
- ~~Pursuit of excellence, for example,;~~
- ~~Aa~~ commitment to continual improvement ~~(e.g., beyond the minimum requirements for continuing professional development);~~ and
- Social responsibility.

A1524. A culture that promotes the conduct of quality engagements is likely to involve clear, consistent, frequent and effective actions, including communication, at all levels within the firm that emphasize the firm's commitment to quality. The tone at the top and the attitude wards quality, including ~~recognizing and reinforcing the importance of~~ professional ~~values, ethics, values~~ and attitudes, ~~are is~~ set by the individual(s) assigned ultimate responsibility and accountability for the system of quality management through their personal conduct, communication and actions. This is further shaped and reinforced by ~~other the firm's~~ personnel who are expected to embed or demonstrate the behaviors that confirm the firm's commitment to quality.

A16. The nature and extent of the actions of the individual(s) assigned ultimate responsibility and accountability for the system of quality management in establishing a culture may depend on ~~a variety~~

~~of factors such as, including the size, structure, geographical dispersion and complexity of the firm. For example, a smaller firm may be able to influence the desired culture through the direct interaction of firm leadership with other the firm's personnel. For a larger firm in which personnel are dispersed across many geographical locations, more formal communication (as part of the firm's information and communication) may be necessary. Other actions that may be taken to establish the expected behavior of personnel include establishing a code of conduct for personnel as part of the firm's intellectual resources. Paragraph 5 of Appendix 1 provides examples of the actions that may be undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management to foster a culture of quality throughout the firm. Paragraph 6 of Appendix 1 explains how the culture of the firm may be influenced and supported by the network in circumstances when the firm belongs to a network.~~

~~Strategic Decisions and Actions and Relevant Stakeholders~~ (Ref: Para. 260(c) and 22(a)(ii))

~~A22. The firm may have a variety of stakeholders, including the network or other network firms, audit oversight bodies and other external bodies, those charged with governance of the firm's clients or users of the firm's reports. Relevant stakeholders with a legitimate interest are ordinarily those stakeholders who are affected by, or rely on, the work performed by the firm. For example, in the case of a firm that performs audits of financial statements of listed entities or entities that are of significant public interest, relevant stakeholders with legitimate interests ordinarily include shareholders and credit providers of such entities, as well as management and those charged with governance. On the other hand, the relevant stakeholders for a firm that only performs independent reviews of financial statements of non-listed entities or entities that are not of significant public interest may be more limited and would ordinarily include the entities' management and credit providers.~~

~~A1723. It is important that the firm's strategic decision-making process, which may include establishing a business strategy, takes into consideration how its decisions about the firm's own interests affect the consistent performance of quality of engagements performed, as well as the legitimate interests of its relevant stakeholders. This supports the firm's recognition of its professional values and ethics in the conduct of engagements. For example, the firm's decisions in relation to its business strategy may focus on the growth of non-assurance services (e.g., advisory or consulting services), that may affect how the firm obtains and allocates its resources, and may create competing priorities for the firm personnel between financial and operational priorities and achieving quality. the firm's role in serving the public interest~~

~~A24. [Moved to paragraph A122]~~

Public Sector Considerations

~~A18. In the public sector, although the firm's strategic decisions and actions may be less affected by matters such as profit or market share, they are nevertheless affected by financial and operational priorities, for example, the allocation of financial resources.~~

~~Organizational Structures of the Firm and Resources~~ (Ref: Para. 260(d) and 272(a)(iii))

~~A25. Organizing the firm in a manner that supports the effective design, implementation and operation of the firm's system of quality management may include:~~

- ~~• Establishing an internal firm structure that is commensurate with the size and operating characteristics of the firm and the types of engagements the firm provides; and~~

- ~~• Designating authority and responsibility within the firm.~~

~~A26. [Moved to paragraph A20]~~

~~A27. In establishing the firm's leadership and management structure, the firm may consider:~~

- ~~• The required knowledge, experience, time and authority within the firm necessary to fulfill the identified roles; and~~
- ~~• The need for other attributes that contribute to the firm's commitment to quality.~~

~~A1928. The organizational structure of the firm varies depending on its size and operating characteristics and may also include operating units, operational processes, divisions or geographical locations and other structures the firm uses to achieve its quality objectives. In some instances, the firm may concentrate or centralize processes or activities in a particular operating unit or location service delivery center, for example, performing engagement teams may include human resources from service delivery centers who perform specific tasks that are repetitive or specialized in nature. Service delivery centers may be established at the firm level, network level, or by another firm or group of firms within the same network. certain engagement procedures from a central location for multiple engagements.~~

~~A20. [Moved from paragraph A26] How the firm assigns roles, responsibilities and authority within the firm may vary. The internal firm structure includes leadership and management as well as its organizational structure. For example, the leadership structure of a smaller firms may have simple leadership and management structures comprising a single managing partner with sole responsibility for the oversight of the firm. The leadership of a larger firms may comprise have multiple levels of leadership, such as a chief executive officer or managing partner (or equivalent) and, managing board of partners (or equivalent), and further levels that reflect the organizational structure of the firm, or other individual(s). In some circumstances, the firm may also have Some firms may also have an independent governing body or board of partners that has non-executive oversight of the firm, or committees may be established to fulfill specific leadership functions. At a jurisdictional level, law or regulation may prescribe the leadership and management structure of the firm. Paragraph 7 of Appendix 1 includes examples of matters that may be considered in relation to the leadership and management structure of the firm.~~

Resources (Ref: Para. 26(e))

~~A219. Obtaining resources and allocating them appropriately is essential for the proper functioning of the firm's system of quality management and supporting the performance of the firm's engagements. In order to achieve the firm's strategic goals the firm obtains, uses and allocates its resources in a manner that supports the achievement of such goals, which includes the firm's commitment to quality. The individuals(s)ese assigned ultimate responsibility and accountability, or operational responsibility, for the system of quality management are in a unique position may be able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how the firm's resources are allocated, including the timing of when they are used. Resources include those set out in paragraph A81.~~

~~A22. [Moved from paragraph A83] Given that resources are obtained and developed over time, it is necessary for the firm to anticipate its future resources needs. Resource needs may change over time as a result of changes in the nature and circumstances of the firm (e.g., the emergence of new or advanced technology or evolution in the firm's business model) and, the engagements performed~~

by the firm ~~and the types of entities for whom the engagements are undertaken~~. The resources themselves may also change, for example, the firm may experience a period of high staff turnover that affects how the firm allocates its human resources to engagements. Accordingly, it is necessary for the firm to anticipate its future resource needs, to the extent practicable, as well as to determine those currently required and to have processes in place to deal with resource needs that cannot be anticipated. ~~Paragraph 22(a)(iv) requires the individual(s) assigned ultimate responsibility for the system of quality management to be responsible for obtaining and allocating resources in a manner that supports the firm's strategic decisions and actions and the effective design, implementation and operation of the firm's system of quality management.~~

Firm Leadership Responsibility and Accountability (Ref: Para. ~~269~~(b) and ~~272~~(a))

~~A230. Paragraph A26 explains the various leadership structures that may exist in a firm. Ordinarily the person with identifying those who are ultimately responsibility and accountability for the system of quality management is the chief executive officer (or equivalent), or the firm's managing partner (e.g., in the case of a smaller firm). However, for some firm management structures it may be appropriate for there to be shared responsibility and accountability amongst the firm's managing board of partners (or equivalent) depends on the circumstances of the firm and may also be influenced by jurisdictional requirements. In some circumstances, there may be one individual who has responsibility for overseeing the firm's operations and allocating resources, for example, a chief executive officer or a managing partner. In other circumstances, responsibility for overseeing the firm's operations and allocating resources may be assigned to a group of individuals, for example, a managing board of partners.~~

Operational Responsibility (Ref: Para. ~~272~~(a)(iii))

~~A2534. The individual(s) assigned ultimate responsibility and accountability for the system of quality management is responsible and accountable for the firm's system achieving the objective in accordance with paragraph 195. The individual(s) assigned operational responsibility for the system of quality management as a whole is responsible and accountable for the design, implementation and operation of the firm's system of quality management. In some instances, operational responsibility for all of the matters in paragraph 22(a)(iii) may be assigned to one individual, particularly in the case of a smaller firm. These responsibilities may also be assumed by, or the individual(s) assigned ultimate responsibility and accountability for the system of quality management in some cases may assume all of these responsibilities.~~

~~A32. The accountability of those assigned operational responsibility for the firm's system of quality management is established through periodic performance evaluations that assess the effectiveness of such individual(s), as required by paragraph 22(b), and may be further established by:~~

- ~~• Monitoring the firm's system of quality management and providing incentives for actions to be implemented, for example, by pre-defining internal quality measures that will be used to evaluate the results of the firm's monitoring activities, and evaluating such measures against targets.~~
- ~~• Establishing appraisal and reward systems that address the responsibilities of such individual(s) and promote personal characteristics that support and reinforce the firm's view on the importance of quality.~~

~~A2633. In some instances, the individual assigned operational responsibility for the system of quality management may further assign specific roles, procedures, tasks or actions to other individuals within the firm. In some cases, the firm may assign responsibility for sFor example, in addition to assigning responsibility for compliance with independence requirements and the monitoring and remediation process, the individual may assign pecific aspects of the system of quality management, in addition to assigning operational responsibility for technological resourcesfor the matters set out paragraph 22(a)(iii). For example, the individual who has operational responsibility for independence may also be assigned broader responsibility related to the firm's compliance with all relevant ethical requirements.~~

~~A2734. In some circumstances, tThe firm may consider whetherestablish additional criteria in relation tofor the eligibility of the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii) are necessary, in the circumstances of the firm. For example, in some cases, such as a larger firm, it may be appropriate for the may individual(s) assigned operational responsibility for matters related tocompliance with independence requirements to an individual who isto be autonomous from the service lines within the firm, in order that decisions in relation toabout independence are undertaken in an impartial manner.~~

Performance Evaluations (Ref: Para. 272(b))

~~A35.~~ [Moved to paragraph A30]

~~A2836. Periodic performance evaluations of individual(s) within the firm are a required response to~~ may promote the accountability of such individual(s) for the responsibilities assigned to them ~~in relation to the system of quality management~~. In considering the performance of individuals, the firm may take into consideration:

- The results of the firm's monitoring activities (monitoring and remediation) in relation to aspects of the system of quality management that relate to the responsibility of the individual, for example, the results of the firm's monitoring activities in relation to the aspects of the system of quality management that relate to the responsibility may be evaluated against targets, ~~for example, independence in relation to the individual(s) assigned operational responsibility for independence;~~
- The actions taken by the individual(s) in response to deficiencies identified that relate to their area of responsibility of that individual, including the timeliness and their related root causes and ~~the~~ effectiveness of such actions.

~~A2937. The results of the performance evaluations may be positive, i.e., they may indicate that firm leadershipthe individual(s) has fulfilled their responsibilities in terms of this ISQC. A positive outcome may be rewarded through compensation, promotion and remuneration or other incentives that promote a commitment to quality, and reinforce accountability. On the other hand, when the results of the performance evaluations are negative, corrective actions may be taken by the firm to address performance issues that are identified and that may affect the firm's achievement of its quality objectives.~~

~~A30. [Moved from paragraph A35] The performance evaluations apply to the individual(s) assigned ultimate responsibility for the system of quality management and the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii). Given the unique position of the individual(s) assigned ultimate responsibility and accountability for the system of quality~~

management, the performance evaluations may be undertaken by ~~the firm's network~~, an independent non-executive member of the firm's governing body, ~~or~~ a special committee overseen by the firm's governing body or the firm may appoint an external service provider to perform the evaluation. In the case of smaller firms, it may not be practicable to perform performance evaluations, however in such cases, the results of the firm's monitoring activities (monitoring and remediation) may provide an indication of the performance of the individual(s) assigned ultimate responsibility for system of quality management and the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii).

Public Sector Considerations

A31. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the outcome of the performance evaluation, given the nature of the individual's appointment.

Complaints and Allegations (Ref: Para. 27(c))

A32. [Moved from paragraph A54] Establishing policies or procedures for complaints and allegations supports the firm's commitment to quality. Complaints and allegations may originate from within or outside the firm and they may be made by ~~firm~~ personnel or external parties, such as, clients or others within the firm's network ~~third parties~~. Complaints and allegations may relate to the failure of the work performed by the firm to comply with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's ~~system of quality management~~ policies or procedures. A complaint or allegation may indicate that there is a deficiency in the system of quality management that would be other information considered by the firm as part of its monitoring and remediation, as described in ~~in accordance with~~ paragraph 48.

A33. [Moved from paragraph A55] Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances where complaints or allegations arise, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm. For example, sections 260 and 360 of the IESBA Code addresses the approach to be taken by the firm or its personnel in responding to professional accountant's responsibility in relation to non-compliance or suspected non-compliance with laws or regulations, ~~that may be relevant in circumstances when the work performed by the firm or the actions of the firm or its personnel has resulted in non-compliance with laws or regulations.~~ Communications external to the firm would be managed through the firm's information and communication component.

A34. [Moved from paragraph A56] In identifying an appropriate individual(s) (human resource) ~~within the firm~~ to whom complaints and allegations are communicated, the firm may take into consideration factors such as whether the individual(s) has:

- The experience, knowledge, time and appropriate authority within the firm needed to assume the role; and
- A direct reporting line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

~~A35. [Moved from paragraph A57] The firm may also establish policies or procedures for the identification of an individual(s) (human resource) responsible for supervising the investigation of the complaint and that may take into consideration whether the individual(s):~~

- ~~• The factors described in paragraph A34 Has the experience, knowledge, time and appropriate authority within the firm to undertake the investigation; and~~
- ~~• Whether the individual(s) is otherwise not involved in the engagement or has sufficient objectivity from the area or personnel of the firm subject to the investigation.~~

The individual(s) supervising the investigation may involve legal counsel as necessary. In the case of a smaller firm, it may not be practicable to identify an individual to for the partner supervising the investigation that is not to be involved in the engagement or other subject matter of the investigation. As a result, such firms may use an external service provider the services of an external person to carry out the investigation into complaints and allegations, for example, legal counsel or a consultant.

