

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

(Effective as of TBD)

**(TRACK CHANGES FROM EXPOSURE DRAFT (SECTIONS IN GREY) AND DECEMBER 2019 IAASB MEETING (SECTIONS NOT IN GREY))**

**CONTENTS**

**[Content Page to be Inserted]**

Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

<b>Introduction</b>	<b>Application and Other Explanatory Material</b>
<b>Scope of this ISQM</b>	<b>Scope of this ISQM</b> (Ref: Para. 2)
1. This International Standard on Quality Management (ISQM) 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. ISQM 2 <sup>1</sup> deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews <del>that are required to be performed by this ISQM</del> . This ISQM	

<sup>1</sup> Proposed ISQM 2, *Engagement Quality Reviews*

<p>is to be read in conjunction with relevant ethical requirements.</p>	
<p>2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB):</p> <p><del>(a) [Moved from paragraph 13] Other pronouncements of the IAASB, such as ISA 220 (Revised),<sup>2</sup> are premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding;<sup>3</sup> and</del></p> <p><del>(b) include requirements for engagement partners and other personnel regarding quality management at the engagement level. ISA 220 (Revised),<sup>4</sup> for example, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. (Ref: Para. A1)</del></p>	<p>A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)<sup>5</sup> and ISAE 3000 (Revised),<sup>6</sup> also establish requirements for the engagement partner for the management of quality at the engagement level.</p>
<p>3. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ISQM.</p>	

<sup>2</sup> ~~Proposed ISA 220 (Revised), paragraph 3~~

<sup>3</sup> ~~See, for example, Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statement (Revised)*, paragraph 3~~

<sup>4</sup> ~~Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*~~

<sup>5</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

<sup>6</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<p>4. This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies).</p>	
<p><del>5.</del> <i>[Moved in December 2019 draft]</i>  <del>6.</del> <i>[Deleted in December 2019 draft]</i></p>	
<p><b>The Firm's System of Quality Management</b></p>	<p><b>The Firm's System of Quality Management</b> (Ref: Para. <a href="#">6A7-813</a>)</p>
<p><del>6A8.</del> <i>[Moved from paragraph 8]</i> A system of quality management is continual and iterative and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ISQM, a system of quality management addresses the following eight components: (Ref: Para. <del>A1A-A4A-A5</del>)</p> <ol style="list-style-type: none"> <li>(a) The firm's risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> <li>(d) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) Engagement performance;</li> <li>(f) Resources;</li> <li>(g) Information and communication; and</li> <li>(h) The monitoring and remediation process.</li> </ol>	<p><del>A4A.</del> <i>[Moved from paragraph A4A and deleted – move to implementation guidance]</i> <del>The nature of the components in this ISQM are as follows:</del></p> <ul style="list-style-type: none"> <li><del>• The firm's risk assessment process and monitoring and remediation process are processes established by the firm as part of the system of quality management.</del></li> <li><del>• Governance and leadership establishes the environment in which the system of quality management operates.</del></li> <li><del>• Resources and information and communication enable the operation of all the other components of the system of quality management.</del></li> <li><del>• The remaining components address specific topics that are fundamental for the performance of audits or reviews of financial statements, or other assurance or related services engagements.</del></li> </ul> <p><del>A1A5.</del> <i>[Moved from paragraph A5]</i> The firm may use different terminology or frameworks to describe the components of its system of quality management.</p>

<p>7. <del>The purpose of a system of quality management is to support the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system, stated in paragraph 18(a) and (b), are achieved.</del> The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism. (Ref: Para. A2–A4)</p>	<p>A2. The IESBA Code<sup>7</sup> contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant’s responsibility to act in the public interest.</p>
<p>8. <i>[Moved to paragraph 6A]</i></p>	
<p>8A. <del>The system of quality management supports the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved. Since the system of quality management supports the consistent performance of quality engagements, in this ISQM, references to the design, implementation and operation of the system of</del></p>	<p>A3. Reasonable assurance is obtained when the <del>firm’s</del> system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 18(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a <del>firm’s</del> system of quality management. Such limitations include that human judgment in decision making can be faulty and that breakdowns in <del>the firm’s</del> system of quality management may occur, for example, due to human error or behavior or failures in <del>the firm’s</del> IT applications.</p> <p>A4. <i>[Deleted in December 2019 draft - moved to implementation guidance]</i></p>

<sup>7</sup> The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<p><u>quality management include supporting the performance of engagements. (Ref: Para. A3)</u></p>	
<p><del>9.</del> <i>[Deleted in December 2019 draft]</i></p>	
<p>9A. <u>This ISQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management.</u><del>In the context of this ISQM, it is intended that the components of a system of quality management are in an interconnected and operate in a coordinated manner such that the quality of engagements is proactively__and__effectively managed by the firm. (Ref: Para. A4A)</del></p>	<p>A4A. <u>Examples of the interconnected nature of the components include the following:</u></p> <ul style="list-style-type: none"> <li>• <u>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 applies across the system of quality management.</u></li> <li>• <u>The governance and leadership component 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.</u></li> <li>• <u>The information and communication and resources components enable the design, implementation and operation of the system of quality management.</u></li> <li>• <u>The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process may provide information that is relevant to the firm’s risk assessment process.</u></li> <li>• <u>There may be interrelationships of specific matters, for example, aspects of relevant ethical requirements may be relevant when accepting and continuing client relationships and specific engagements.</u></li> </ul> <p>A5. <i>[Moved to paragraph A1A]</i></p>
<p>10. <u>The risk-based approach is embedded in the requirements of this ISQM through:</u></p> <p>(a) <u>Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to</u></p>	

<p><u>establish the quality objectives set out in this ISQM and any additional quality objectives beyond those specified by this ISQM that are considered necessary by the firm to achieve the objectives of the system of quality management.</u></p> <p><u>(b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for designing and implementing responses.</u></p> <p><u>(c) Designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the firm's responses to address the assessed quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.</u></p>	
<p><del>40A. [Deleted] The system of quality management is designed to provide reasonable assurance that the objectives of the system are achieved, through fulfilling the requirements of this ISQM, including achieving the quality objectives.</del></p>	
<p><del>44. [Deleted in December 2019 draft]</del></p>	
<p>11A. This ISQM requires that, at least annually, the individual assigned ultimate responsibility and accountability for the system of quality management evaluates <del>whether</del> the system of quality</p>	

<p>management <del>and concludes whether the system of quality management</del> provides <del>the firm with</del> reasonable assurance that the objectives of the system <del>are being</del> <del>have been</del> achieved.</p>	
<p><del>42-</del> <i>[Deleted in December 2019 draft]</i></p>	
<p><del>43-</del> <i>[Moved to paragraph 2]</i></p>	
<p><i>Scalability</i></p> <p>13A. <del>This ISQM requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management. The risk-based approach is executed through</del> <u>In applying a risk-based approach</u> <del>the firm's risk assessment process. As part of this process,</del> the firm is required to take into account <del>quality risk considerations that focus on:</del></p> <ul style="list-style-type: none"> <li>(a) The nature and circumstances of the firm; and</li> <li>(b) The nature and circumstances of the engagements performed by the firm.</li> </ul> <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements.</p>	

<p><i>Networks and Service Providers</i></p> <p>14. A firm's system of quality management may include:</p> <p>(a) <del>Network</del> requirements or network services in circumstances when the firm belongs to a network; or</p> <p>(b) <del>Resources that are obtained from</del> provided by a service provider <del>that are external to the firm or external to the network when the firm belongs to a network.</del></p> <p><del>Notwithstanding the firm's responsibility to comply with network requirements, or the use of network services or resources from a service provider, the firm remains responsible for its system of quality management. Accordingly, this ISQM includes requirements addresses for the firm's responsibility in circumstances when the system of quality management includes network requirements or network services or resources from a service provider, to evaluate the network requirements or network services, or the resources provided by a service provider, for the purposes of the firm's system of quality management. Notwithstanding the firm's compliance with network requirements or use of network services or resources provided by a service provider, the firm remains responsible for its system of quality management.</del></p>	
<p>15. <i>[Deleted in December 2019 draft]</i></p>	

Authority of this ISQM	Authority of this ISQM (Ref: Para. 16)
<p>16. This ISQM contains the objective of the firm in following this ISQM, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ISQM, and definitions. (Ref: Para. A6–A9)</p>	<p>A6. The objective of this ISQM provides the context in which the requirements of this ISQM are set, establishes the desired outcome of this ISQM and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.</p> <p>A7. The requirements of this ISQM are expressed using “shall.”</p> <p>A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:</p> <ul style="list-style-type: none"> <li>• Explain more precisely what a requirement means or is intended to cover; and</li> <li>• Include examples that illustrate how the requirements might be applied.</li> </ul> <p>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 ISQM. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQM.</p> <p>A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, 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 <i>Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQM. The</p>

	<p>Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation.</p>
<p><b>Effective Date</b></p>	
<p>17. Systems of quality management in compliance with this ISQM are required to be <u>designed, implemented, and commence operation</u> established by TBD.</p>	
<p><b>Objective</b></p>	
<p>18. 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:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</li> </ul>	

Definitions	Definitions
<p>19. In this ISQM, the following terms have the meanings attributed below:</p>	
<p>(a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ISQM) – <del>This exists when a</del>An aspect of the firm’s system of quality management <u>that</u> is absent, inappropriately designed, or not operating effectively. (Ref: Para. A9A–A10A, A175)</p>	<p><i>Deficiencies</i> (Ref: Para. 19(a))</p> <p>A9A. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.</p> <p><u>A10. An aspect of the system of quality management consists of quality objectives, quality risks and responses or other actions by the firm that are necessary to fulfill the requirements of this ISQM. As a result, a deficiency may exist in the design, implementation or operation of any of the components of the system of quality management.</u></p> <div style="border: 1px solid black; padding: 5px;"> <p><u>A10.</u>—<del>Examples of circumstances when</del> an aspect of the firm’s system of quality management <u>that</u> is absent, inappropriately designed, or not operating effectively <del>include when:</del></p> <ul style="list-style-type: none"> <li>• The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not appropriately fulfill their responsibilities, including undertaking the annual evaluation of the system of quality management.</li> <li>• The firm’s risk assessment process:                             <ul style="list-style-type: none"> <li>○ Is not <del>appropriately</del> designed or implemented in a manner that enables the firm to establish quality objectives, identify and assess quality risks and design and implement responses; or</li> <li>○ Fails to identify information that <del>may indicates a change in the conditions, events, circumstances, actions or inactions that give rise to the need for modifications to</del> <u>affect</u> the quality objectives, quality risks or responses.</li> </ul> </li> </ul> </div>

	<ul style="list-style-type: none"> <li>• A quality objective required to achieve the objective of this ISQM is not established. This may <del>also</del> cause <u>a quality risk to not be identified or properly assessed or</u> a response to not be properly designed or implemented.</li> <li>• A quality risk has not been <del>appropriately</del> identified or <u>properly</u> assessed, such that a response that addresses that risk has not been <del>appropriately</del> <u>properly</u> designed or implemented.</li> <li>• A response to address an assessed quality risk is not properly designed, implemented or operating effectively, such that a quality objective may not be achieved. A response to address an assessed quality risk is not properly designed when, for example, a response necessary to address an assessed quality risk is absent or a response is not properly designed in a manner that effectively addresses an assessed quality risk.</li> <li>• The firm’s monitoring and remediation process is not <del>appropriately</del> designed or implemented in a manner that:             <ul style="list-style-type: none"> <li>○ Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</li> <li>○ Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</li> </ul> </li> </ul> <p><u>A10A. In some circumstances, an external oversight authority may establish requirements or guidance that set out matters that may be considered a deficiency.</u></p>
<p>(b) 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).</p>	

<p>(c) Engagement partner<sup>8</sup> – The partner or other individual, appointed 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.</p>	
<p>(d) Engagement quality review – [To be aligned to ISQM 2]</p>	
<p>(e) Engagement quality reviewer – [To be aligned to ISQM 2]</p>	
<p>(f) Engagement team – [To be aligned to ISA 220 (Revised)]</p>	
<p>(g) External inspections – Inspections or investigations undertaken by an external oversight authority related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A11)</p>	<p><i>External Inspections</i> (Ref: Para. 19(g))</p> <p>A11. In some circumstances, an external oversight authority may undertake other types of reviews.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Example of another type of review undertaken by an external oversight authority</i></p> <p><i>for example, Thematic reviews of specific areas of focus that cross multiple audit firms, which are focused on matters that contribute to the improvement of engagement quality. Paragraph A165 describes such reviews as part of other relevant information considered by the firm in the monitoring and remediation component.</i></p> </div>