Quality The Firm's Risk Assessment Process (Ref: Para. ~~294–3526~~)

~~A368. The quality risk assessment process is the component through which the firm establishes quality objectives, identifies and assesses quality risks and designs and implements responses. This process is applied to the other components. This ISQC does not require the firm to apply the quality risk assessment process to the monitoring and remediation component, although the firm may voluntarily do so. Instead, this ISQC establishes requirements in relation to the monitoring and remediation process that set out the policies or procedures that the firm is required to implement in order to establish an effective monitoring and remediation process. The approach that the firm takes to the risk assessment process may vary according to how the firm is structured and organized. In some circumstances the firm's risk assessment process may be centralized, with the firm cascading the quality objectives, quality risks and responses to its various business units and service lines. In other circumstances the process may be decentralized and undertaken at a business unit or service line level, with the outputs combined at the firm level. Although this ISQC is organized by components, the firm's risk assessment process may be undertaken for all of the components together because of the interrelationship of the components.~~

~~A37. When the firm belongs to a network, in order to promote consistency in the performance of quality engagements across firms in the network, the network may provide quality objectives, quality risks or responses for the firm to incorporate in the firm's risk assessment process. Paragraph 61 sets out the responsibilities of the firm in such circumstances. Although the firm may include such quality objectives, quality risks or responses in its risk assessment process, the firm still has a responsibility to fulfill the requirements in paragraphs 29–35 in establishing quality objectives, identifying and assessing quality risks and designing and implementing responses that reflect the nature and circumstances of the firm and its engagements.~~

Establish Quality Objectives (Ref: Para. ~~2925(a)~~)

~~A389. The quality objectives that the firm is required to establish are set out in paragraphs 26, 36, 38, 40, 42, 44 and 46. The firm may decide quality objectives established by the firm in relation to each component may include quality objectives that are more granular quality objectives than those quality objectives required set out in by this ISQC are appropriate in relation to the various components, in order to reflect given the nature and circumstances of the firm and, its the engagements performed by the firm and the types of entities for whom the engagements are~~

~~undertaken. Furthermore, paragraph 23 addresses circumstances when the firm determines that additional quality objectives need to be established to support the achievement of the objective of this ISQC. The firm applies professional judgment in determining whether additional or more granular quality objectives are necessary in the circumstances of the firm. Paragraph 8 of Appendix 1 explains circumstances when more granular quality objectives may be appropriate.~~

~~A39. Although the quality objectives set out in this ISQC are organized by component, an objective in one component may overlap, be related to, support or be supported by a quality objective in another component. For example, the quality objective in information and communication addressing the communication of relevant and reliable information in a timely manner to firm personnel supports the quality objective in the relevant ethical requirements component addressing the understanding of relevant ethical requirements by the firm, its personnel and others subject to relevant ethical requirements.~~

~~Conditions, Events, Circumstances, Actions or Inactions that may Affect the Achievement of the Quality Objectives (Ref: Para. 30)~~

~~A40. In understanding the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, the firm may consider what could go wrong in relation to the factors described in paragraph A12 that could affect the achievement of the quality objectives. Such consideration may also assist with the identification of the quality risks.~~

~~Identify and Assess Quality Risks (Ref: Para. 31–3225(b))~~

~~A41. The firm applies professional judgment in identifying and assessing the quality risks, including when making decisions about whether risks meet the threshold above which quality risks are identified and the assessment of the quality risks. The process for identifying and assessing the quality risks may involve a combination of ongoing and periodic risk identification and assessment procedures, including:~~

~~Identifying the risks that need to be addressed by the firm in order to reduce the risk to an acceptably low level, i.e., those risks that have a reasonable possibility of occurring and a reasonable possibility of causing a quality objective(s) not to be achieved.~~

~~A42. Under this ISQC, not every risk to the achievement of the quality objectives needs to be identified and further assessed. The firm identifies the quality risks based on a preliminary consideration of the possibility of the quality risks occurring and the effect on the achievement of the quality objectives. Only those quality risks that have a reasonable possibility of occurring and, if they were to occur, a significant effect on the achievement of the quality objective(s) need to be identified and further assessed. There is a reasonable possibility of a risk occurring when the likelihood of its occurrence is more than remote. The further assessment of the quality risks involves a more precise consideration of the degree of the likelihood of the quality risks occurring and degree of the effect of the quality risks on the achievement of the quality objectives. Similarly there is a reasonable possibility of the risk causing a quality objective(s) not to be achieved when the likelihood of the quality objective not being achieved is more than remote.~~

~~Assessing the quality risks for the purpose of designing a response that appropriately addresses the quality risk.~~

~~A44. The significance of the effect of the quality risk on the achievement of a quality objective(s) is judged in the context of the underlying conditions and events that gave rise to the quality risk, as well as the nature and circumstances of the firm and its engagements, which are further described in paragraph A12. There may be several quality risks for a quality objective and each quality risk may have a different degree of effect on the quality objective if it were to occur.~~

~~A41. Under this ISQC, not every risk needs to be addressed by the firm, i.e., when the likelihood of a risk occurring is less than remote or the likelihood of the risk causing a quality objective to not be met is less than remote, the firm need not address that risk. Such risks are not considered to be a quality risk. In determining whether a quality risk has a reasonable possibility of occurring and a reasonable possibility of causing a quality objective(s) not to be achieved, the firm understands and considers the conditions, events, circumstances, actions or inactions that give rise to the risk. The conditions, events, circumstances, actions or inactions that give rise to a quality risk may arise from one or more of the factors set out in paragraph A17.~~

~~A452. The assessment of the quality risks ordinarily focuses on understanding the likelihood of the quality risks, taking into account the identified conditions, events, circumstances, actions or inactions, and the degree to which the quality risks would affect the achievement of the quality objectives should they occur. It need not comprise formal ratings or scores, and may involve taking into consideration:~~

- ~~• In assessing the likelihood of the quality risks, the firm may consider the expected frequency of the quality risk its occurrence. In assessing the degree of the effect of the quality risk on the achievement of the quality objective, the firm may consider:~~
- The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk.
- The duration of time of the effect of the quality risk after it has occurred.
- ~~• Paragraphs 9 and 10 of Appendix 1 provide examples of how the rate at which the effect of a quality risk takes place, the amount of time that the firm has to respond to a quality risk or the duration of time of the effect of the quality risk after it has occurred, may affect the firm's assessment of a quality risk.~~

Design and Implement Responses to Quality Risks (Ref: Para. ~~33-34~~25(e))

~~A463. The firm applies professional judgment in designing and implementing responses to address the assessed quality risks, for example, when making decisions about the most appropriate response to address a quality risk. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the quality risks, which includes:~~

- ~~• The likelihood of the quality risk occurring. For example, the higher the likelihood of the quality risk occurring, the more robust the response needs to be.~~
- ~~• The significance of the effect on the achievement of the quality objectives. For example, the more significant the effect of the quality risk on the achievement of the quality objectives, the more robust the response may need to be.~~
- ~~• The conditions, events, circumstances, actions or inactions that give rise to the quality risks. For example, if the quality risk relates specifically to engagements performed for a category of clients (e.g., audits of financial statements of listed entities), the responses may require specific actions for clients in that category, rather than all engagements performed by the firm.~~

[The rest of this paragraph has been moved to paragraph A52]

~~A48. The nature and circumstances of the firm and its engagements affect the reasons for the assessment given to the quality risks, and the nature, timing and extent of the responses designed and implemented to address the quality risks. For example, in demonstrating a commitment to quality as required by paragraph 27(a)(ii) (i.e., a response), leadership of a smaller firm may engage in direct and frequent interactions with personnel throughout the firm. However, in the case of a larger firm, frequent and direct interactions with personnel may not be practicable and therefore the demonstration of a commitment to quality may involve multiple actions, such as establishing firm values in a code of conduct (an intellectual resource) and formal communications that emphasize the importance of quality (i.e., an information and communication response).~~

~~A49. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities at the firm and supplementary actions needed at an engagement level in order for a response to operate as designed. For example, the firm may appoint suitably qualified and experienced personnel to provide technical advice to engagement teams, and in doing so may prescribe specific matters that need to be consulted on by the engagement team. However, the engagement team may have a responsibility to identify when such matters occur and to initiate such consultation as required by the firm's policies or procedures. Communicating to engagement teams their responsibilities for the implementation and operation of the responses is therefore important for the functioning of the system of quality management, and is a response required by this ISQC in paragraph 43(b). ISA 220 (Revised), ISRE 2400 (Revised) and ISAE 3000 (Revised) establish requirements for the engagement partner in relation to the management of quality at the engagement level. ISA 220 (Revised) further requires that [placeholder to set out specific requirements of ISA 220 (Revised) when it is finalized].~~

~~A44a. Certain responses to the quality risks may be designed to detect deviations in the system of quality management in order that such deviations are promptly corrected. Paragraph A110 further explains the difference between responses designed to detect deviations and responses that are considered part of the firm's monitoring activities.~~

~~Nature, Timing and Extent of the Firm's Response~~

~~A45. The nature, timing and extent of the response is dependent on factors such as:~~

- ~~— The firm's assessment of the quality risk, i.e., how likely it is to occur and the degree to which it may affect the achievement of the quality objectives. A quality risk that has a higher probability of occurring or a may have an extensive effect on the achievement of a quality objective may require a more rigorous response from the firm in order to reduce the risk to an acceptably low level.~~
- ~~— The nature of the risk, i.e., the conditions, events, circumstances, actions or inactions that give risk to the quality risk. For example, if the firm's quality risk relates specifically to a particular industry or category of clients (e.g., audits of financial statements of listed entities), the firm's responses may require specific actions in relation only to clients in the industry or that are within the category, rather than all engagements performed by the firm.~~
- ~~• The size and complexity of the firm. For example, in a smaller firm, due the concentration of the firm's operations, the closer oversight by the firm's leadership may be an effective and appropriate response to certain risks. In addition, in some circumstances, the response may be more effectively established at an engagement level, for example, a smaller firm may perform only a few engagements of a specific type and~~

~~it may be more effective for the quality risk to be addressed directly at the engagement level rather than establishing formal policies or procedures at the firm level that are applied at the engagement level.~~

~~In some cases, the firm may design and implement a response that addresses multiple quality risks across multiple components. Paragraph 11 of Appendix 1 provides examples of factors that may be considered by the firm in relation to the design of a response.~~

A5046. ~~Detailed~~Structured documentation of the firm's responses may not be necessary in all circumstances. ~~For example, the firm may establish policies or procedures that are stated in communications or implied through the actions of firm leadership. However, a lack of documentation of the responses may increase the likelihood that when policies or procedures are not formally documented, it may be possible that firm personnel are not aware of such policies or procedures.~~responses or they might not be followed. The need for formal policies or procedures may be greater for firms that have many personnel or that ~~are~~ have geographically dispersed, in order to achieve consistency across the firm.

A5147. ~~In some cases, the response designed and implemented by the firm may address multiple quality risks across multiple components. Furthermore, the responses designed and implemented to address a quality risk in one component may affect the quality risks and responses of another component. For example, the implementation of a new IT application for the performance of engagements software (i.e., a technological resource) may create new quality risks within the engagement performance component for which a response is necessary, such as increased direction, supervision and review at the engagement level.~~

A52. [Moved from paragraph A43] The responses ~~required by this ISQC are set out~~designed and implemented by the firm are required to include certain responses set out in this ISQC, i.e., the responses in paragraphs 272, 289, 34, 37, 39, 410, 43, 45 and 473 and are applicable to all firms because they represent responses that all firms would be expected to implement in a system of quality management. However, the responses required by this ISQC alone are not sufficient to address the firm's quality risks. ~~The~~Accordingly the firm is required to design and implement responses in addition to those required by this ISQC. ~~firm's responses, including the required responses, are required to be designed and implemented in a manner that effectively address the quality risks. For example, in relation to engagement performance, in addition to establishing policies or procedures for engagement quality control reviews for audits of financial statements of listed entities, the firm may establish policies or procedures that identify other responses to address quality risks associated with other engagements that are not required to be subject to an engagement quality control review (e.g., require specific specified reviews for certain engagements of the engagement team's procedures by individuals separate from the engagement team (e.g., reviews of the engagement team's procedures relating to work on significant risks) or reviews by individuals within the firm who have specialized technical expertise).~~

Determining Whether the Quality Objectives, Quality Risks and Responses Remain Appropriate (Ref: Para. 3526)

A53. ~~In some circumstances, changes in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management. For example, an entity for whom the firm performs engagements may commence business in a new industry and this may have an effect on the firm's quality risks or responses.~~

~~A548. Quality objectives, quality risks or responses in relation to a component or components may need to be revised when changes occur in the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken and may also need to be modified as a result of:~~

- ~~• other internal or external factors, such as new or amended law, regulation, or professional standards. They also are revised as a result of Changes that affect specific components of the system of quality management, for example, changes in the firm's resources.~~
- ~~• Information from deficiencies identified through the firm's monitoring and remediation, including deficiencies identified from monitoring activities, external inspections or other relevant information.~~

~~Since the eight components of the system of quality management are inter-related, any rRevisions to the quality objectives, risks or responses in one component may affect other components because of their interrelationship.~~

~~**Information and Communication** (Ref: Para. 27–29) [Section moved - located before monitoring and remediation]~~

~~**Relevant Ethical Requirements** (Ref: Para. 20(q) and 5632–5734)~~

~~A655. The IESBA Code Relevant ethical requirements establishes the fundamental principles of professional ethics that govern the conduct of a professional accountant, which ~~ordinarily~~ include:~~

- ~~Integrity;~~
- ~~Objectivity;~~
- ~~Professional competence and due care;~~
- ~~Confidentiality; and~~
- ~~Professional behavior.~~

~~For example, Section 110 of Tthe IESBA Code sets out the fundamental principles of ethics that establish the standard behavior expected of a professional accountant. Section 120 of the IESBA Code includes the conceptual framework, which also establishes the approach that a professional accountant is required to apply to assist in complying with these fundamental principles. Parts 2 and 3 of the IESBA Code set out additional material that addresses specific topics relevant to complying with the fundamental principles and includes requirements for independence, ~~for example, responding to non-compliance with laws and regulations and conflicts of interest.~~~~

~~A66. Relevant ethical requirements may also include provisions in relation to independence. For example, Parts 4A and 4B of the IESBA Code include specific provisions that require a firm to be independent when performing audits or reviews of financial statements or other assurance engagements. The IESBA Code sets out provisions that address specific circumstances when threats to the firm's independence may arise, for example, provisions addressing financial interests and relationships, the provision of non-assurance services to an audit client and the long association of personnel with an audit or assurance client. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality~~

~~of information in relation to mandatory tendering and rotation or the provision of non-assurance services.~~

~~A55A. To further demonstrate the firm's commitment to quality, having regard to the nature and circumstances of the firm and its engagements, the firm may determine that it is appropriate to design and implement responses that result in more restrictive requirements for the firm and its personnel than those in the relevant ethical requirements. For example, a firm may adopt more restrictive policies than called for under the IESBA Code, such as:~~

- ~~• A prohibition on accepting gifts and hospitality from a client when there is no intent to improperly influence the behavior of the recipient, even if the value is trivial and inconsequential.~~
- ~~• With respect to independence, extending the prohibition on the provision of certain non-assurance services to public interest entity audit clients to all clients for whom the firm performs audits of financial statements.~~

~~A5667. Paragraph 34 includes responses that the firm is required to implement to address quality risks in relation to relevant ethical requirements, including independence requirements. For example, obtaining confirmations of compliance with the independence requirements from firm personnel supports the firm in addressing compliance with independence requirements, demonstrates the importance that the firm attaches to independence and makes the issue current for, and visible to, its personnel. The responses in other components of this ISQC may also address the fulfillment of relevant ethical requirements, for example, paragraph 29 of this ISQC contains required responses addressing information and communication to support the operation of the components of the system of quality management. This includes responses for information and communication to support the operation of the relevant ethical requirements component, such as: Since other components such as information and communication and resources have quality objectives that support the design, implementation and operation of the system of quality management, such components include responses that affect or relate to the relevant ethical requirements component. For example, the following are examples of responses for information and communication and resources that may address quality risks for relevant ethical requirements:~~

- ~~• Communicating the independence requirements to all firm personnel and others subject to independence requirements, as applicable (including network firm personnel).~~
- ~~• Providing training for personnel on relevant ethical requirements.~~
- ~~• Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.~~
- ~~• Establishing human resources to manage and monitor compliance with relevant ethical requirements, including independence, or to provide consultation on matters related to relevant ethical requirements.~~
- ~~• Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as:
 - ~~○ Communicating information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.~~~~

- Communicating circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
- Prompt communication of any breaches of the relevant ethical requirements, including the independence requirements.
- Establishing an information systems, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information in relation to independence.