<sup>8</sup> “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

<p>(gA) Findings <u>(in relation to a system of quality management)</u> – Information <u>about the design, implementation and operation of the system of quality management, which comprises accumulated</u> from: the performance</p> <p>(i) <u>The results of the firm’s monitoring activities and or derived from other information sources, including the results of external inspections; and</u></p> <p>(ii) <u>Other information, that</u> <del>which</del> indicates that one or more deficiencies may exist. <u>(Ref: Para. A11A)</u></p>	<p><del>Findings (Ref: Para. 19(gA))</del></p> <p><del>A11A. [Deleted] Findings include engagement-level findings that indicate that an engagement was not performed in accordance with the firm’s policies or procedures.</del></p>
<p>(h) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A12)</p>	<p><i>Firm</i> (Ref: Para. 19(h))</p> <p>A12. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISQM.</p>
<p>(i) 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.</p>	
<p>(j) Network firm – A firm or entity that belongs to a network.</p>	

<p>(k) Network<sup>9</sup> – A larger structure: (Ref: Para. A13–A14)</p> <p>(i) That is aimed at cooperation, and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p>	<p><i>Network</i> (Ref: Para. 19(k), 58)</p> <p>A13. Networks and the firms within the network may be structured in a variety of ways. In some instances, network firms may provide services (e.g., resources) that are used by the firm in its system of quality management. There may also be circumstances when the network includes other structures or organizations that establish requirements for the firm related to its system of quality management, or provides services. For the purposes of this ISQM, networks and the other firms within the network are external to the firm and any network requirements or network services that are obtained from the network, network firms or another structure or organization in the network are considered “network requirements or network services.” Services used by the firm in the system of quality management that are obtained from outside of the network, network firms or another structure or organization in the network are considered services obtained from “service providers.”</p> <p>A14. The IESBA Code provides guidance in relation to the terms “network” and “network firm.”</p>
<p>(l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	
<p><del>(m) Personnel – Partners and staff.</del></p>	
<p>(n) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the</p>	

<sup>9</sup> As defined in the ~~International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)~~ (IESBA Code)

<p>design, implementation and operation of the firm's system of quality management.</p>	
<p>(o) Professional standards – IAASB Engagement Standards, as defined in the IAASB's <i>Preface to the International Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements</i>, and relevant ethical requirements.</p>	
<p>(p) Quality objectives – The desired outcomes in relation to the components of the system of quality management <del>that are required</del> to be achieved by the firm.</p>	
<p>(q) Quality risks – Risks <del>arising from conditions, events, circumstances, actions or inactions that could</del> <u>that have a reasonable possibility</u>, individually or in combination with other quality risks, <u>of</u>:</p> <p>(i) <u>Occurring (i.e., likelihood); and</u></p> <p>(ii) <u>Adversely affecting the achievement of a quality objective(s) if the risk were to occur (i.e., magnitude).</u> (Ref: Para- A14A)</p>	<p><del>Quality Risks (Ref: Para. 19(q))</del></p> <p><del>A14A. [Deleted] For the purposes of this ISQM, a quality risk exists when there is a reasonable possibility of:</del></p> <p><del>The risk occurring (i.e., its likelihood); and</del></p> <p><del>The risk adversely affecting the achievement of a quality objective if the risk were to occur (i.e., its magnitude).</del></p>
<p><del>(qA) Quality risk considerations – Factors that are indicative of, or that affect, the conditions, events, circumstances, actions or inactions that may give rise to quality risks and affect the assessment of the quality risks.</del></p>	

<p>(r) Reasonable assurance – In the context of the ISQMs, a high, but not absolute, level of assurance.</p>	
<p>(s) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the 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. A15–A16A, A67)</p>	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 19(s), 323(a))</p> <p>A15. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.</p> <p>A16. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.</p> <p><del>A16A70.</del> [Moved from paragraph A70] Various provisions of the relevant ethical requirements may apply only to personnel <u>in the context of performing engagements</u> and not the firm itself. <u>The firm’s system of quality management may need to address personnel’s compliance with such relevant ethical requirements.</u></p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Examples of relevant ethical requirements that are applicable only to personnel and not the firm, and which relate to the performance of engagements</i></p> <p><del>For example,</del> Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, <u>whether as a contractor, employee or owner. Part 2 of the IESBA Code addresses:</u></p> </div>

	<ul style="list-style-type: none"> <li>• <u>Pressure to breach the fundamental principles, and includes requirements that an individual shall not:</u> <ul style="list-style-type: none"> <li>o <u>Allow pressure from others to result in a breach of compliance with the fundamental principles; or</u></li> <li>o <u>Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.</u></li> </ul> <p><u>In the context of performing engagements, pressure to breach the fundamental principles may arise when an engagement partner or another senior member of the engagement team pressures an engagement team member or the engagement quality reviewer to breach the fundamental principles.</u></p> </li> <li>• <u>Preparation and presentation of information, and includes requirements for professional accountants when preparing and presenting information for clients or their firms and therefore applies to personnel performing a compilation engagement. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the IESBA Code (e.g., policies or procedures addressing section 260 of the IESBA Code regarding non-compliance with laws and regulations).</u></li> </ul>
<p>(t) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address an assessed quality risk: (Ref: Para. A17–A18, A24S)</p> <p>(i) Policies are statements of what should, or should not, be done to address an assessed quality risk. Such statements</p>	<p><i>Response</i> (Ref: Para. 19(t))</p> <p>A17. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies, or through their restraint from taking actions that would conflict with the firm's policies.</p> <p>A18. Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but are rather conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm's IT environment.</p>

<p>may be documented, explicitly stated in communications or implied through actions and decisions.</p> <p>(ii) Procedures are actions to implement policies.</p>	
<p>(u) Staff – Professionals, other than partners, including any experts the firm employs.</p>	
<p>(v) System of quality management – A system designed, implemented and operated by a firm to provide <u>the firm with</u> reasonable assurance that:</p> <p>(i) 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</p> <p>(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	
<p><b>Requirements</b></p>	
<p><b>Applying, and Complying with, Relevant Requirements</b></p>	<p><b>Applying, and Complying with, Relevant Requirements (Ref: Para. <del>20</del>–21)</b></p>
<p>20. The individual(s) assigned ultimate responsibility and accountability for the firm’s system of quality</p>	<p><del>A19.</del> <i>[Moved in December 2019 draft]</i></p>

<p>management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.</p>	
<p>21. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A20)</p>	<p>A20. <i>Examples of when a requirement of this ISQM may not be relevant to the firm:</i></p> <ul style="list-style-type: none"> <li>• The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, <del>appropriate</del> direction, supervision and review and addressing differences of opinion may not be relevant.</li> <li>• The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for the related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.</li> </ul>
<p><b>System of Quality Management</b></p>	<p><b>System of Quality Management</b> <del>(Ref: Para. 22–22B)</del></p>
<p>22. The firm shall design, implement and operate a system of quality management <del>to achieve the objective of this ISQM</del>. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The <del>system of quality management includes a</del> governance and leadership component <u>of the system of quality management</u> <del>that</del> establishes the environment that supports the operation of the system of quality management, through the firm's culture, decision-making</p>	<p><i>Design, Implement and Operate a System of Quality Management</i> <u>(Ref: Para. 22)</u></p> <p><del>A21.</del> <i>[Deleted in the December 2019 draft]</i></p> <p>A21<del>3</del>A. <i>[Moved from paragraph A23A]</i> Quality management is not a separate function of the firm; it is the integration of a quality culture and policies or procedures into the firm's operational activities and processes with the purpose of actively managing quality. As a result, designing the system of quality management and the firm's operational activities and processes in a unified manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.</p> <p><del>A22.</del> <i>[Moved in the December 2019 draft]</i></p>

<p>processes, actions, organizational structure and leadership. (Ref: Para. A2<del>13</del>A–A24)</p>	<p><u>A22A. Notwithstanding that the firm assigns roles and responsibilities related to the system of quality management, the firm remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISQM.</u></p> <p>A23. <i>[Moved in the December 2019 draft]</i></p> <p>A23A <i>[Moved to paragraph A21A]</i></p> <p>A24. The quality of professional judgments exercised by the firm is likely to be enhanced when <del>individuals</del><del>personnel</del> making such judgments demonstrate an attitude that includes an <del>inquiring</del><del>questioning</del> mind, <del>including:</del></p> <ul style="list-style-type: none"> <li>• <del>Being open and alert for situations and information (or the lack thereof) regarding the system of quality management, including factors related to the nature and circumstances of the firm and engagements it performs; and</del></li> <li>• <del>Critically evaluating assessment of information obtained in formulating decisions about the system of quality management, and being alert to changes in the nature and circumstances of the firm or its engagements.</del></li> </ul>
<p><u>Responsibilities</u></p> <p>22A. The firm shall <u>assign</u>: (Ref: Para. A24A–A24B)</p> <p>(a) <del>Assign</del>—<del>u</del>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).</p> <p>(b) <del>Assign</del>—<del>o</del>Operational responsibility for the system of quality management.</p>	<p><del>Authorities and</del> Responsibilities (Ref: Para. 22A–<del>22AA</del>)</p> <p>A24A. The governance and leadership component includes a quality objective that the firm has an organizational structure with appropriate assignment of roles, responsibilities and authority. <del>that supports the firm’s commitment to quality and the design, implementation and operation of the firm’s system of quality management.</del></p> <p>A24B. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Scalability examples to demonstrate how assigning <u>roles and ultimate responsibility and accountability for the system of quality management</u> may be undertaken in a less complex firm differ:</i></p> <p>In a <del>less complex</del><del>smaller</del> firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner</p> </div>

	<p>with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.</p> <p><del>In a larger firm, ultimate responsibility and accountability for the system of quality management may be assigned to a chief executive officer (or equivalent) or a managing board of partners (or equivalent). The firm may also have an independent governing body that has non-executive oversight of the firm, and which may comprise external persons</del></p>
<p><del>22AA. (e) — In a</del> <u>Assigning operational responsibility for the system of quality management</u><del>the roles in sub-paragraphs (a) and (b)</del>, and any other responsibilities for specific aspects of the system of quality management, <u>the firm shall determine that the assigned to</u> individual(s) <del>that has</del> <u>ve</u>: (Ref: Para. A24C–A24D)</p> <p>(a) The appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility; and</p> <p>(b) An understanding of their assigned responsibility and accountability for such responsibility. (Ref: Para. A24E)</p>	<p>A24C. This ISQM also requires the firm to assign operational responsibility for compliance with independence requirements and the monitoring and remediation process.</p> <p><u>A24CA. The appropriate experience and knowledge for the individual assigned operational responsibility for the system of quality management may include:</u></p> <ul style="list-style-type: none"> <li>• <u>An understanding of the firm’s strategic decisions and actions and experience with the firm’s business operations; and</u></li> <li>• <u>Having appropriate seniority, stature and influence within the firm.</u></li> </ul> <p>A24D. An individual assigned operational responsibility for aspects of the system of quality management may further assign specific roles, procedures, tasks or actions to other individuals <del>within the firm</del>.</p> <p>A24E. Although an individual may be assigned responsibility for a particular aspect of the system of quality management, in order to fulfill their responsibility, the individual may need to understand how their role contributes to the system of quality management as a whole.</p>
<p>22B. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management has a direct line of communication to</p>	

<p>the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	
<p><b>The Firm's Risk Assessment Process</b></p>	<p><b>The Firm's Risk Assessment Process</b> (Ref: Para. 22C–22GH)</p>
<p>22C. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks to the achievement of the quality objectives and design and implement responses to address the assessed quality risks. (Ref: Para. A24F–A24H)</p>	<p>A24F. How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized. <del>Although this ISQM is organized by components, t</del>he firm's risk assessment process may be undertaken <u>in relation to each component, or</u> for the system of quality management as a whole.</p> <div data-bbox="982 576 1953 1161" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the firm's risk assessment process may <del>be</del> different:</i></p> <ul style="list-style-type: none"> <li>• A <del>less complex</del><u>smaller</u> firm may have an informal risk assessment process, which is undertaken by the individual assigned operational responsibility for the system of quality management.</li> <li>• A <del>more complex</del><u>larger</u> firm may have a more structured and formal risk assessment process, involving multiple individuals <del>throughout the firm</del>. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks and responses to be included in the firm's system of quality management.</li> </ul> </div> <p>A24G. The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative.</p>

*Examples of the iterative nature of the firm's risk assessment process:*

- In identifying and assessing quality risks, the firm determines that a quality risk is also relevant to another quality objective(s).
- When designing and implementing responses, the firm determines that a quality risk was not identified and assessed.

A24H. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm's information and communication component. Information ~~sources~~ that ~~is~~are relevant to the firm's risk assessment process may be internal or external to the firm and may include:

- Information about the factors that may affect the achievement of the quality objectives~~quality risk considerations~~.
- The results of the firm's monitoring and remediation process (see paragraph 49).
- The results of external inspections.
- Information available from other regulators, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in their financial statements).
- Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm's resources.
- Information from the network or service providers, including:
  - Information about network requirements or network services (see paragraph 58); and-
  - Other information from the ~~firm's~~ network, including information ~~from the network~~ about the ~~overall scope and~~ results of monitoring activities undertaken by the network across the network firms (see paragraphs 60–61).