Furthermore, paragraph 27(a)(iii) requires the firm to assign operational responsibility for independence to an appropriate individual in the firm. This individual is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures that address communication of breaches of the independence requirements and ensuring that appropriate actions have been taken to address the causes and consequences of the breach.

~~Other responses that the firm may design to address the quality risks include, for example, establishing policies and procedures that set out the appropriate length of service of personnel performing audits or reviews of financial statements or other assurance engagements, taking into consideration the requirements of relevant ethical requirements and the associated quality risk.~~

A57. [Moved from paragraph A69] Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the IESBA Code provides a conceptual framework that is applied in order to identify, evaluate and address threats to compliance with the fundamental principles, which comprises:

- The identification of threats to compliance with the fundamental principles, including independence requirements;
- The evaluation of whether the identified threats are at an acceptable level; and
- In circumstances when the identified threats are not at an acceptable level, addressing the threats by:
 - ~~In circumstances when the identified threats are not at an acceptable level, the threats may be addressed by:~~
 - Eliminating the circumstances, including interests or relationships, that are creating the threats;
 - Applying safeguards, where available and capable of being applied, to Rreducing the threats to an acceptable level ~~through applying safeguards~~; or
 - Declining or ending the engagement.

A658. In identifying, evaluating and addressing a threat to compliance with the relevant ethical requirements whether an identified threat is at an acceptable level, the firm may consider whether a reasonable and informed third party, who weighs all the relevant facts and circumstances that the firm knows, or could reasonably be expected to know, at the time the evaluation conclusion is made, would likely reach the same conclusions as the firm conclude that the firm complies with the principles of the relevant ethical requirements.

~~A69.~~ [Moved to paragraph A57]

~~A59. The policies or procedures addressing breaches of the relevant ethical requirements, including the independence requirements, may address matters such as:~~

- ~~• The communication internally of breaches of the relevant ethical requirements to appropriate individual(s) within the firm (part of the information and communication component);~~
- ~~• The evaluation of the significance of a breach and its effect on the fulfillment of the relevant ethical requirements;~~
- ~~• Taking whatever actions might be available, as soon as practicable, to address the consequences of a breach satisfactorily;~~
- ~~• Determining whether to report a breach to relevant parties (part of the information and communication component); and~~
- ~~• Determining the appropriate action for the individual(s) responsible for the breach (part of the resources component).~~

~~A760. Relevant ethical requirements may include specific requirements regarding how the firm is required to respond to a breach of the relevant ethical requirements, including the independence requirements. For example, the IESBA Code⁹ sets out requirements for the firm in the event of a breach of the provisions of the Code and includes specific requirements addressing breaches of the International Independence Standards independence requirements, which includes communication with those charged with governance of the client. Such communication would form part of the information and communication component.~~

Public Sector Considerations

~~A761. Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in designing the responses to the quality risks in relation to for independence, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.~~

Acceptance and Continuance of Client Relationships and Specific Engagements (Ref: Para. ~~385–397~~)

~~A62. Other components include quality objectives that support the design, implementation and operation of the system of quality management, and responses that affect or relate to the acceptance and continuance of client relationships and specific engagements. For example, the information necessary to support the firm's decisions about the acceptance and continuance of client relationships and specific engagements is identified, captured, processed and maintained through the information and communication component, and may include intellectual resources such as databases of client information or access to external information databases. The firm may also use IT applications (i.e., technological resources) to facilitate the approval of client relationships or specific engagements at appropriate levels within the firm. In addition, governance and leadership~~

⁹ See paragraphs R400.80–R400.87 of the IESBA Code.

addresses the responsibility of the firm with respect to appropriate resource planning and obtaining and allocating resources.

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: Para. ~~385~~(a))

A6374A. The information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements about ~~regarding~~ the nature and circumstances of the engagement may include ~~matters such as~~:

- The industry of the entity for which ~~whom~~ the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and
- _____ The applicable criteria to be applied to the subject matter information (e.g., the applicable financial reporting framework in the case of an audit of financial statements).

A63A. In some circumstances (e.g., a larger firm), the firm may establish policies or procedures that specify, or prohibit, the types of engagements that may be performed by the firm, for example, the firm may prohibit the performance of assurance engagements over a certain subject matter. The policies or procedures may also prohibit the performance of engagements for certain types of entities, for example, the firm may prohibit the performance of engagements in certain industries.

~~Integrity and Ethical Values of the Client, including Management, and, When Appropriate, Those Charged with Governance (Ref: Para. 35(a), 35(b) and 37(a))~~

~~A72. The extent of information regarding the integrity and ethical values of the client needed to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements depends on various factors, for example, the nature of the entity for whom the engagement is being performed, including the complexity of its ownership and management structure. Paragraph 20 of Appendix 1 provides examples of the information that the firm may obtain or consider in relation to the integrity and ethical values of the client.~~

A64. [From paragraph 20 of the previous appendix] The ~~information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements about ~~regarding~~~~ the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance. The extent of information obtained may depend on factors such as~~Other matters to consider may include, for example:~~

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.

- Indications of a limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

A6573. The firm may obtain the information from a variety of internal and external sources, for example:

- In the case of an existing client, consideration of matters that have arisen during the current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use an external service provider to perform the background search.

~~Paragraph 21 of Appendix 1 provides examples of other sources of information.~~

A65A. Information that is obtained during the firm's acceptance and continuance process about the nature and circumstances of the engagement and the integrity and ethical values of the client's management, and, when appropriate, those charged with governance is ordinarily relevant to the engagement team when planning and performing the engagement and the firm may need to communicate such information to the engagement team. Professional standards may also specifically require the engagement team to obtain or consider such information. For example, ISA 220 (Revised) requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and addressing the requirements of ISA 220 (Revised).

~~A74. The firm may need to communicate the information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance to the engagement team as it may be relevant to the performance of the engagement. For example, ISA 315 (Revised)⁴⁰ requires the engagement team, in identifying risks of material misstatement, to take into account information obtained from the client acceptance or continuance process.~~

A6675. Professional standards~~Relevant ethical requirements~~ may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300¹¹ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with

⁴⁰ ~~ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*~~

¹¹ Paragraph 13(b) of ISA 300, *Planning an Audit of Financial Statements*

relevant ethical requirements. ~~The IESBA Code¹² requires the firm to make inquiries of an existing or predecessor firm when accepting an engagement that is an audit or review of financial statements. The IESBA Code¹³ also and~~ requires the predecessor auditor, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. The IESBA Code also includes requirements that address consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement.

~~A76. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, the firm's responses addressing the quality risks arising from the acceptance and continuance of client relationships and specific engagements may involve using the information obtained at the engagement level in performing risk assessments and in carrying out reporting responsibilities.~~

The Firm's Ability to Perform the Engagement (Ref: Para. 385(b))

~~A77. The firm's ability to perform the engagement may depend on factors such as whether the firm:~~

- ~~• Has the technical competence relevant to the engagement, and knowledge of the entity's industry;~~
- ~~• Is able to fulfill relevant ethical requirements; and~~
- ~~• Has the time and resources to perform the engagement.~~

~~Paragraph 22 of Appendix 1 provides examples of factors the firm may consider in relation to its ability to perform the engagement.~~

A67. [From paragraph 22 of the previous appendix] ~~The firm's response to address the~~ consideration of whether the firm is able to perform the engagement may involve reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and considering whether:

- The firm has appropriate resources~~sufficient personnel~~ to undertake the engagement. This includes having~~including~~ personnel available to direct and supervise the engagement and take overall responsibility.
- The personnel have the appropriate competence and capabilities, including sufficient time, to effectively perform a quality engagement. ~~— Firm personnel assigned to the engagement have appropriate technical competence, professional skills and professional values, ethics and attitudes to perform engagements, or the ability to gain these effectively.~~ This includes knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements.
- The firm is able to fulfill relevant ethical requirements.
- Experts are available, if needed.

¹² Paragraph R320.8 of the IESBA Code.

¹³ Paragraph R360.22 of the IESBA Code.

- Individuals meeting the eligibility requirements to perform engagement quality control review are available, where applicable.
- The firm is able to complete the engagement within the reporting deadline, ~~for example, the time available to complete the engagement may be unreasonable in relation to the reporting deadline.~~
- The firm has appropriate technological resources to support the performance of the engagement, for example, ~~engagement software or IT~~ applications that enable the engagement team to perform procedures on the entity's data.
- The firm has appropriate intellectual resources to support the performance of the engagement, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

~~A78. Relevant ethical requirements may include specific requirements that need to be considered before accepting or continuing a client relationship or specific engagement. For example, the IESBA Code¹⁴ requires that reasonable steps be taken to identify circumstances that might create a conflict of interest before accepting a new client relationship and further requires remaining alert to changes in the nature of services, interest and relationships that might create a conflict of interest. The IESBA Code also requires the firm to consider conflicts of interest that might exist or arise due to interests and relationships of a network firm in circumstances when the firm is a member of a network.~~

Financial and Operational Priorities (Ref: Para. 38(c))

A68. The information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements may also provide the basis on which fees for the services being provided are determined. However, fees for an engagement may also impact the firm's ability to perform services in accordance with professional standards and applicable legal and regulatory requirements. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an engagement is so low that it might be difficult to perform the engagement in accordance with professional standards. Conversely, there may be circumstances when the fee quoted for an engagement is appropriate given the nature and circumstances of the engagement and the resources required, but it is not appropriate for the firm to accept or continue the engagement or client relationship for various other reasons, for example, the client lacks appropriate integrity and ethical values, or the firm's access to information is significantly restricted.

Withdrawal from an Engagement (Ref: Para. 38~~5~~(d))

A70~~9~~. The firm's response to address circumstances when information becomes available to the firm that may have affected the firm's decision to accept or continue a client relationship or specific engagement may include establishing policies or procedures that set out the actions to be taken when such information becomes available, such as:

- Undertaking appropriate consultation within the firm or with legal counsel.

¹⁴ Paragraphs R310.5 and R310.6 of the IESBA Code.

- Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.
- Discussing with the appropriate level of the client's management and with those charged with ~~its~~ governance the appropriate action that the firm might take based on the relevant facts and circumstances, and when it is determined that withdrawal is an appropriate action, informing them of this decision and the reasons for the withdrawal.
- If the firm withdraws from the engagement, considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Circumstances when the Firm is Obligated to Accept or Continue a Client Relationship or Specific Engagement (Ref: Para. ~~39~~7(e))

~~A7180.~~ There may be circumstances when the firm is obligated to accept or continue a client relationship or specific engagement despite there being information that would have caused the firm to decline the engagement. For example, jurisdictional laws ~~and or~~ regulations may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be auditors are appointed through statutory ~~provision~~cedures. In such circumstances the firm may design and implement additional responses to address quality risk(s) arising from the performance of such engagements. For example, the firm may assign more experienced personnel to the engagement (resources component) or may require that an engagement quality control review be performed in respect of the engagement (engagement performance component). There may also be actions at the engagement level to manage quality when performing such engagements, for example, increasing the extent and frequency of the engagement partner's direction and supervision of engagement team members and review of their work. ~~In such circumstances, the firm adapts the performance of the engagement, for example, by adjusting the nature, timing and extent of the procedures undertaken during the engagement to respond to the information. However, it may not be possible to adapt the procedures such that the firm is satisfied that the matter is adequately addressed and the firm may therefore respond by appropriately addressing the issue in the engagement report. For example, in an audit of financial statements if the firm is concerned with the integrity of management, the firm may determine that it is unable to rely on the representations of management (written or oral) and audit evidence more generally.~~⁴⁵

~~A72.~~ In some circumstances, a threat to the firm's integrity may arise as a result of being associated with the subject matter of the engagement. Relevant ethical requirements may include requirements addressing circumstances when the firm becomes associated with information that is false or misleading, which would be addressed as part of the relevant ethical requirements component. For example, the IESBA Code contains requirements addressing circumstances when the professional accountant becomes associated with information that contains a materially false or misleading statement, contains statements that have been provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.

Resources (Ref: Para. ~~38~~–40)

⁴⁵—See paragraphs 18 and 20 of ISA 580, *Written Representations*

~~A7384~~. Resources at the firm level include:

- Financial resources that are available to the firm.
- Human resources who have appropriate competence and capabilities.
- Technological resources, for example, IT applications systems and hardware.
- Intellectual resources, for example, written policies or procedures, the firm's development of a methodology or guides.

Resources may be categorized into greater levels of granularity, or combined (e.g., intellectual resources may be combined with technological resources). Resources are pervasive to all components of the system of quality management and therefore the firm's responses for resources will address quality risks specific to resources, as well as quality risks for other components. Such responses may be designed and implemented individually for each component, or they may be designed and implemented for all components holistically.

~~A74~~. Resources may be internal to the firm, or may be obtained externally from a network or a service provider. In such circumstances, in addition to complying with the requirements for resources set out in this component, the firm is also required to comply with paragraphs 60–65 addressing the use of network requirements or services or paragraphs 66–67 addressing the use of resources from a service provider.

~~A7582~~. Financial resources are necessary for obtaining, developing and maintaining the human resources, technological resources and intellectual resources that are needed to support the functioning of the firm's system of quality management and the performance of engagements. The governance and leadership component addresses appropriate resource planning, including anticipation of resource needs, and obtaining and allocating resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management.~~The IESBA Code¹⁶ explains that a self interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.~~

~~A83~~. [Moved to paragraph A22]

~~A76~~. Other components, such as information and communication, include quality objectives that support the design, implementation and operation of the system of quality management, and responses that affect or relate to resources. For example, the information necessary to ensure the appropriate assignment of personnel or to evaluate personnel is identified, captured, processed and maintained through the information and communication component.

Human Resources (Ref: Para. ~~38(b)–38(d) and 40(a)–40(d)~~)

~~A77~~. Competence is the ability of the individual to perform a role to a defined standard and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.

¹⁶ Paragraph 330.3 A2 of the IESBA Code.

A78. Professional standards, law or regulation may establish requirements addressing competence and capabilities. For example, law or regulation of a jurisdiction may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.

~~A84.~~ [Moved to paragraph A79]

~~A85. The International Education Standards (IES), which are issued by the International Accounting Education Standards Board (IAESB), establish standards for professional accounting education that prescribe the technical competence and professional skills, values, ethics, and attitudes for professional accountants, and may provide useful guidance for the firm in determining the appropriate technical competence, professional skills and professional values, ethics and attitudes of its personnel. For example, IES 7¹⁷ includes requirements for the continuing professional development of professional accountants and IES 8 (Revised)¹⁸ prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an engagement partner for an audit of financial statements. Paragraph 23 of Appendix 1 provides examples of how the professional values, ethics and attitudes of firm personnel may be developed.~~

A79. [Moved from paragraph A84] The firm's responses that relate to the attraction, development and retention of personnel may include: Attracting, developing and retaining human resources ordinarily involves the following processes:

- Recruitment. Recruitment strategies that ~~support the firm's system of quality management may include a~~ focus on selecting individuals who have the ability to develop the ~~technical competence, professional skills and professional values, ethics and attitudes~~ necessary to consistently perform quality engagements ~~and other~~ duties in relation to the operation of the system of quality management within the firm.
- Training and continuing professional development. Training programs, which may form part of the firm's intellectual resources, to develop personnel's competence to enable them to perform their roles and responsibilities ~~and actions that encourage firm personnel to engage in continuing professional development support the performance of engagements.~~
- Policies addressing the continuing professional development of personnel, including personnel's responsibility to maintain an appropriate level of continuing professional development, and training resources and other assistance provided by the firm.
- Performance evaluation. Evaluation mechanisms that establish competency areas and other performance measures, and facilitate the evaluation of personnel at appropriate intervals.
- Career development and promotion. Compensation, promotion and other incentives, appropriate to the nature and circumstances of the firm.
- Compensation.

~~A8086. When assigning personnel,~~ Human resources assigned to engagements or other roles may include personnel in a service delivery center, or human resources engaged by the firm (i.e., a service provider) or the network. The firm's responses to address the competence and capabilities of personnel in a service delivery center or human resources engaged by the firm or the network may

¹⁷ IES 7, Continuing Professional Development (2014)

¹⁸ IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

~~differ from the firm's responses to address the competence and capabilities of personnel, the firm may organize its personnel in a variety of ways. In some circumstances, the firm may concentrate or centralize its processes or activities in a particular operating unit or location, for example, certain engagement procedures may be performed for multiple engagements in a centralized location. The firm may also determine it appropriate to obtain specialist skills from other network firms or service providers, such as other professional services firms. In such cases, the firm may need to design responses to address the objectives in this ISQC in relation to human resources, to the extent that they apply to such individuals(s), for example, how the firm establishes that such individual(s) have the technical competence, professional skills and professional values, ethics and attitudes to effectively perform the engagement. Paragraph 24 of Appendix 1 provides examples of how the firm may assign its personnel to engagements and paragraph 25 of Appendix 1 includes factors that the firm may consider when assigning personnel to engagements and determining the level of supervision required.~~

A817. Given the importance of the role of the engagement partner, it may be appropriate for the firm to communicate the identity and role of the engagement partner to key members of client management and those charged with governance. ~~Appropriate technical competence, professional skills and professional values, ethics and attitudes enhances the authority of the individual(s) assigned responsibility for performing the engagement and supports their understanding of how to fulfill their responsibilities in accordance with professional standards. Furthermore, law or regulation may establish requirements for the professional licensing of engagement partners, including requirements regarding their technical competence, professional skills and professional values, ethics and attitudes.~~

A828. ~~The firm may evaluate firm personnel's commitment to quality and their maintenance and development of the technical competence, professional skills and professional values, ethics and attitudes to perform their roles through undertaking performance evaluations. In doing so, the firm may also provide personnel with feedback and counseling on the individual's performance, progress and career development. Less formal methods of evaluation and feedback may be used, particularly in the case of smaller firms with fewer personnel. Nevertheless, timely evaluations and feedback help support and promote the continual development of the technical competence, professional skills and professional values, ethics and attitudes of firm personnel. Less formal methods of evaluation and feedback may be used, particularly in the case of smaller firms with fewer personnel.~~

A839. ~~The firm's evaluations may be used by the firm in determining the compensation, promotion, compensation or other incentives of firm personnel, that give due recognition and reward to firm personnel who demonstrate a commitment to quality and who maintain and develop the technical competence, professional skills and professional values, ethics and attitudes, to perform their role. In some circumstances, The policies or procedures established by the firm that address compensation, promotion and other incentives with regard to firm personnel, may provide for simple or informal incentives that are not based on monetary rewards may be appropriate.~~

A84. ~~Actions may be taken for personnel who fail to demonstrate a commitment to quality, maintain and develop the competence and capabilities to perform their role or implement the firm's responses as designed (e.g., an individual breaches the firm's policies or procedures for independence). The actions taken may depend on the severity of the failure and the frequency of occurrence and may include:~~

- ~~• Training or other professional development;~~

- Considering whether the matter should affect the evaluation, compensation, promotion or other incentives of the individual(s); and
- Taking disciplinary action against the individual(s), if appropriate, depending on the severity of the failure and the frequency of occurrence.

Technological Resources (Ref: Para. ~~38(e), 38(g) and 40(e)~~)

~~A90. The firm may develop technological resources internally, acquire technological resources from a service provider, or the firm's network may provide technological resources. Paragraphs 59–63 address circumstances when the firm uses network services and paragraphs 64–65 address circumstances when the firm uses a service provider. Paragraph 27 of Appendix 1 explains the frequency with which the firm may need to acquire, develop or maintain its technology and paragraphs 28–29 of Appendix 1 set out the responses the firm may implement when technology is acquired from a network or service provider and when it is developed internally.~~

~~A91. The technology used by the firm encompasses the infrastructure and other resources necessary for such technology to be able to operate, for example, human resources to operate the technology, a network infrastructure, data storage, data transmission, hardware, backup and recovery procedures and disaster recovery plans. The frequency with which the firm needs to track and respond to changes in its infrastructure depends on how rapidly the firm may be affected by technological changes. Paragraphs 30–31 of Appendix 1 explain the importance of security in relation to the firm's technology, provide examples of the types of security measures that may be implemented and factors that may influence the security.~~

A85. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure, as well as the IT processes and individuals (human resources) involved in those processes, that the firm uses in the operation of its system of quality management or in the performance of engagements:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure is comprised of the network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

A86. The firm's information system relevant to the system of quality management, which is required to be established in the information and communication component, may include the use of automated elements, and records in the form of digital information. The firm may also use certain IT applications to support the operation of various aspects of its system of quality management, for example, those explained in paragraphs A56, A62, A67, A91, A111 and A118. Other IT applications may be implemented by the firm for use by engagements teams in performing engagements, for example, IT applications that support the documentation of work performed and IT applications to perform data analyses of the client's information. In some cases, the IT applications may be purchased from a service provider or the firm may use service providers to manage certain aspects of the IT processes.

A87. The IT environment for a larger firm may be comprised of highly-customized or highly-integrated IT applications, with dedicated human resources to manage the IT infrastructure and IT processes. However, the IT environment for smaller and less complex firms may comprise IT applications that are commercial software, and the IT processes may involve authorizing access to the IT applications and processing updates to the IT applications.

A88. The use of IT applications or other aspects in the IT environment may give rise to quality risks, for example:

- Inappropriate reliance on IT applications that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that may result in breaches in confidentiality of information contained in the data, destruction of data or improper changes to data.
- Potential loss of data or inability to access data or IT applications as required.
- Unauthorized changes to IT applications or other aspects of the IT environment.
- Failure to make necessary changes to IT applications or other aspects of the IT environment.

The nature and significance of these quality risks may vary based on whether, and the extent to which, the firm relies on IT, including automated controls, to support the system of quality management and the performance of engagements. General IT controls may be part of the responses designed and implemented by the firm to address such quality risks.

A88A. When implementing an IT application, it is necessary for the firm to determine that the IT application operates appropriately. The determination may involve consideration of whether:

- The data inputs are appropriate and confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- It is clear how users are required to interact with and use the IT application and users have appropriate support.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.

A8992. Engagement teams may need to be trained on how to use the technological resources appropriately ~~and may be required to undertake specific actions so that technology is used appropriately in the circumstances.~~ Furthermore, for certain IT applications, specialized skills may be needed to utilize the IT application effectively and the firm may need to specify procedures that set out how the engagement team should operate the IT application. For example, in some instances the firm's IT application for the documentation of engagements~~audit software~~ may require that the engagement team complete certain information about the client and the circumstances of the engagement in order to generate an appropriate audit engagement file for the circumstances of the engagement,~~or in using the firm's data analytical tool the engagement team may need to test the underlying data.~~

Intellectual Resources (Ref: Para. ~~38(f), 38(g) and~~ 40(f))

~~A9093. Intellectual resources comprise the information the firm uses to promote consistency in the performance of engagements, for example, written policies or procedures, a methodology, industry or subject matter-specific guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements). ~~The firm may develop intellectual resources internally or may acquire intellectual resources externally. Paragraphs 59–63 address circumstances when the firm uses network services and paragraphs 64–65 address circumstances when the firm uses a service provider. Paragraphs 32–33 of Appendix 1 explain how the nature and extent of the firm's intellectual resources may vary, and provide examples of responses addressing intellectual resources.~~~~

~~A91. The intellectual resources may be made available through IT applications (i.e., a technological resource), for example, the firm's methodology may be included in the IT application for the documentation of the engagement (e.g., an audit methodology embedded in an audit IT application). The firm may also need human resources to develop, implement and maintain the intellectual resources, for example, a technical department may be established. Intellectual resources may also be dependent on relevant and reliable information that is identified, captured, processed and maintained through the firm's information and communication component.~~

Engagement Performance (Ref: Para. ~~424~~–43)

Direction, Supervision and Review (Ref: Para. ~~424(a)~~ and 43(a))

~~A924. Examples of Responsibilities in relation to for engagement supervision ~~may~~ include the following:~~

- Tracking the progress of the engagement;
- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

~~A935. Examples of considerations for Aa review ~~may involve include the consideration of~~ whether:~~

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate judgments and consultations have ~~taken place been made~~ and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Judgments and Conclusions (Ref: Para. 424(b))

~~A956. Professional judgment is applied throughout the performance of engagements. The extent of professional judgment applied in an engagement depends on a variety of factors, for example, the nature of the engagement, the nature of the entity for whom the engagement is performed and the underlying circumstances of the engagement (e.g., the complexity of the subject matter or subject matter information). The system of quality management creates an environment that supports engagement teams in making informed decisions about the courses of action that are appropriate given the nature and circumstances of the engagement. Professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team. For example, the responses designed and implemented by the firm to establish a culture that promotes a commitment to quality or the responses addressing the attraction, development, retention and assignment of personnel with the competence and capabilities to perform engagements are important in supporting the appropriate application of professional judgment by the engagement team. Furthermore, the firm's policies or procedures for consultation and differences of opinion and the performance of engagement quality control reviews for selected engagements further support the engagement team in making appropriate judgments.~~

~~A97. Although the judgments are undertaken at the engagement level, the system of quality management supports the quality of such judgments, for example, by creating an environment and culture that supports firm personnel in exercising judgment, providing support tools (e.g., guides and other resources) or through consultation or review (e.g., an engagement quality control review provides an objective evaluation of the judgments made by the engagement team and the conclusions reached).~~

Consultation (Ref: Para. 43(ca))

A968. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. While the firm establishes policies or procedures regarding the matters on which consultation is required, the engagement team may identify other matters that require consultation, for example, difficult or contentious matters specific to the nature and circumstances of the engagement. ~~The policies or procedures addressing consultation may provide clear guidelines as to the steps to be taken in consultation, and may set out documentation requirements. Paragraphs 34–35 of Appendix 1 explain factors that contribute to effective consultation and matters that may be included in the documentation.~~

A979. In considering its resource needs, the firm may take into consideration the resources needed to support consultation, ~~including access to for example,~~ appropriate access to research ~~intellectual resources to support research~~ and personnel (i.e., human resources) with the technical competence and capabilities, ~~professional skills and professional values, ethics and attitudes that enable them to appropriately provide consultations~~. In some instances, such as a smaller firm, human resources to support consultation may only be available externally, for example, other firms, professional and regulatory bodies, or commercial organizations that provide such services. In such cases, paragraphs ~~664–675~~ apply.

Differences of Opinion (Ref: Para. 43(db))

A98400. The policies or procedures addressing differences of opinion may be established in a manner that encourages identification of differences of opinion at an early stage, ~~provides clear guidelines as to~~

~~the successive steps to be taken thereafter, and requires documentation regarding the resolution of the differences and the implementation of the conclusions reached.~~ Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Quality Control Reviews (Ref: Para: 43(~~ee~~))

A99-A109. [Refer to **Agenda Item B.3**]

Engagement Documentation (Ref: Para. 434(~~fd~~))

~~Completion of the Assembly of Final Engagement Files~~

A1104. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements is to be completed. Where no such time limits are prescribed in law or regulation, the firm ordinarily establishes an appropriate time limit ~~that reflects the need to complete the assembly of final engagement files on a timely basis.~~ In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report. ~~Paragraph 36 of Appendix 1 explains circumstances when two or more different reports are issued in respect of the same subject matter information.~~

~~Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation~~

~~A111. The retention and maintenance of engagement documentation includes ensuring the safe custody, integrity, accessibility or retrievability of the underlying data. The retention and maintenance of engagement documentation may involve the use of IT applications (i.e., technological resources).~~

A11202. Relevant ethical requirements generally establish an obligation for ~~the firm's~~ personnel to observe at all times the confidentiality of client information, unless specific client authority has been given to disclose information, ~~or~~ there are responsibilities under law, regulation or relevant ethical requirements to do so, or there is a right to do so.⁴⁹ Specific laws or regulations may impose additional obligations on ~~the firm's~~ personnel to maintain client confidentiality, particularly where data of a personal nature is concerned. Accordingly, the firm's responses for relevant ethical requirements may include responses for the retention and maintenance of engagement documentation. ~~Client information may be contained in engagement documentation or other locations, such as emails, firm servers or hard copy. Accordingly, t~~The firm's responses to address the confidentiality of client information may need to address all possible locations of client information, including engagement documentation, emails, firm servers or hard copy.

~~A103. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Paragraphs 37–38 of Appendix 1 provide examples of the responses the firm may design and implement to address unauthorized alteration or loss of engagement documentation and the maintenance of the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.~~

~~Retention of Engagement Documentation~~

¹⁹ See, for example, paragraph R114.1, 114.1 A1 and R360.26 of the IESBA Code.

~~A11304. Law or regulation may prescribe the retention period for engagement documentation, or there may be generally accepted retention periods. If the retention periods are not prescribed in law or regulation, the firm ordinarily establishes an appropriate retention period, and in determining the period, may take into consideration The needs of the firm for retention of engagement documentation, and the period of such retention, may vary with the nature of the engagements performed by the firm and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. Paragraph 39 of Appendix 1 provides examples of the responses the firm may design and implement to address retention of engagement documentation.~~

~~A105.~~ In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

~~Ownership of engagement documentation~~

~~A11406.~~ Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Information and Communication (Ref: Para. ~~4427–4529~~) [*Previously located before relevant ethical requirements*]

~~A11549.~~ Obtaining, ~~or~~ generating ~~and~~ communicating information is generally an ongoing process that involves all ~~firm~~ personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management and therefore the firm's responses for information and communication address quality risks specific to information and communication, as well as quality risks for the other components. Such responses may be designed and implemented individually for each component, or they may be designed and implemented for all components holistically. Paragraphs A39, A56, A63 and A76 explain and provide examples of how the information and communication component supports the design, implementation and operation of the other components of the system of quality management.