	<ul style="list-style-type: none"> <li>Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.</li> </ul>
<p>22D. The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A24I–A24K)</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 22D)</p> <div style="border: 1px solid black; padding: 5px;"> <p>A24I. <i>Example of circumstances that may give rise to the need for additional quality objectives:</i></p> <p><del>The firm performs assurance engagements in accordance with jurisdictional law or regulation, or the requirements of national professional standards, require the firm to establish additional quality objectives. (i.e., the assurance engagements are not within the scope of the IAASB’s professional standards).</del></p> </div> <p>A24J. The nature and circumstances of the firm and its engagements may be such that the objectives in this ISQM are <u>considered</u> complete, <del>such that</del> and the firm may not find it necessary to establish additional quality objectives.</p> <p>A24K. The firm may <del>determine it appropriate to</del> establish sub-objectives to enhance the firm’s identification and assessment of quality risks, and design and implementation of responses.</p>
<p>22E. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. <del>As part of identifying and assessing quality risks</del> <u>In doing so</u>, the firm shall: (Ref: Para.A24L)</p> <p>(a) Understand the <del>factors</del> <u>conditions, events, circumstances, actions or inactions</u> that may adversely affect the achievement of its quality objectives, <u>including:</u></p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 22E)</p> <p>A24L. The identification of quality risks and assessment of quality risks may be undertaken separately or concurrently.</p> <p><del>A24M. [Deleted] In understanding how the quality risk factors give rise to conditions, events, circumstances, actions or inactions that may adversely affect the achievement of a quality objective(s), the firm may consider what could go wrong in relation to the quality risk considerations.</del></p> <p><u>A24N. The factors that may adversely affect the achievement of a quality objective consist of conditions, events, circumstances, actions or inactions. There may be factors in</u></p>

~~(b) Take into account the following quality risk considerations:~~ (Ref: Para. ~~A24M–A24NP~~)

(i) ~~Those relating to~~ the nature and circumstances of the firm, including:

a. The complexity and operating characteristics of the firm;

b. The ~~firm's~~ strategic decisions, and actions, and business model;

c. The characteristics and management style of leadership;

d. The resources of the firm, including the resources provided by service providers;

~~ed.~~ Law, regulation, professional standards and the environment in which the firm operates; and

~~fe.~~ In the case of a firm that belongs to a network, the characteristics of the network requirements and network services, if any; ~~and~~

~~f.~~ The nature and extent of any services provided by service providers.

(ii) ~~Those relating to~~ the nature and circumstances of the engagements performed by the firm subject to the

addition to those described in paragraph 22E(a) that may adversely affect the achievement of a quality objective.

~~A24N–Examples of the factors that may be considered by the firm in determining whether they adversely affect the achievement of a quality objective~~ quality risk considerations regarding the nature and circumstances of the firm:

Conditions and circumstances:

- ~~The complexity and operating characteristics of the firm:~~ The size of the firm, the geographical dispersion of the firm, how the firm is structured or, the extent to which the firm concentrates or centralizes its processes or activities (e.g., use of service delivery centers), ~~or the characteristics and availability of the firm's resources.~~

- The services offered by the firm, including services not within the scope of this ISQM, and the relative significance of the various services to the firm's overall financial goals.

- The composition of firm leadership and their tenure, and how authority is distributed among leadership.

- Economic stability and social factors, and standards or regulation affecting engagements performed by the firm.

- The nature of the firm's resources, how resources will be used in the firm's system of quality management, the firm's dependency on resources from service providers and the characteristics of the service providers used by the firm, and the resources they provide.

- The nature of the network, how the network is organized and the nature and extent of the requirements established by the network or services provided by the network.

Actions or inactions:

system of quality management, including:

- a. The types of engagements performed by the firm and the reports to be issued; and
- b. The types of entities for which such engagements are undertaken ~~and the expectations of stakeholders;~~

(b) Consider:

(i) Whether, and if so how, the factors could, individually or in combination with other quality risks, adversely affect the achievement of a quality objective; and (Ref: Para. A24P)

(ii) Consider ~~t~~he likelihood of the quality risks occurring, and if they were to occur the potential effect on the achievement of a quality objective(s) before consideration of any response. (Ref: Para. A24Q)

- ~~• Decisions and actions taken by the firm in obtaining and allocating resources.~~
- ~~• The firm's strategic decisions and actions: Decisions about financial and operational matters, including:
 
  - ~~o Commercial considerations; and~~
  - ~~o The firm's strategic goals.~~~~
- ~~• The characteristics and management style of leadership: The composition of firm leadership and their tenure, how authority is distributed among leadership, or how leadership motivates and encourages personnel.~~

Events:

- ~~• Law, regulation, professional standards and the environment in which the firm operates: Regulations directly relevant to the firm, professional standards, other standards or regulation affecting engagements performed by the firm (e.g., general purpose frameworks for financial reporting commonly used in the jurisdiction), economic stability, social factors, or Audit failures that affect the general public's perception of professional accountancy firms (e.g., a general lack of trust arising from recurring audit failures).~~
- ~~• The characteristics of the network requirements and network services: The nature of the network, how the network is organized and the nature and extent of the requirements established by the network or services provided by the network.~~
- ~~• The nature and extent of any services provided by service providers: The nature of such services.~~

~~A24Q. [Deleted] Examples of the quality risk considerations regarding the nature and circumstances of the engagements performed by the firm:~~

- ~~• The types of engagements performed by the firm and the reports to be issued: The various engagements performed by the firm (i.e., audits or reviews of financial statements, or other assurance or related services engagements) and how the engagement reports may be used by users.~~
- ~~• The types of entities for which such engagements are undertaken and the expectations of stakeholders: The industries in which the entities operate and the nature of their business, the nature of the entities' shareholding (e.g., owner-managed or listed), the size of the entities or the nature of the entities' stakeholders.~~

A24P. ~~Not every factor will affect all of the quality risk considerations are relevant to every quality objective and therefore, not every factor will give rise to a quality risk in a component. Furthermore, other quality risk considerations may be relevant to the firm that are indicative of, or that affect, the conditions, events, circumstances, actions or inactions that may give rise to quality risks.~~

A24Q. The assessment of identified quality risks need not comprise formal ratings or scores.