~~A11650.~~ Relevant and reliable information includes information that is accurate, complete, timely and valid to support the proper functioning of the firm's system of quality management. ~~Paragraph 29(a) requires the firm to establish policies or procedures to address the identification, capture, process and maintenance of information. Such policies or procedures may identify and define the information needs to support the operation of the components of the system of quality management and level of specificity of such information.~~

~~A117.~~ The information system in smaller and less complex firms is likely to be less sophisticated than in larger firms and involve a less complex IT environment, but the role of the information system is just as important.

~~A118.~~ The information system may include the use of manual and automated elements (i.e., technological resources), which affect the manner in which information is identified, captured, processed,

~~maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications and in some cases may be embedded within the firm's responses for other components, for example, the firm's monitoring activities provide information that is used for various purposes. In addition, records in the form of digital information may replace or supplement records in the form of paper documents. The information systems that enable the operation of such policies or procedures may be manual or automated, and may be integrated. The range and sophistication of such information systems may depend on factors such as the complexity and volume of the information, the source of the data, how the information will be used and disseminated, including the timeliness in which the information is needed, or the size and complexity of the firm. Information systems, or how the data is obtained, may be embedded within the firm's responses, for example, the firm's audit software tool may enable the firm to obtain information relevant to the operation of the system of quality management. Paragraph 12 of Appendix 1 provides examples of the information that is relevant in supporting the functioning of the components of the system of quality management.~~

~~A11954. Communication is the means through which the firm and its personnel share relevant information throughout the firm to support the proper functioning of the firm's system of quality management and the management of quality at the engagement level. For example Parties with whom two-way communication is undertaken may include:~~

- ~~• The firm communicates information to Engagement teams, such as, ~~For example~~, information that is obtained during the firm's acceptance and continuance process that may be relevant to engagement teams in planning and performing the audit engagements, ~~in accordance with the ISAs, or may be relevant to the engagement team in order to fulfill their responsibilities under ISA 220 (Revised). Accordingly, such information may be communicated to engagement teams.~~~~
- ~~• Engagement teams communicate information to the firm, such as information obtained about the client during the performance of the engagement that may affect the firm's decision to continue a client relationship or specific engagement. As the engagement progresses, the engagement partner may need to update the firm's information about the client, such as in respect of changes in the client's organizational structure.~~
- ~~• Personnel performing duties in relation to within the operation of the firm's system of quality management communicate information to all firm personnel, for example, including the individual(s) assigned ultimate responsibility and accountability or the individual(s) assigned operational responsibility for independence may communicate changes in independence requirements and how the firm's policies or procedures have been changed in response to such changes the firm's system of quality management.~~
- ~~• Parties that are external to the firm, which may include the network, network firms, external oversight authorities, users of the firm's reports, management or those charged with governance of the firm's clients, external service organizations or the firm's legal counsel.~~

~~Such ~~Two-way~~ communication may also be among the various parties, for example, engagement teams may communicate information directly to the personnel performing duties within the firm's system of quality management, firm personnel or between firm personnel, and with external parties. Paragraphs 13–17 of Appendix 1 provide examples of the matters that may be communicated~~

~~between the firm and firm personnel or external parties, or among them, and it explains the methods of communication that may be used in various circumstances.~~

~~A12052. Matters to be communicated include information that is required to be communicated by this ISQC, for example, the responses required in Pparagraphs 43(b), 55 and 56. requires the firm to communicate on a timely basis to firm personnel information in relation to the firm's monitoring and remediation process that is relevant to their responsibilities, i.e., when the firm identifies information arising from its monitoring and remediation process that is relevant to the firm personnel, such information is communicated in a timely manner. Such communications may form part of the annual communication to firm personnel of matters related to the firm's system of quality management. The information described in Pparagraphs A128–A12963 sets out other information that may also be relevant information that is communicated internally on an annual basis to personnel.~~

~~A121. In circumstances when the firm belongs to a network, frequent and direct communication with the network supports the network in establishing requirements and providing services that promote the consistent performance of quality engagements.~~

~~Complaints and Allegations (Ref: Para. 29(e))~~

~~A53. Establishing channels that enable reporting of complaints and allegations and policies or procedures to deal with them supports the firm's culture that promotes a commitment to quality, including professional values, ethics and attitudes.~~

~~A54. [Moved to paragraph A32]~~

~~A55. [Moved to paragraph A33]~~

~~A56. [Moved to paragraph A34]~~

~~A57. [Moved to paragraph A35]~~

~~Communication with External Parties (Ref: Para. 44(e) and 45(b))~~

~~A122. [Moved from paragraph A24] The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way communication between the firm and its stakeholders. For example, sStakeholders' perception of the quality of engagements performed by the firm may be improved when the they consider that the firm supports and embeds a quality focused culture that emphasizes professional values, ethics and attitudes in the conduct of engagements. Confidence may be increased if stakeholders firm is more transparent about the are made aware of the firm's activities that it has undertaken to address quality, and the effectiveness of those activities. As a result, the firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way communication between the firm and its stakeholders.~~

~~A123. Parties that are external to the firm may include the network, network firms, external oversight authorities, management or those charged with governance of the firm's clients, other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) or external service organizations. External parties may also include users of the clients' reports, such as current or future shareholders and credit providers of the entities for whom the firm performs engagements. The firm uses professional judgment when determining external parties who are relevant to the firm, and may take into account the nature of the engagements performed by the firm and the nature of~~

the entities for whom the engagements are performed when making that determination. For example, in the case of a firm that performs audits of financial statements of listed entities or entities that have a significant public interest, external parties may include shareholders and credit providers of such entities, as well as management and those charged with governance. On the other hand, external parties for a firm that only performs compilations of financial statements of non-listed entities or entities that do not have significant public interest may be more limited to client management and credit providers.

A124. The firm may also obtain information from external parties about the system of quality management, for example, external inspection results from the firm's regulatory or oversight body or network. Engagement teams or personnel performing duties within the system of quality management may also exchange information with external parties, such as management or those charged with governance of the firm's clients.

A125. In some jurisdictions, law or regulation may specify the nature, timing and extent of external communication by the firm. However, in some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally. For example, certain information may be subject to privacy or secrecy laws or regulations or the firm may be precluded from communicating certain information because of the duty of confidentiality under law, regulation or relevant ethical requirements. Paragraph 28(f) addresses communication with parties external to the firm about the firm's system of quality management.

A12658. The nature of the communication to external parties may comprise a webpage, a publication such as a firm may communicate information about the firm's system of quality management to parties external to the firm in a variety of ways, for example, through transparency reports or, audit quality reports or direct communication to specific stakeholders marketing publications. In some circumstances, the firm may communicate specific information directly to external parties that is not made available publicly, for example, (e.g., information about the results of the firm's monitoring and remediation process) may be communicated directly to external parties.

A59. Relevant stakeholders may include shareholders and credit providers of the entities to whom the firm provides services. Information about the firm's system of quality management may also be useful for (i) other firms when such firms use the work of the firm in the performance of engagements (e.g., in relation to a group audit), or (ii) management or those charged with governance (e.g., in evaluating how the firm manages the quality of the firm's engagements as a basis for determining whether to appoint the firm).

A60. [Moved to paragraph A130]

A12764. Paragraph 29 requires the firm to establish quality objectives that address the communication of information externally that is relevant and timely. Information that is relevant and timely may possess attributes such as being Information that has the following attributes contributes to an enhanced understanding of the quality of the engagements performed by the firm:

- The information is Sspecific to the circumstances of the firm and is prepared and presented in a timely manner. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information become overly standardized and less useful over time.

- The information is Presented in a clear and understandable manner that is neither misleading nor would inappropriately influence the users of the communication. ~~;~~ and
- The information is Accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may take into consideration matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources, for example, information located on the firm's website.

~~A62. In determining the content of the information communicated about the firm's system of quality management, the firm may take into consideration:~~

- ~~• The requirements of law or regulation or other professional standards.~~
- ~~• The information needs of the users for whom the communication is intended. In considering what information is useful for the users' of the firm's communications, the firm may take into consideration matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources, for example, information located on the firm's website.~~
- ~~• The nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken.~~

~~A12863. The information communicated may depend on a variety of factors, including the nature of the communication, the nature and circumstances of the firm and the external parties with whom the communication is being undertaken. For example, the communication may contain information about:~~

- ~~• The nature and circumstances of the firm, such as the organizational structure and operating environment and whether it is part of a network.~~
- ~~• The firm's governance and leadership, such as its culture and commitment to quality and information about the individuals responsible for the leadership of the firm.~~
- ~~• The results of the firm's monitoring activities and external inspections, and how the firm has remediated deficiencies or is otherwise responding to them.~~
- ~~• The evaluation undertaken in accordance with paragraph 57 of this ISQC of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b), including the basis for the judgments made in undertaking the evaluation.~~
- ~~Information that may be communicated about the firm's system of quality management may focus on H~~how the firm has responded to emerging developments and changes in its circumstances, including how the system of quality management has been adapted to respond to such changes.

~~Other information that may be communicated includes:~~

~~A description of the firm's structure, including the structure of its network.~~

~~A description of the firm's leadership structure and profiles of the individuals within firm leadership.~~

~~Information about the firm's measures to support engagement quality, such as:~~

~~An overview of the responses the firm has implemented to address governance and leadership, including information about the firm's culture that promotes a commitment to quality;~~

~~An overview of the firm's information and communication, including how it has established effective two-way communication within the firm and its engagement with external stakeholders;~~

~~An overview of the quality risks that have been assessed as more severe or pervasive and the responses the firm has designed and implemented to address such risks;~~

~~An overview of the firm's monitoring activities and its process for identifying and evaluating deficiencies; or~~

~~In circumstances when the firm belongs to a network, the nature of the services that the firm uses which are provided by the network.~~

~~The extent to which the firm uses service providers in relation to its system of quality management.~~

~~The results of the firm's monitoring and remediation process in accordance with paragraph 56, or, if paragraph 58 is relevant, an indication that the firm has not achieved reasonable assurance in accordance with paragraph 15.~~

~~Information about the firm's internal indicators of engagement quality.~~

A129. In circumstances when the firm is part of a network, it may be useful to provide transparency about the relationship between the firm and the network in certain external communication. Such information may include:

- The nature of the relationship between the firm and the network, the overall structure of the network, and the network requirements that the firm is expected to use in its system of quality management.
- The network requirements or services that are used by the firm in its system of quality management.
- If the network monitors the use of its requirements and services across the network, information about the overall scope, extent and results of the monitoring activities across the network firms that the network has provided to the firm in accordance with paragraph 63(a)(iii).

A130. [Moved from paragraph A60] The nature of the engagements the firm performs and the types of entities for whom such engagements are performed may affect the nature, timing and extent of the communication to external parties. For example, the firm may determine it appropriate to prepare a publication with information about its system of quality management that is publicly available in circumstances when the firm performs audits of financial Entities that have a significant public interest may include statements of listed entities or other entities that may be of significant public interest, for example because they have a large number and wide range of stakeholders or are significant due to their nature and size of the business (e.g., Examples of such entities may include financial

institutions (such as banks, insurance companies, and pension funds), ~~and other entities such as charities.~~

~~A64. In some cases, the firm may describe the limitations of the information provided, for example, if the firm presents information about the firm's internal indicators of engagement quality, the firm may consider explaining the limitations of such indicators, including that the indicators may not be comparable across firms, or between periods.~~

Monitoring and Remediation Process (Ref: Para. ~~464~~–~~598~~)

~~A13107.~~ In addition to supporting the firm's evaluation of the ~~design, implementation and operation of the responses within the components of the firm's~~ system of quality management, the monitoring and remediation process facilitates the improvement of engagement quality and the ~~firm's~~ system of quality management. Professional judgment is applied ~~in relation to~~for various decisions within the monitoring and remediation process, including decisions about:

- The nature, timing and extent of the monitoring activities ~~to monitor the design, implementation and operation of the responses~~, including the scope of inspection of ~~completed~~ engagements.
- The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information.
- How to appropriately respond to the findings from the monitoring activities, results of external inspections and other relevant information.
- Whether the system of quality management provides the firm with reasonable assurance in ~~accordance relation to the objectives described in with~~ paragraph ~~195(a) and (b)~~.

Designing and Performing Monitoring Activities ~~to Monitor the Design, Implementation and Operation of the Responses~~ (Ref: Para. ~~485~~–~~5047~~)

~~A132.~~[Moved from paragraph A110] ~~The purpose of a monitoring activity, which is a response in and of itself, is to monitor the other responses in the system of quality management. Certain~~The other responses ~~in the system of quality management to the quality risks may include responses that are~~ designed to detect ~~errors~~deviations in the system of quality management ~~so that they can prevent a quality risk from occurring in order that such deviations are promptly corrected. For example, in some circumstances, an in-process review of engagement documentation may be designed as a detective response to address quality risks in the other components, but in other circumstances may be designed as a monitoring activity (inspection of engagement) over other responses. Determining the purpose of the in-process review is likely to be important to determining its design. In such cases, the response is not typically a monitoring activity, because the firm does not typically evaluate whether such deviations are deficiencies in the system of quality management (i.e., the response is designed to detect and correct a deviation in order to prevent deficiencies). Since the activity is designed as a response to a quality risk, the firm implements monitoring activities to evaluate the design, implementation and operation of the response.~~

~~A13308.~~The ~~frequency of the~~ firm's monitoring activities may comprise ongoing monitoring activities, periodic monitoring activities or a combination of both. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions, for example, ~~an IT application (i.e., a technological resource) that~~computerized continuallyous monitoring ~~sing techniques over~~ engagement file retention procedures or engagement-

level reviews that are undertaken during the course of the engagement on specific aspects of completed work. Periodic monitoring activities are conducted at certain intervals by the firm, for example, inspection of completed engagements. ~~Since periodic monitoring activities are performed at certain intervals, ongoing monitoring activities may be more effective in identifying deficiencies in the system of quality management in a timelier-timely manner. Nevertheless, periodic monitoring activities may be useful in confirming the results of ongoing monitoring activities. Paragraphs 40–41 of Appendix 1 provide examples of monitoring activities and how the nature, scope and frequency of the monitoring activities may vary. Paragraph 42 of Appendix 1 explains how the objectivity of those performing the monitoring activities may vary depending on the activity subject to monitoring.~~

A134. ~~The firm considers the various types of monitoring activities that it plans to perform in determining the nature, timing and extent of those activities. For example, if the firm plans to perform monitoring activities that comprise inspections of engagements while in progress, it may affect the criteria used to select completed engagements for inspection or it may affect the nature of matters considered by the firm in performing the inspection of completed engagements.~~

A135 ~~9.~~ ~~When~~ performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed. For example, the firm may identify findings that indicate the need for more extensive monitoring activities in a particular area.

~~A140.~~ [Moved to paragraph A132]

A136. [Moved from paragraph A111] ~~The assessed quality risks and the design of the responses may influence the nature, scope and frequency of the monitoring activities, for example, the firm may more frequently monitor areas of higher assessed quality risk or extend the scope of monitoring in such areas. There may be classes of engagements where it is more likely that the quality risks to which the response relates may occur or where there is a greater likelihood of the quality objective not being met, for example, engagements that relate to a particular industry or type of service. Other factors that may also affect~~ ~~†~~ ~~The nature, scope and frequency of the monitoring activities may be affected by factors such as~~ include:

- ~~The size, structure and organization of the firm, the types of services the firm provides, the industries it serves and the nature of the entities to whom services are provided.~~
- ~~The structure and organization of the firm, including the involvement of the network firm in monitoring activities.~~
- ~~The firm's infrastructure, for example, technology and resources that the firm intends to use to support monitoring activities, for example, the use of IT applications (i.e., technological resources) or human resources.~~
- ~~However, †~~ ~~The nature, scope and frequency of the firm's monitoring activities may be affected by the nature~~ ~~design~~ of the response. For example, ~~the firm's response may the firm may comprise in-process reviews of engagement documentation of selected engagements by personnel who are not members of the engagement team. require engagement teams to obtain a review of the audited financial statements or other aspects of completed work by a central technical team prior to dating the audit report (e.g., a pre-issuance review), in order to identify deviations in the engagement that are required to be corrected before issuing the audit report. In this circumstance, †~~ ~~the extent of the pre-issuance review~~ ~~of the engagement documentation, the nature of the matters considered~~

~~in the review, and how the results of the review are collated~~ may affect the ~~nature, scope and~~ frequency of ~~the monitoring activities over the in-process review~~~~inspections of completed engagements.~~

~~A138.~~ [Moved from paragraph A114] ~~Examples of categories of engagements where quality risks may be more likely to occur include~~ ~~The factors the firm may consider in establishing criteria for the selection of completed engagements for inspection include:~~

- Engagements where ~~re~~ the firm or engagement partner are inexperienced, for example, a new industry, a new service offering or new engagement partner.
- Engagements performed in respect of certain entities (e.g., a listed entity or entity that has a significant public interest).
- Engagements that have been subject to external inspection and which have negative findings, or engagements where the findings of previous monitoring activities identified deficiencies.
- Engagements where there has been a material restatement of comparative information in the financial statements or the firm's report required reissuance.
- Engagements where the firm's engagement acceptance and continuance procedures indicated that matters may exist that may increase the engagement risk.

~~A139.~~ ~~The nature, scope and frequency of the firm's monitoring activities may be more extensive for areas of the system of quality management where the quality risks are greater and the related responses are more extensive or rigorous. For example, the firm may perform more extensive monitoring activities over audits of financial statements of listed entities that have a significant public interest because the effect of the quality risks on the achievement of the quality objective(s) may be greater. However, considering other areas of the system of quality management that are less susceptible to risk is also necessary to ensure that the conclusions reached about the system of quality management are appropriate. For example, although the firm performs more extensive monitoring activities over engagements that are susceptible to greater risk, some monitoring activities over other engagements or types of entities may enable the firm to form appropriate conclusions on the population as a whole.~~

~~A141.~~ [Moved to paragraph A136]

~~A140.~~ ~~2.~~ The firm's system of quality management may change as a result of, for example:

- Changes in the nature and circumstances of the firm ~~and, its the~~ engagements ~~performed by the firm and the types of entities for whom the engagements are undertaken~~ (e.g., a new service offered by the firm or changes in the firm's environment).
- Changes to address an identified deficiency in the firm's system of quality management.
- Other factors, such as the firm amends the responses to quality risks because these become obsolete over time or more effective responses are designed and implemented, ~~such as the use of IT applications (i.e., technological resources) to replace manual processes.~~

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the ~~components of the~~ system of quality management and therefore the firm's monitoring activities may include monitoring areas of change. ~~Furthermore, p~~ previous monitoring activities undertaken by the firm may also no longer provide the

firm with information to support the evaluation of ~~the components of the system of quality management in relation to~~ areas that have not changed remained the same, for example, because of the time that has elapsed since the monitoring activities were undertaken. ~~Accordingly, the firm may need to consider the relevance of previous monitoring activities, which includes understanding changes in factors that affect the firm's system of quality management, as well as when such monitoring activities were performed.~~

A1413. The findings from the firm's previous monitoring activities, results of external inspections or other relevant information may indicate:

- Areas where previous monitoring activities should ~~continue to be focused~~be undertaken, for example, monitoring may need to continue to be undertaken in certain areas where there is a history of deficiencies. Furthermore, the monitoring activities may need to evaluate the effectiveness of remedial actions implemented to address deficiencies previously identified.
- ~~Findings or That~~ deficiencies ~~existed~~ in previous monitoring activities undertaken by the firm, ~~which, This~~ may affect the firm's consideration of whether the nature, scope and frequency of previous~~current~~ monitoring activities ~~were planned to be undertaken, or that are being undertaken, are~~ appropriate.

A142. The results of external inspections cannot be used by the firm as a substitute for undertaking internal monitoring activities ~~because the manner in which the external inspections are conducted (i.e., the nature, timing and extent of the inspection procedures) may not have been designed with the objective of evaluating the design, implementation and operation of the responses. Nevertheless, the information from the results of external inspections may indicate areas of the system of quality management where monitoring activities should be performed.~~

A1443a. Examples of sources of other relevant information may include:

- Information communicated by the network in accordance with paragraph 634 of this ISQC ~~in relation to~~about the firm's system of quality management, including the network requirements or services that the firm uses.
- Information communicated by a service provider about the services resources the firm uses in ~~relation to~~ its system of quality management.
- Concerns ~~in relation about to~~ the commitment to quality of the firm or its personnel, communicated in accordance with paragraph 279 ~~(ce)~~ of this ISQC.
- A material restatement of financial statements, ~~or~~ an engagement report that required reissuance or litigation against the firm.

Engagement Inspections (Ref: Para. 496)

A144. [Moved to paragraph A138]

A1445. The extent and frequency of selection of individual engagements ~~for inspection partners~~ depends on many factors, including those described in paragraph A1384. ~~They may also be affected by the nature, timing and extent of other monitoring activities undertaken by the firm at the engagement level.~~ The firm may establish different cyclical periods for engagement partners according to the categories of engagements they perform ~~engagement partners based on the nature of the engagements they perform~~, for example, the firm may determine that the cyclical period for an

engagement partner performing audits of financial statements may be three years and the period may be longer for engagement partners performing compilation engagements. The cycle of the inspection may be based on time (i.e., every three years as illustrated) or another factor, for example, every number of engagements performed.

A14516. ~~The selection of completed engagements, together with other monitoring activities, need to be sufficient to support the firm's evaluation of the design, implementation and operation of the system of quality management. Other F~~ factors that may affect the firm's consideration of the nature and extent of selection of ~~completed~~ engagements for inspection include:

- ~~• The extent to which the other monitoring activities involve engagement level reviews.~~
- The varying nature of the engagements performed by the firm.
- The size of the firm, including the number and geographic location of offices and the nature and complexity of the firm's practice and organization, ~~for example, the firm may consider how many engagement inspections are needed that would provide an adequate sample to support the firm's evaluation of the system of quality management.~~
- ~~• The nature and extent of responses implemented by the firm to address quality risks, for example, pre-issuance reviews that are designed to detect, correct and prevent deficiencies may reduce the need for inspections of completed engagements.~~

A14617. ~~Evaluating completed engagements ordinarily involves performing procedures designed to provide evidence of compliance by engagement teams with the aspects of the firm's system of quality management relevant to the engagement. In determining the nature and extent of the procedures to be undertaken in performing the evaluation of completed engagements, the firm may consider a variety of factors, for example, the assessment of quality risks or areas of change in the firm's system of quality management (e.g., circumstances when the firm has introduced a new policy or procedure). Such procedures~~ The matters considered by the firm in the inspection of engagements ordinarily involve determining whether the responses designed by the firm that are required to be implemented at the engagement level have been implemented. It may also include performing substantive reviews of the quality of work performed, in particular in relation to significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.

Individuals Performing the Monitoring Activities (Ref: Para. 50)

A147. [Moved from appendix] ~~The need for determination of whether~~ those performing monitoring activities ~~to be~~ are sufficiently objective depends on the activity subject to monitoring. For example, ~~an~~ a monitoring activity ~~over a response or matter that~~ involves the exercise of significant judgment may ~~increase the need for~~ necessitate ~~heightened~~ objectivity by those performing the monitoring activities ~~than activities with no judgment. In some circumstances, the monitoring activities in relation to an activity that is automated could be undertaken by those involved with the activity (e.g., the monitoring of the firm's automated process for identifying breaches of the firm's independence policies or procedures). In considering the objectivity of those performing the monitoring activities, the firm may take into consideration the relevant ethical requirements that may set out a framework in addressing a threat to objectivity.~~

Identifying and Evaluating the Deficiencies (Ref: Para. ~~5147–49~~)

A148. Findings represent the information accumulated from the performance of monitoring activities and may also include the results of external inspections and other relevant information about the firm's system of quality management. Findings may be positive or negative in nature:

- Positive findings may be useful to the firm as they ~~may~~ indicate practices that the firm can support or apply more extensively, for example, across all engagements. They may also highlight opportunities for the firm to improve, or further enhance, the system of quality management. An absence of findings may be considered a positive finding, for example, an engagement with very few, if any findings.
- Negative findings are considered by the firm in accordance with paragraphs 47–49 in order to determine whether there are deficiencies in the system of quality management. However, ~~Not all negative findings are a deficiency in the system of quality management. For example, a finding may be isolated, such that the response is appropriately designed, implemented and operated~~

A149. Factors that a firm may consider in determining whether a finding is a deficiency include:

- The nature of the finding, for example, a finding that reveals that personnel have not adhered to the firm's policies or procedures may be indicative of a deficiency in the culture of the firm.
- The design of the monitoring activity from which the finding arose, for example, whether it was designed to focus on areas of risk, or the whole population, and the tolerable error rate.
- The extent of the monitoring activity from which the finding arose, including the size of sample selected relative to the size of the entire population.
- The extent of the findings in relation to the sample of the population covered by the monitoring activity.
- If the finding relates to a response:
 - The nature of the quality risk the response relates to, and the extent to which the quality risk could result in a quality objective not being achieved.
 - Whether there are other responses that address the same quality risk, and whether there are findings for those responses.
- Whether the finding, in combination with all other findings, indicate a trend or systemic issue.

A150. A finding may affect multiple responses across different components. For example, a finding that suggests that the human resources allocated to an engagement were inappropriate or insufficient may indicate deficiencies in responses related to human resources as well as those related to engagement performance (i.e., appropriate direction, supervision and review).

A149. A deficiency in the system of quality management exists in circumstances when the firm identifies:

A deficiency in the design of a response, i.e., a response is not properly designed to address a related quality risk or a response necessary to address the quality risk is absent. Such a deficiency is also a deficiency in the firm's quality risk assessment process because it is an indication that a quality objective has not been established appropriately, a quality risk in relation to a quality objective has not been identified or the design of the response is inadequate to address a quality risk.

~~A deficiency in the implementation of a response.~~

~~A deficiency in the operation of a response, i.e., it does not operate as designed.~~

~~In some circumstances, it may not be possible to identify that a response is absent through considering the findings from the firm's monitoring activities because the firm's monitoring activities focus on evaluating the design, implementation and operation of responses (i.e., the responses that are in place). Nevertheless, in fulfilling the requirement in paragraph 57, the individual(s) assigned ultimate responsibility for the system of quality management ordinarily considers whether the quality objectives are met, and in doing so may identify that a response is absent.~~

~~A120. A finding may affect multiple components, and the firm may determine that a finding is indicative of a deficiency across more than one component. However, not all negative findings are a deficiency in the system of quality management. For example, a finding may be isolated, such that the response is appropriately designed, implemented and operated.~~

~~A15122. The monitoring and remediation process, in conjunction with the other components of the system of quality management, support the firm in achieving the objective of this ISQC. Accordingly, it is necessary that The effectiveness of the monitoring and remediation process may be is evaluated to establish that it is functioning in a manner that achieves its purpose. However, this is undertaken through considering the findings arising from the monitoring activities performed in relation to the responses and the results of external inspections and any other relevant information source (e.g., network monitoring activities or complaints and allegations), i.e., specific monitoring activities are not usually designed to evaluate the monitoring and remediation process itself. For example, external inspection findings. Other information sources may indicate deficiencies in the system of quality management that have not been identified by the firm's monitoring and remediation process, which highlight (e.g., external inspection findings, network inspections or complaints and allegations). In such cases, the firm may consider the nature of the deficiencies identified and the manner in which they were discovered in evaluating the design, implementation and operation of the firm's responses in relation to monitoring and remediation, and consideration of whether there is a deficiency in the firm's monitoring and remediation process.~~

Root Cause ~~of the Deficiencies Analysis and Evaluating the Deficiencies~~ (Ref: Para. 51(b)0)

A1523. The objective of investigating the root cause(s) of deficiencies is to understand the underlying circumstances that caused the deficiencies. An improved understanding of the underlying cause(s) of deficiencies may:

- Facilitate the implementation of more effective actions to address deficiencies, thereby improving quality.
- Directly contribute to the improvement of quality at the engagement level through the participation of engagement teams in the root cause analysis process.
- Enable those assigned ultimate responsibility and accountability or operational responsibility for the system of quality management to have an improved awareness, to enable them to proactively monitor actions taken to address deficiencies.
- Facilitate more effective communication to firm-personnel by explaining the actual root cause(s) of deficiencies, rather than the deficiencies themselves.

A15324. Performing a root cause analysis generally involves those performing the assessment applying professional judgment based on the evidence available. The firm's policies or procedures for investigating the root cause are required to take into consideration the nature of the deficiencies and their possible severity, for example, the procedures may be simple in circumstances when:

- The root cause(s) of a deficiency is apparent due to the nature of the deficiency; or
- The possible severity of the deficiency is not significant ~~and therefore the firm may not undertake a complex process to understand the root cause(s).~~

~~Paragraphs 43–44 of Appendix 1 provide examples of the firm's process for investigating the root cause(s) of a deficiency and how the firm may consider findings from its monitoring activities, results of external inspections or other relevant information that are not considered deficiencies.~~

A15425. ~~There may be multiple underlying~~ root cause(s) of a deficiency ~~ies may relate to a variety of factors or there may be a single root cause that relates to multiple deficiencies and there may be many root causes that relate to a particular deficiency.~~ Furthermore, the root cause of a deficiency may relate to more than one component, for example, ~~a deficiency related to compliance with relevant ethical requirements may relate to a firm culture that does not promote ethical values. In particular, in~~ circumstances when the root cause relates to an aspect of the firm's quality-risk assessment process, such root cause may affect multiple components, ~~for example, if the firm's process for identifying risks is defective, this may affect all of the components. Paragraph 45 of Appendix 1 provides examples of root causes.~~

A155. Factors that a firm may consider in determining the nature, timing and extent of procedures to investigate the root cause of a deficiency include:

- The nature and extent of the deficiency, for example:
 - A deficiency that results in an engagement report being inappropriate has greater severity than a deficiency that resulted in the firm's policies or procedures not being followed but the engagement report was still appropriate.
 - A deficiency that has obviously arisen from human error by an individual. In such cases the root cause may be more apparent or easily identified.
- Whether the deficiency, in combination with all other deficiencies, indicates a trend or systemic issue, for example, there are multiple engagement reports affected by the same deficiency or certain policies or procedures appear to have high rates of non-compliance.