*Examples of how the quality risks factors that may be considered by the firm in assessing the potential effect of a quality risk on the achievement of a quality objective(s)*

- ~~• How frequently ~~The expected frequency of~~ the quality risk is expected to occurring.~~
- ~~• How much time it would take for the the quality risk to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the quality risk ~~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.~~~~
- ~~• How long the quality risk would affect the firm once it has occurred ~~The duration of time of the effect of the quality risk after it has occurred.~~~~

<p>22F. The firm shall design and implement responses to address the assessed quality risks. <del>For this purpose, the firm shall: (Ref: Para. A24R–A24U)</del></p> <p><del>(a) Design the responses</del> in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. <del>;</del> <del>and</del></p> <p><del>(b) In doing so, the firm shall include</del> the responses specified by this ISQM <del>in paragraph 41A. The responses specified by this ISQM alone will not be sufficient to achieve the objectives of the system of quality management. (Ref: Para. A24R – A24T)</del></p>	<p><i>Design and Implement Responses to Assessed Quality Risks</i> (Ref: Para. 22F)</p> <p>A24R. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the <del>assessed</del> quality risks, which includes:</p> <ul style="list-style-type: none"> <li>• The likelihood of <del>the assessed quality risk</del> <u>occurring</u>.</li> <li>• <del>The effect of the quality risk</del> on the achievement of a quality objective(s).</li> <li>• The <u>factors that may adversely affect the achievement of the quality objectives</u> <del>quality risk considerations that are indicative of, or that affect, the conditions, events, circumstances, actions or inactions</del> that give rise to the assessed quality risks.</li> </ul> <table border="1" data-bbox="982 609 1948 1404"> <tr> <td colspan="2" data-bbox="982 609 1948 706"> <p><del>Scalability examples to demonstrate the quality risk considerations may affect the responses:</del></p> </td> </tr> <tr> <td data-bbox="982 706 1465 1128"> <p><del>As part of the quality risk considerations relating to resources, a firm determines that the types of entities for which the firm performs engagements includes audits of financial statements of listed entities. This gives rise to quality risks that personnel lack the appropriate knowledge and experience of relevant listing requirements to perform the engagement.</del></p> </td> <td data-bbox="1465 706 1948 1128"> <p><del>The response may include specific training and certification for personnel assigned to these engagements.</del></p> </td> </tr> <tr> <td data-bbox="982 1128 1465 1404"> <p><del>As part of the quality risk considerations relating to culture, a firm determines that the firm is small and only has one location, and leadership is concentrated to a single individual. This gives rise to a quality risk that the daily actions and behaviors of</del></p> </td> <td data-bbox="1465 1128 1948 1404"> <p><del>The response may include ongoing independent coaching of firm leadership, including periodically soliciting anonymous feedback from all levels within the firm, so that there is a clear understanding of how leadership's actions and behaviors are</del></p> </td> </tr> </table>	<p><del>Scalability examples to demonstrate the quality risk considerations may affect the responses:</del></p>		<p><del>As part of the quality risk considerations relating to resources, a firm determines that the types of entities for which the firm performs engagements includes audits of financial statements of listed entities. This gives rise to quality risks that personnel lack the appropriate knowledge and experience of relevant listing requirements to perform the engagement.</del></p>	<p><del>The response may include specific training and certification for personnel assigned to these engagements.</del></p>	<p><del>As part of the quality risk considerations relating to culture, a firm determines that the firm is small and only has one location, and leadership is concentrated to a single individual. This gives rise to a quality risk that the daily actions and behaviors of</del></p>	<p><del>The response may include ongoing independent coaching of firm leadership, including periodically soliciting anonymous feedback from all levels within the firm, so that there is a clear understanding of how leadership's actions and behaviors are</del></p>
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<p><del>As part of the quality risk considerations relating to culture, a firm determines that the firm is small and only has one location, and leadership is concentrated to a single individual. This gives rise to a quality risk that the daily actions and behaviors of</del></p>	<p><del>The response may include ongoing independent coaching of firm leadership, including periodically soliciting anonymous feedback from all levels within the firm, so that there is a clear understanding of how leadership's actions and behaviors are</del></p>						

	<p><del>leadership have a significant effect on the firm's culture.</del></p>	<p><del>affecting the firm, and how they may be improved to achieve the desired culture.</del></p>
	<p><del>As part of the quality risk considerations relating to culture, a firm determines that it is large with multiple locations, and there are multiple layers within the leadership structure. This gives rise to various quality risks, including that a consistent culture is not permeated throughout the firm.</del></p>	<p><del>The response may include multiple actions, including establishing firm values in a code of conduct, undertaking firm-wide formal communications that emphasize the importance of quality and regular leadership meetings that discuss key messages, decisions and actions.</del></p>
	<p>A24S. 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 for actions to be taken at the firm and engagement level <del>in order for a response to operate as designed.</del></p>	
	<p><i>Example of a response that operates at <u>both</u> the firm and engagement level:</i></p> <p>The firm establishes policies or procedures setting out specific matters for which consultation by engagement teams is required, <del>and</del> <del>The firm</del> appoints suitably qualified and experienced <del>individuals</del> <del>personnel</del> to provide technical advice to engagement teams. <del>Under the firm's policies or procedures,</del> <del>t</del>he engagement team is responsible for identifying when <del>such</del> matters <u>for consultation</u> occur and initiating consultation.</p>	
	<p>A24T. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.</p>	
	<p>A24U. <del>[Deleted]</del> <del>The responses required by this ISQM are relevant to every firm's system of quality management, unless paragraph 21 is relevant.</del></p>	

*Modifications to the Quality Objectives, Quality Risks or Responses*

22G. ~~As part of the design and implementation of the firm's risk assessment process, t~~The firm shall establish policies or procedures that are designed to identify information that may indicate changes in the quality risk considerations or the conditions, events, circumstances, actions or inactions that give rise to the need for modifications to affect the quality objectives, quality risks or responses. The firm shall consider whether: (Ref: Para. A24VA–A24X)

(a) Additional quality objectives need to be established and if so, shall establish them; and

(b) The quality risks or responses require modification, and if so, shall modify them accordingly. (Ref: Para. A24YV–A24W)

*Modifications to the Quality Objectives, Quality Risks or Responses (Ref: Para. 22G)*

~~A24V. [Deleted] The firm's information and communication component may already address the identification of changes in the conditions, events, circumstances, actions or inactions that affect the firm's quality objectives, quality risks or responses, i.e., the policies or procedures may form part of the firm's information and communication component.~~

A24VA. Scalability example to demonstrate how the policies or procedures designed to identify information that may affect the quality objectives, quality risks or responses may vary

- In a less complex firm, the individuals responsible for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses may, in the normal course of their activities, be aware of information that may affect the quality objectives, quality risks and responses. In such cases, the firm's policies or procedures may be informal.
- In a more complex firm, the firm may need to establish formal policies or procedures to identify information that may affect the quality objectives, quality risks or responses. This may include a periodic review of information relating to the nature and circumstances of the firm and engagements it performs, environmental scans or risk sensing.

A24W. Changes in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management.