A15626. Identifying a root cause(s) that is sufficiently appropriately specific may support the firm's process for appropriately-remediating deficiencies and achieving the objective of this ISQC. For example, it may be identified that an engagement team did not exercise sufficient inappropriately applied professional skepticism in complex areas of management judgment, however the underlying root cause may relate to another matter, such as the a cultural environment that does not encourage, in which engagement team members typically do not to challenge individuals with greater authority or there was insufficient direction, supervision and review on the engagement.

A127. ~~The appropriate remedial action for a deficiency may depend on or be affected by whether the root cause(s) indicates a deficiency in the design, implementation or operation of a response. For example, a deficiency in the design of a response is an indication of a deficiency in the firm's quality~~

~~risk assessment process and accordingly, the firm may need to implement remedial actions with respect to this process.~~

Evaluating the Severity and Pervasiveness of Deficiencies (Ref: Para. 51(c))

A157. Factors the firm may consider in evaluating the severity and pervasiveness of a deficiency include:

- The nature of the deficiency;
- The frequency with which the underlying finding occurred; and
- The magnitude of the deficiency, the rate at which it occurred and the duration of time that it existed.

~~Responding Appropriately to the Results of Internal Monitoring Activities, External Inspections and Other Relevant Information to Identified Deficiencies (Ref: Para. 52–54)~~

~~Deficiencies in Relation to Engagements (Ref: Para. 51)~~

~~A128. [Moved to paragraph A159]~~

~~Designing and Implementing Remedial Actions (Ref: Para. 52–53)~~

~~A15829. The remedial actions are required to be responsive to the root cause(s) identified, for example, if the root cause relates to the firm having insufficient time and resources to perform the engagement, the remedial actions may include actions that address how the firm obtains and allocates its human resources or withdrawing from engagements such that sufficient resources are available to perform all of the firm's engagements. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:~~

- The ~~extent of the~~ root cause(s), for example, whether it relates to an individual engagement, a certain category of engagements, or is more pervasive throughout the firm.
- The severity and pervasiveness of the deficiency and therefore the urgency in which it needs to be addressed.
- The effectiveness of the remedial actions in addressing the root cause(s), for example, the firm may need to implement more than one remedial action in order to effectively address the root cause(s), or may need to implement remedial actions as interim measures until such time as the firm is able to implement more effective remedial actions.

Findings in Relation to a Particular Engagement (Ref: Para. 54)

A159. [Moved from paragraph A128] In circumstances when the report issued is inappropriate or procedures were omitted, the further action taken by the firm to comply with relevant professional standards and applicable legal and regulatory requirements may include:

- Discussing the matter with management of the entity or those charged with governance.
- Taking steps to ensure that users of the firm's report are informed of the situation.
- Performing the omitted procedures and amending the report, as appropriate.
- ~~Obtaining legal advice.~~

The actions taken to correct the work performed or the report issued for a specific engagement does not relieve the firm of the responsibility to investigate the root cause(s) of the deficiency related to the engagement.

Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. ~~554–576~~)

~~A132. Frequent and timely communication with the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the system of quality management, as and when matters arise, supports the accountability of these individual(s), and enables them to take prompt and appropriate action, when necessary, in response to such information.~~

~~A133. Firm personnel refers to the partners and staff within the firm, which includes engagement teams, professionals and any experts the firm employs.~~

A16034. In determining the information to be communicated to firm personnel, including the nature and extent of such communication, the firm may consider the type of information that is relevant to the particular recipients, including the information needs of the recipients, as a result of their defined roles and responsibilities. For example:

- Information communicated to engagement teams may be focused on deficiencies that have been identified at an engagement level and therefore are likely to be relevant.
- Information communicated to all firm personnel may relate to matters relevant to compliance with the firm's independence policies or procedures as such policies or procedures may apply to all firm personnel.

Communicating the root cause(s) of deficiencies may increase awareness and understanding of why deficiencies occurred, which may influence the behaviors of engagement teams and firm personnel. Communicating remedial actions may support the implementation of such actions in a more proactive manner.

~~A135. Paragraph 29(d) includes requirements regarding the communication of information in relation to the firm's system of quality management to firm personnel at least annually, which may include the communications required by this section. However, the firm still has a responsibility to communicate information in relation to the firm's monitoring and remediation process on a timely basis to firm personnel, to the extent that it is relevant to their responsibilities and is necessary to enable them to take prompt and appropriate action in accordance with their responsibilities.~~

Evaluating the Effectiveness of the System of Quality Management (Ref: Para. ~~587–598~~)

A16137. The individual(s) assigned ultimate responsibility and accountability for the system of quality management uses the information obtained in accordance with paragraph 54 in evaluating the effectiveness of the system of quality management. However, it may be necessary to obtain additional information, which is identified, captured, processed and maintained through the firm's information system. ~~The evaluation of whether the system of quality management provides the firm with reasonable assurance in accordance with paragraph 15 includes consideration of the severity and pervasiveness of the deficiencies, individually and in combination with other deficiencies.~~

A16238. ~~In circumstances when the firm's evaluation in paragraph 57 indicates that the firm has not achieved reasonable assurance in accordance with paragraph 15, in addition to the communication~~

~~required by this ISQC, the firm may consider other~~ Prompt and appropriate actions when the evaluation indicates that the firm does not have reasonable assurance may include ~~such as~~:

- Obtaining legal advice.
- Taking steps to determine whether the reports already issued by the firm were appropriate.
- Determining appropriate measures to ensure that reports not yet issued by the firm are appropriate in the circumstances.

A1638A. Circumstances when it may be appropriate for the firm to communicate to external parties that the firm has not achieved reasonable assurance in ~~relation to the objectives described in accordance with~~ paragraph 195(a) and (b) include:

~~(a) When the firm is required by law or regulation to communicate this fact.~~

- ~~(b)~~ When the firm belongs to a network and the information is relevant to the network or other firms within the network who use the work performed by the firm, for example, in the case of a group audit.
- ~~(c)~~ When a report issued by the firm is determined to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.

~~In some circumstances, the firm may be required by law or regulation to communicate that the firm has not achieved reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).~~

Considerations in Relation to Network Requirements or Services (Ref: Para. ~~6059–643~~)

A164. [Moved from paragraph A8] The ~~requirements or services established by the network for the network firms may impose requirements on firms within the network that are expected to be implemented by the firms in order to be a member of the network. Such requirements~~ may include:

- ~~Providing common quality objectives or quality risks for inclusion in the firm's system of quality management.~~
- ~~Providing common responses to be designed and implemented by the firm Adopting the (network policies or procedures), such as: established by the network at the firm level and supplementing those policies or procedures, as necessary, in order to address the firm's jurisdictional circumstances.~~
 - ~~Specifying how the firm's governance/organizational structures of the firm should be established and how the firm's firm should designate authority and responsibility within the firm leadership is expected to interact with the network.~~
 - ~~Intellectual resources or IT applications (i.e., technological resources) developed by the network.~~

~~Prescribed quality objectives, quality risks and responses established at the network level, which are supplemented at the firm level with quality objectives, quality risks and responses addressing the firm's unique circumstances~~

- ~~Being subject to the network's monitoring activities. In some instances t~~ These monitoring activities may ~~monitor relate to services provided by~~ the network ~~requirements~~ (e.g., monitoring

~~that the firm has implemented the network's related to the methodology appropriately that is developed and maintained by the network), and in other instances or they may monitor the firm's system of quality management relate to monitoring of responses implemented at the firm level.~~

~~The quality objectives, quality risks and responses determined by the network will not be sufficient for the firm's system of quality management because the firm is required by this ISQC to take into consideration the nature and circumstances of the firm and its engagements in establishing quality objectives, identifying and assessing quality risks and designing and implementing responses.~~

~~A139. Ordinarily networks establish contractual terms that set out the responsibilities of the network and the network firms, and may further establish how the network firms and the network interact and the nature of relationships and interaction with other network firms. The contractual terms may state the network services that the firms are required to use. The network may also provide services that the firm is able to choose to use.~~

~~A140. The firm obtains an understanding of the network services in order to establish whether they may be used in relation to the firm's system of quality management. For example, the network may establish common quality objectives and quality risks for all of the network firms, and the firm may therefore determine whether the quality objectives and quality risks are relevant to the nature and circumstances of the firm, the engagements performed by the firm and the types of entities for whom the engagements are undertaken. Although the network may establish such quality objectives and quality risks, this does not relieve the firm of its responsibility to address the requirements related to the quality risk assessment process in paragraphs 24–26.~~

~~A141. [Moved to paragraph A168]~~

~~A16542. In determining whether the quality objectives, quality risks or responses provided by the network are appropriate for use in the firm's system of quality management, the firm ordinarily takes into consideration the nature and circumstances of the firm and its engagements, and how the quality objectives, quality risks or responses were developed by the network. In doing so, the firm may understand The procedures undertaken by the firm to understand the network's process(es) may vary based on the nature of the service. Such procedures may include obtaining and reading the network's description of its processes in relation to the network services, including understanding:~~

- ~~• The network's governance and leadership.~~
- The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or services, within both information technology and manual systems, by which the network services are provided.
- ~~• The related records and supporting information that are used within the network's process.~~
- How the network identifies and responds to changes in circumstances or other information factors that affects the network requirements or services or other information affecting the network requirements or services, for example, changes in the professional standards or information that indicates a deficiency in the network requirements or services;
- ~~• The process used to prepare and provide information to the firms within the network;~~
- ~~• The firm's responsibilities and supplementary actions contemplated in the design of the network service.~~

- ~~• The network's governance and leadership.~~
- ~~• How the network has identified the quality objectives, quality risks and responses relevant to the service, to the extent that it is relevant to the network services provided.~~
- How the network monitors the appropriateness of the network requirements or services, which may include through the network firms' monitoring activities, and ~~and the network's~~ processes for ~~evaluating the findings from monitoring activities and~~ remediating deficiencies.

A16643. The understanding of ~~the network's requirement or service(s)~~ may indicate that ~~such services it is are not designed, implemented or operated such that they can be appropriate for~~ used by the firm in its system of quality management. In such cases, the firm may:

- Agree with the network how the circumstance may be remediated such that it is appropriate to use the network ~~requirement or services~~ in the firm's system of quality management;
- Supplement ~~the network requirement or such services~~ at the firm level in order that the intended objective for which the ~~network requirement or services are is being~~ used is achieved; or
- Be unable to use the ~~network requirement or services~~ in its system of quality management.

~~In some cases, although the firm may be satisfied with the design, implementation or operation of the network service, the firm may need to supplement the network services. For example, the network may establish common quality objectives, quality risks and responses across the network, however the firm may need to supplement them to address jurisdictional matters.~~

A16744. ~~For many~~When the ~~network requirement or services~~ relates to a response, the firm may have a responsibility ~~in relation to the implementation of~~ to implement the network requirement or service, i.e., the supplementary actions. For example, in the case of implementing an IT application developed by the network (i.e., a technological resource)-developed software, the firm may need to have the appropriate ~~technological infrastructure~~ IT infrastructure and IT processes in place ~~to support the software and provide training to firm personnel (paragraphs A90–A93 set out further considerations in relation to the use of technological resources and intellectual resources obtained from a network).~~ The ~~supplementary actions~~ responsibilities may also include monitoring the ~~network requirement or service~~ at the firm level, for example, the inspection of ~~completed~~ engagements at the firm level may support the monitoring of an IT application developed ~~certain policies or procedures established~~ by the network.

Information and Communication (Ref: Para. 62)

A168. [Moved from paragraph A141] In understanding-determining the expected form, timing and content of communications between the firm and the network, the firm may take into consideration ~~whether~~ the information will be that is needed-adequate to support the firm in ~~determining how the network services affect the firm's system of quality management~~ designing, implementing and operating its system of quality management. The form, timing and content of communications may include the ~~prompt communication of identified deficiencies to the firm and to appropriate individuals within the network so that the necessary action can be taken, as well as timely communication about changes to the network's services.~~

Monitoring and Remediation Process (Ref: Para. 631–653)

A145. [Moved to paragraph A172]

~~A169. The information about the overall scope, extent and results of the monitoring activities across the network firms' systems of quality management may highlight trends and common areas of deficiencies across the network. Such information may be considered by the firm in determining the nature, timing and extent of the firm's monitoring activities, since it may highlight areas where monitoring should be undertaken. It may also indicate deficiencies in network requirements or services used by the firm in its system of quality management.~~

~~A170. The results of the network's monitoring activities of the firm's system of quality management may ~~This may also~~ include information, such as:~~

- ~~• A description of the monitoring ~~procedures-activities~~ performed, including ~~their nature, timing and extent~~ the scope, nature and frequency of such monitoring activities.;~~
- ~~• Findings from the monitoring activities and deficiencies identified; and~~
- ~~• The network's evaluation of ~~whether the findings indicate a deficiency~~, the root cause(s) of the deficiencies, the assessed effect of the deficiencies and ~~recommended~~ remedial actions.~~

~~A146. The network may also gather information from the network firms regarding the results of the firm level monitoring activities over activities at the firm level, including information obtained by the firm from external sources (e.g., the results of external inspections). The network may use such information to identify trends and common areas of deficiencies across the network, understand the root cause(s) of deficiencies and implement actions to address them, either at the network level or firm level. The network may also use the information to understand the effectiveness of the system of quality management in relation to the individual firms within the network that, to the extent possible, may be shared with other network firms for the purposes of providing information to support an understanding of the component auditors used within the network in the case of engagements performed in accordance with ISA 600.²⁰ In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network, or may restrict the specificity of such information.~~

~~A171. [Moved from paragraph A10] Deficiencies identified in other network firms' systems of quality management The network may provide other information that is may be relevant to the firm, for example, information about the findings from monitoring activities or results of external inspections in relation to other firms within the network, which may be relevant when another the other network firms performs work in relation to the firm's engagements, such as in the capacity of a component auditor. The network may also gather information from the network firms regarding the results of external inspections over the network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network or may restrict the specificity of such information.~~

~~A172. [Moved from paragraph A145] Paragraph 464 requires the firm to evaluate the system of quality management, which includes the network requirements or services used by the firm. The network requirements or services may be monitored by the network, the firm, or a combination of both. For example, the network may undertake monitoring activities at a network level in relation to for a common methodology (i.e., an intellectual resource), however various monitoring activities at a firm level may support the evaluation of the methodology, including engagement inspections. ~~When the~~~~

²⁰—ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

~~monitoring is undertaken by the network, it forms part of the firm's monitoring activities and the firm obtains the findings from such monitoring activities.~~

A17347. In some cases the firm may determine that the remedial actions by the network are inadequate, or such remedial actions may take time to ~~be~~ effectively address the deficiency designed, implemented and operated. In such cases, the firm may need to implement its own remedial actions to address the deficiency until such time as the network has effectively addressed the deficiency.