	<p><i>Example of how a change in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management:</i></p> <p>The firm accepts an engagement to perform an audit of financial statements for an entity involved in an industry for which the firm has not previously performed audit engagements. This gives rise to new quality risks, including that <del>individuals</del><del>personnel</del> do not have the knowledge or experience relevant to the engagement.</p> <p><u>A24X. Additional quality objectives may need to be established, or quality risks and responses modified as part of the remedial actions undertaken by the firm to address a deficiency in accordance with paragraph 49.</u></p> <p><u>A24Y. Modifications to quality risks or responses include adjusting an assessed quality risk, reassessing a quality risk, identifying a new quality risk, adjusting the design or implementation of a response, or designing and implementing a new response.</u></p>
<p><del>22H. [Deleted] The firm shall modify the quality objectives, quality risks or responses, as appropriate, in response to:</del></p> <p><del>(a) Identified changes in the quality risk considerations or the conditions, events, circumstances, actions or inactions; and</del></p> <p><del>(b) Identified deficiencies.</del></p>	
<p><b>Governance and Leadership</b></p>	<p><b>Governance and Leadership</b> (Ref: Para. 23)</p>
<p>23. The firm shall establish the following quality objectives that address the aspects of the firm's environment that support the design, implementation and operation of the <del>other</del></p>	<p><del>A25. [Deleted in December 2019 draft]</del></p> <p>Culture (Ref: Para. 23(a))</p> <p>A26. The firm's culture is an important factor in influencing the behavior of personnel <u>and other individuals</u>. Relevant ethical requirements ordinarily establish the principles of</p>



(~~de~~) The ~~firm has an~~ organizational structure ~~with appropriate— and~~ assignment of roles, responsibilities and authority ~~is appropriate to enable that supports the firm's commitment to quality and~~ the design, implementation and operation of the firm's system of quality management. (Ref: Para. A31–~~A31A~~)

(~~ed~~) ~~The firm plans for its r~~Resource needs, including financial resources, ~~are planned for and resources are obtaineds, allocateds or assigneds resources~~ in a manner that ~~is consistent with supports~~ the firm's commitment to quality ~~and enables the design, implementation and operation of the firm's system of quality management.~~ (Ref: Para. A34–A35)

Leadership (Ref: Para. 23(b) and 23(c))

A29A. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 65D.

~~A30.~~ *[Deleted in December 2019 draft- moved to implementation guidance]*

A30A. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm may be essential to promoting a culture of quality.

Organizational Structure (Ref: Para. 23(~~de~~))

A31. The organizational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, ~~and for example,~~ engagement teams may include ~~human resources individuals~~ from ~~the~~ service delivery centers who perform specific tasks that are repetitive or specialized in nature.

A31A. How the firm assigns roles, responsibilities and authority within the firm may vary.

Scalability examples to demonstrate how assigning roles and responsibilities may vary

- In a less complex firm, the individual with oversight of the firm may assume all of the roles and responsibilities related to the system of quality management.
- In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals.

	<p><del>A32.</del> [Moved in December 2019 draft]</p> <p><del>A33.</del> [Deleted in December 2019 draft-moved to implementation guidance]</p> <p>Resources (Ref: Para. 23<del>(ed)</del>)</p> <p>A34. The individuals(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used.</p> <p>A35. Resource needs may change over time, however it may not be practicable to anticipate all resource needs. The firm’s resource planning may involve determining the resources currently required, forecasting the firm’s future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.</p> <p><i>Quality Risk Considerations (Ref: Para. 23)</i></p> <table border="1" data-bbox="907 787 1948 1382"> <tr> <td colspan="2" data-bbox="907 787 1948 885"> <p><del>A35A.</del> [Deleted] <del>Examples of how the quality risk considerations may give rise to quality risks related to the governance and leadership quality objectives:</del></p> </td> </tr> <tr> <td data-bbox="907 885 1465 1382"> <p><del>The firm has a leadership team comprising representatives across the firm’s various business units, including business units who do not perform audits or reviews of financial statements, or other assurance or related services engagements (characteristics of management). This gives rise to a quality risk that decisions about financial and operational priorities may not appropriately consider the importance of quality in performing engagements.</del></p> </td> <td data-bbox="1465 885 1948 1382"> <p><del>The responses may include appointing an independent governing board to oversee decisions made by firm leadership that may impact the quality of engagements.</del></p> </td> </tr> </table>	<p><del>A35A.</del> [Deleted] <del>Examples of how the quality risk considerations may give rise to quality risks related to the governance and leadership quality objectives:</del></p>		<p><del>The firm has a leadership team comprising representatives across the firm’s various business units, including business units who do not perform audits or reviews of financial statements, or other assurance or related services engagements (characteristics of management). This gives rise to a quality risk that decisions about financial and operational priorities may not appropriately consider the importance of quality in performing engagements.</del></p>	<p><del>The responses may include appointing an independent governing board to oversee decisions made by firm leadership that may impact the quality of engagements.</del></p>
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	<p><del>The firm is a small firm (operating characteristics of the firm) with a few engagement partners who have been partners of the firm for many years (characteristics of management). This gives rise to a quality risk that actions and behaviors of leadership that do not promote quality are not challenged.</del></p>	<p><del>The responses may include establishing policies or procedures for receiving, investigating and resolving complaints and allegations about the commitment to quality. The policies or procedures may further specify how complaints and allegations regarding leadership should be addressed.</del></p>
	<p><del>The firm is a large firm (operating characteristics of the firm) and is subject to a jurisdictional audit firm governance code (law, regulation and the environment in which the firm operates). This gives rise to a quality risk that the firm does not fulfill the requirements of the firm governance code as they relate to the firm's culture, decision-making process, actions, organizational structure and leadership.</del></p>	<p><del>The responses may include assigning responsibility to an individual to proactively monitor the firm's compliance with the jurisdictional audit firm governance code.</del></p>
	<p><del>The firm is a small firm (operating characteristics of the firm) with a few engagement partners with shared authority (the characteristics of management). This gives rise to a quality risk that, given the shared authority, there is a lack of clarity regarding responsibility and accountability for quality and the individuals are therefore not held</del></p>	<p><del>The responses may include:</del></p> <ul style="list-style-type: none"> <li><del>• A formal agreement regarding who is responsible and accountable for quality and, if it is assigned to an individual, how the other engagement partners are expected to support that individual; and</del></li> <li><del>• Undertaking periodic performance evaluations of the</del></li> </ul>