~~Considerations Relating to Use of~~ **Service Providers** (Ref: Para. ~~664–675~~)

A1748. ~~The firm may obtain or use human resources, technological resources or intellectual resources in its system of quality management that are provided to the firm by a service provider. The service providers used by the firm include individuals or organizations that are external to the firm, excluding networks or other firms in the network. Examples of resources from a service provider used by the firm in its system of quality management include the use of human resources to perform the firm's monitoring activities (i.e., monitoring and remediation) or engagement quality control reviews (i.e., engagement performance), or to provide consultation on technical matters (i.e., engagement performance). The firm may also purchase a commercial IT application (i.e., a technological resource) from a service provider. Resources from a service provider may also be used by the firm in relation to the performance of engagements, for example, the firm may use an expert external to the firm or other human resources to assist in the performance of engagements (e.g., to attend a physical inventory count or inspect physical fixed assets at a remote location). The use of resources from a service provider does not include using the work of an entity's internal audit function, in accordance with ISA 610 (Revised 2013).²¹The service providers used by the firm may include individuals or organizations. Examples of services provided by service providers include providing a methodology or audit software, performing engagement quality control reviews or providing technical resources to support consultation.~~

A175. ~~Considering the ability of the firm to fulfill relevant ethical requirements in relation to the use of the resources includes consideration of matters such as:~~

- ~~• Whether the use of the service provider is permissible under relevant ethical requirements, for example, relevant ethical requirements may prohibit certain business relationships.~~
- ~~• The extent to which the service provider needs to fulfill the relevant ethical requirements, for example, the relevance of the principles of professional ethics, including independence, in the circumstance when the service provider participates in the performance of the engagement, performs the engagement quality control review or provides consultation.~~

A176. ~~The use of a service provider is a response to a quality risk(s), but may also give rise to quality risks, or may affect the assessment of the quality risks. For example, when the firm uses resources from a service provider in the performance of engagements, it may increase the likelihood that personnel do not have the competence and capabilities to perform the engagement, that they exercise inappropriate judgment when performing the engagement, they do not implement the firm's responses at the engagement level or they do not fulfill the relevant ethical requirements. Such quality risks may also affect the management of quality at the engagement level. For example, in circumstances when the firm uses human resources from a service provider to assist in the performance of engagement procedures, there may be a need for the engagement partner to have~~

²¹ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

greater oversight on a more frequent basis and perform more in-depth reviews of work performed by the individual.

A17749. The firm's responsibilities in using the service provider may include matters such as the actions the firm needs to take in order to implement the service resource in the firm or information the firm needs to communicate to the service provider in order that the resourceservice can function effectively. For example, in the case of software provided by a service provideran IT application (i.e., a technological resource), the firm may need to have the appropriate supporting ITtechnological infrastructure and IT processes in place to support the software and provide training to firm personnel (paragraphs A90–A93 set out further considerations in relation to the use of technological resources and intellectual resources obtained from a service provider).

A17850. Obtaining an understanding of the service provider may include understanding the conditions of the service, for example, how often updates will be provided in relation to the servicefor an IT application, limitations on the use of the service–IT application and how the service provider addresses confidentiality of data and information. Understanding the expected form, timing and content of communications between the firm and the service provider is necessary in determining how the firm will be alerted to matters affecting the use of the servicesresource, for example, updates or changes to the resource to software or methodologies, or deficiencies in the resourceservices.

~~A151. The appropriateness of the technical competence, professional skills and professional values, ethics and attitudes of the service provider will vary depending on the nature of the underlying services. For example, [placeholder to reference to ISQC 2 and the criteria for the eligibility of an individual to be able to perform an engagement quality control review]. The reputation of the service provider may also provide an indication of whether their technical competence, professional skills and professional values, ethics and attitudes are appropriate in the circumstances. In some cases, depending on the nature of the service being provided, the service provider may need to comply with the relevant ethical requirements applicable to the firm, for example, in the case of an engagement quality control reviewer, technical resources who provide consultation, external experts and when the firm uses individuals to perform procedures at an engagement level~~

A17952. Actions the firm may take to determine whether the resource is appropriate for use in the firm's system of quality management include ~~The procedures undertaken by the firm to understand the service provider's processes may include obtaining and reading the service provider's description of its processes in relation to the services, including understanding the matters those~~ described in paragraph A16542. Furthermore, The firm may also determine it appropriate to understanding how the service resource will be evaluated and remediated ~~is necessary in determining whether the firm will have the information it needs to be able to evaluate its system of quality management. In some circumstances, the service may not be evaluated and remediated by the service provider and the firm may instead perform monitoring activities over the service, for example, in the case of an engagement quality control review undertaken by a service provider.~~ There may be circumstances when the service provider supplies the firm with an assurance report on the description and design of their controls over the resource, and in some circumstances, it may also include assurance on the operating effectiveness of such controls.

Documentation (Ref: Para. 686–7169)

A18053. Documentation provides evidence that the firm complies with this ISQCstandard and law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the

retention of organizational knowledge and providing a history of the basis for decisions made by the firm ~~in relation to~~about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, ~~in relation to~~about its system of quality management. Furthermore, compliance with this ~~ISQC standard~~ may be evidenced by the firm through ~~its information and communication component~~, documents or other written materials, ~~or IT applications (i.e., technological resources)~~ that are integral to the components of the system of quality management, for example, a documented confirmation from ~~firm~~ personnel regarding compliance with the firm's policies or procedures ~~in relation to~~for independence.

A18154. ~~The form, content and extent of documentation in relation to the various aspects of the system of quality management may vary, for example, certain aspects of the system of quality management may be documented in detail, in particular aspects of the system of quality management that have changed or that relate to areas of greater quality risk. Documentation may also take the form of formal written manuals, checklists and forms, or may exist in written form through be informally documented means, for example, through (e.g., e-mail communication or postings on websites), or may be held in IT applications (i.e., a technological resource) or other digital forms (e.g., in databases). The firm applies judgment in determining the form, content and extent of documentation that is sufficient to meet the objective in paragraph 66. Factors that may affect such the firm's judgments about determination the form, content and extent of documentation may include:~~

- The size of the firm and the number of offices;
- The nature and complexity of the firm's practice and organization; ~~or~~
- ~~The types of services the firm provides and the nature of the clients to whom services are provided; and-~~
- ~~The nature and complexity of the matter being documented, for example, whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk~~

~~For example~~In a smaller firm, it may not be necessary to have documentation supporting ~~matters the communication of matters in a smaller firm,~~ because informal communication methods may be effective, ~~in supporting a consistent understanding of the firm's system of quality management and consistent implementation and operation of the responses.~~ Nevertheless, ~~in some cases,~~ the firm may determine it appropriate to document such communications in order to provide evidence ~~of the design, implementation and operation of the responses that they occurred.~~ Digital information held in databases may be used to evidence that the firm complies with this standard, particularly when there is a large volume of material or geographical dispersion of personnel (e.g., independence confirmations, performance evaluations and the findings from monitoring). Manual methods of recording information, such as notes, checklists and forms, may also be appropriate.

A18255. In some instances, an external oversight authority may establish expected documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing

documentation, for example, the IESBA Code requires documentation of particular matters, including ~~in relation to~~ conflicts of interest,²² non-compliance with laws and regulations²³ and independence.²⁴

A18356. In some circumstances, it may be appropriate for the firm to document its process and analyses for establishing the quality objectives, identifying and assessing quality risks and designing responses to such risks, to provide a history of the basis for decisions made by the firm in relation to ~~about~~ its system of quality management. ~~Paragraph 46 of Appendix 1 illustrates how the firm's governance and leadership may be documented.~~

²² See, for example, paragraphs R310.13 of the IESBA Code.

²³ See, for example, paragraphs R360.28 of the IESBA Code.

²⁴ See, for example, paragraphs R400.60, R400.88, R400.89, R900.40, R900.44 and R900.45 of the IESBA Code.

Appendix 1

[NOTE: Appendix 1 of the March 2018 draft has been deleted and replaced with the following appendix]

The Components of a System of Quality Management

1. This appendix describes the eight components of a firm's system of quality management. The components in this ISQC have similarities to the components of internal control described in the Committee of Sponsoring Organizations of the Treadway Commission *Internal Control – Integrated Framework*. For example, the governance and leadership component is similar to the entity's control environment and the firm's risk assessment process is similar to the entity's risk assessment process.

Governance and Leadership

2. The governance and leadership component creates the environment in which the other components of the system of quality management operate because it addresses the firm's culture, decision-making process, actions, the assignment of responsibility and how the firm obtains and allocates resources. The governance and leadership component also provides the basis for the system of quality management because the firm needs to establish structures, reporting lines and appropriate authority and responsibility in order that the other components of the system of quality management can be developed. For example, in order to establish a system of quality management, the firm needs to identify the individual(s) responsible for its development. Accordingly, the governance and leadership component has a pervasive effect on the system of quality management and the other components cannot be effective if the environment in which they operate is not appropriate.

The Firm's Risk Assessment Process

3. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, which consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives and designing and implementing responses to address the quality risks.
4. The quality objectives established by the firm are the quality objectives set out in this ISQC, which are organized by component. However, given the nature and circumstances of the firm and its engagements, the firm may establish:
 - (a) More granular quality objectives; or
 - (b) Additional quality objectives when the quality objectives set out in this ISQC or the more granular quality objectives (if any) do not provide a sufficient basis for the achievement of the overall objective of this ISQC set out in paragraph 19.
5. Quality risks arise from conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, and which are associated with the nature and circumstances of the firm and its engagements, including the types of entities for whom such engagements are undertaken. For example:
 - (a) *Nature and circumstances of the firm:* The firm may have a service delivery center that includes human resources who perform specific tasks for engagement teams which are repetitive in nature. This may create, or increase the likelihood of, the quality risks for the appropriate direction and supervision of the engagement team and review of the work performed because

the personnel may not be in the same location as the engagement partner or the engagement team.

- (b) *The engagements performed by the firm, including the types of entities for whom engagements are undertaken:* The firm may only perform related services engagements and because of the nature of such engagements, the firm may not identify any quality risks relating to the fulfillment of independence requirements, because there is not a reasonable possibility that the quality risks will occur. In relation to the types of entities for whom engagements are undertaken, the firm may perform engagements for entities in a particular industry, such as banks, insurance companies and pension funds. This may create the risk that personnel do not have the appropriate knowledge of the industry to perform the engagement.

The nature and circumstances of the firm and its engagements also affect the assessment of the likelihood of the quality risks occurring and the significance of the effect of the quality risk on the achievement of the quality objectives.

- 6. The responses designed and implemented by the firm consist of:
 - (a) The responses required by this ISQC, which are organized by component; and
 - (b) Additional responses determined by the firm.The responses required by this ISQC alone are not sufficient to address the quality risks.
- 7. The responses designed and implemented by the firm, including the responses required by this ISQC, are affected by the nature and circumstances of the firm and its engagements, including the types of entities for whom such engagements are undertaken. For example:
 - (a) *Nature and circumstances of the firm:* In circumstances when the firm has a service delivery center that includes human resources who perform specific tasks for engagement teams, the firm may obtain technology to facilitate interaction between the engagement partner and personnel located in the central location, to support appropriate direction and supervision.
 - (b) *The engagements performed by the firm, including the types of entities for whom engagements are undertaken:* In circumstances when the firm performs engagements in a particular industry, the firm may provide training for personnel on matters unique to that industry, or recruit personnel with experience in the industry.
- 8. The firm's processes for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses includes considering whether they need to be modified, as appropriate, for changes in the matters described above.

Relevant Ethical Requirements

- 9. The relevant ethical requirements component comprises the firm's processes for managing compliance with relevant ethical requirements, in order that the firm, its personnel and others subject to relevant ethical requirements, as applicable, fulfill the relevant ethical requirements. The processes include how threats to complying with relevant ethical requirements are identified, assessed and addressed and the firm's responses to breaches of the relevant ethical requirements. Relevant ethical requirements include independence requirements.

Acceptance and Continuance of Client Relationships and Specific Engagements

10. The acceptance and continuance of client relationships and specific engagements comprises the firm's processes for consideration of matters in determining whether to accept or continue a client relationship or specific engagement. Such matters include the nature and circumstances of the engagement, the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance and the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. This component also requires that the firm does not prioritize the firm's financial and operational interests in its decision to accept and continue client relationships and specific engagements.

Resources

11. The resources component comprises the firm's processes for obtaining, developing, using, maintaining and allocating resources to support the design, implementation and operation of the system of quality management. The resources relevant to the firm's system of quality management include human resources, technological resources and intellectual resources. Furthermore, financial resources are needed for obtaining, developing and maintaining the other types of resources, and are addressed as part of the resource planning in the governance and leadership component. The firm may have competing priorities that affect the allocation of resources, however 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 system of quality management.

Engagement Performance

12. The engagement performance component comprises the firm's actions to promote and support the consistent performance of quality engagements in accordance with professional standards and legal and regulatory requirements. This includes how the firm supports engagement teams in making judgments, forming conclusions, and documenting the work performed. Matters addressed in this component include the responsibilities of the engagement team, including in relation to direction, supervision and review, consultation, differences of opinion, the assembly and retention of documentation and requirements addressing engagement quality control reviews.

Information and Communication

13. The information and communication component encompasses the firm's actions to obtain, generate or use relevant information to support the design, implementation and operation of the system of quality management. This includes establishing an information system, whether through the use of manual and automated elements (technological resources), to identify, capture, process and maintain information.
14. The information and communication component also encompasses two-way communication within the firm and communication with external parties, such as information about the firm's system of quality management. Such communication assists external parties in understanding the firm's activities to address quality through its system of quality management and the effectiveness of the firm's system.

Monitoring and Remediation Process

15. Monitoring comprises the firm's processes for evaluating the design, implementation and operation of the system of quality management. It involves undertaking ongoing and periodic monitoring activities, and identifying and evaluating deficiencies in the system of quality management based on the findings from the monitoring activities, results of external inspections or other information sources (e.g., through the firm's complaints and allegations process). In order to understand how the deficiencies arose, this ISQC also requires the firm to understand the root cause of the deficiencies.
16. Remediation comprises the firm's actions for responding to deficiencies, which includes designing and implementing remedial actions and monitoring those actions to determine whether they appropriately address the deficiency. Remediation may also involve addressing the specific engagement, for example, when the deficiency indicates that the engagement report is inappropriate. Communication of the results of monitoring and remediation within the firm also forms part of the firm's remedial actions, since personnel often need to be aware of the results in order to fulfill their roles and responsibilities.
17. This component also includes the responsibilities of the individual(s) assigned ultimate responsibility and accountability for the system of quality management to determine whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

Interrelationship of the Components

18. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, and in doing so the firm is required to include the quality objectives and responses set out in each of the components of this ISQC.
19. The governance and leadership component is important to the design, implementation and operation of the other components of the system of quality management because it provides the basis for the system of quality management and also creates the environment in which the other components of the system of quality management operate.
20. Other components such as information and communication and resources have quality objectives that support the design, implementation and operation of the system of quality management, and therefore such components may include responses that affect or relate to the other components of the system of quality management. For example, the information and communication component contains the information system that provides the information needed for the operation of the other components or the resources component addresses the establishment of human resources that are needed operate the various aspects of the system of quality management. There may be interrelationships within the components as well, for example, human resources are needed for the development of intellectual resources.
21. There may also be relationships between components because there are matters that relate to each other, for example, aspects of the relevant ethical requirements component may be relevant when accepting or continuing client relationships and specific engagements.
22. The monitoring and remediation process monitors the entire system of quality management, and therefore the monitoring activities are undertaken over all of the components of the system of quality management.