	<p><del>responsible and accountable for quality.</del></p>	<p><del>engagement partners to determine whether they have fulfilled their roles in accordance with the agreement.</del></p>
	<p><del>The firm has a strategic goal to develop and grow a new service line focused on performing compilations of financial statements (the firm's strategic decisions and actions). This gives rise to a quality risk that that the firm's growth outpaces its ability to obtain resources, placing increased pressure on the allocation or assignment of resources to support the performance of quality engagements.</del></p>	<p><del>The responses may include:</del></p> <ul style="list-style-type: none"> <li><del>• Forecasting the firm's resource needs and taking timely action to obtain resources, including obtaining resources from service providers; or</del></li> <li><del>• Delaying the growth of the new service line until such time as the appropriate resources can be obtained.</del></li> </ul>
	<p><del>The firm is a small firm with limited resources (operating characteristics of the firm) and operates in an environment where there is high competition for appropriately qualified personnel (the environment in which the firm operates). This gives rise to a quality risk that the firm is unable to respond in a timely manner to unexpected changes in resource needs.</del></p>	<p><del>The responses may include</del></p> <ul style="list-style-type: none"> <li><del>• A periodic review of the factors that could cause an unexpected change in the firm's resource needs (e.g., dissatisfied staff); and</del></li> <li><del>• Either eliminating such factors or determining what actions the firm will take should such events occur (e.g., identifying appropriate service providers).</del></li> </ul>
	<p><del>Responses (Ref: Para. 23)</del></p> <p><del>A35B-[Deleted]The responses designed and implemented by the firm to embed a culture that promotes a commitment to quality are likely to include, among other actions:</del></p>	

	<p style="color: red;"><del>Establishing a tone at the top that emphasizes the importance of quality, through the actions and behaviors of leadership; and</del></p> <ul style="list-style-type: none"> <li><del>• Clear, consistent and frequent actions and communications at all levels within the firm regarding the importance of quality.</del></li> </ul> <p style="color: red;"><del>A35C. [Deleted] The responses designed and implemented by the firm to hold leadership responsible and accountable for quality may include undertaking the performance evaluations required by paragraph 65D.</del></p>
<p><del>24 to 31</del> [Moved in December 2019 draft]</p>	<p><del>A36. [Deleted in December 2019 draft]</del></p> <p><del>A37. [Deleted in December 2019 draft – moved to implementation guidance]</del></p> <p><del>A38. [Moved in December 2019 draft]</del></p> <p><del>A39. [Deleted in December 2019 draft]</del></p> <p><del>A40 to A52</del> [Moved in December 2019 draft]</p> <p><del>A53 to A57</del> [Deleted in December 2019 draft]</p> <p><del>A58 to A66</del> [Moved in December 2019 draft]</p>
<p><b>Relevant Ethical Requirements</b></p>	<p><b>Relevant Ethical Requirements</b> (Ref: Para. 32–<del>33</del>)</p>
<p>32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, <u>including those related to independence</u><del>which, as defined, include the principles of professional ethics</del>: (Ref: Para. A67–<del>A68, A75</del>)</p> <p>(a) The firm, its personnel and others subject to relevant ethical requirements, <u>including, as applicable, the network, network firms,</u></p>	<p>A67. The IESBA Code sets out the fundamental principles of ethics that establish the standard of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the International Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence <u>(e.g., for example, privacy laws affecting the confidentiality of information).</u></p>

personnel in the network or network firms, or service providers:

(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject, including those related to independence. (Ref: Para. A15, A16A, A71)

(iib) The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject, including: (Ref: Para. A72–A74) those related to independence.

a. Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and

b.(c) The firm, its personnel and others subject to relevant ethical requirements identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches of the relevant ethical requirements, including

A68. In some cases, the matters addressed by the firm in its system of quality management may determine that it is appropriate to design and implement responses that are may be more specific than, or additional to, the provisions of relevant ethical requirements.

*For eExamples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements, having regard to the nature and circumstances of the firm and its engagements, a firm may:*

- The firm pProhibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
- The firm sSets rotation periods in addition to those specified in relevant ethical requirements, which apply to allfor the engagement partners and other senior personnel for all engagements performed by the firm, including those performing other assurance or related services engagements, and all senior engagement team members.

A69. ~~[Deleted – moved to implementation guidance] Other components include responses that may 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 assessed quality risks for relevant ethical requirements:~~

~~Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.~~

~~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.~~

~~those related to independence, in a timely manner.~~

~~Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements 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 related to:~~

~~Personal or firm situations that may create threats to independence, for example, financial interests, loans, employment relationships or personal appointments.~~

~~Client engagements, including non-assurance engagements. For example, this may include the scope of services, fees or information about long association.~~

~~Business relationships.~~

~~Any breaches of the relevant ethical requirements, including those related to independence.~~

- ~~• Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.~~

~~[Remainder of paragraph moved to paragraph A153B]~~

A70. ~~[Moved to paragraph A16A]~~

A71. The applicability of the relevant ethical requirements to others (e.g., i.e., the network, network firms, personnel in the network or network firms, or service providers) depends on ~~the provisions of the relevant ethical requirements and whether these requirements contain specific provisions addressing others, and~~ how the firm uses others in its system of quality management, ~~including in the performance of engagements.~~

~~For eExamples of relevant ethical requirements that apply to others:~~

	<ul style="list-style-type: none"><li>• Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, <u>for example, the IESBA Code includes independence requirements that apply to a network firm.</u></li><li>• The definition of engagement team under relevant ethical requirements may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.</li><li>• The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.</li></ul> <p>A72. 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 for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p> <p>A73. <u>The policies or procedures addressing Matters that may need to be addressed by the firm relating to</u> breaches of the relevant ethical requirements, <u>including those related to independence, may address matters such as:</u></p> <ul style="list-style-type: none"><li>• The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;</li><li>• The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;</li><li>• The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;</li></ul>
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	<ul style="list-style-type: none"> <li>• Determining whether to report a breach to external parties, <u>such as those charged with governance of the entity to which the breach relates or an external oversight authority</u>; and</li> <li>• Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.</li> </ul> <p>A74. Relevant ethical requirements may specify how the firm is required to respond to a breach. <u>For example, the IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.</u></p> <p><i>Public Sector Considerations</i></p> <p>A75. <del>Statutory measures may provide safeguards for the independence of public sector auditors. In achieving the quality objectives in this ISQM related to independence, public sector auditors may have regard to the public sector mandate and statutory measures, and address independence in that context. However, threats to independence may still exist regardless of any statutory measures designed to protect the firm's independence that will require an appropriate response by the organization</del></p>
<p>33. <del>In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the relevant ethical requirements quality objectives, the firm shall include the following responses: (Ref: Para. A68–A69 and A75)</del></p> <p><del>(a) Identifying the relevant ethical requirements and determining the applicability of the relevant ethical requirements to the firm, its personnel and others, including, as applicable, the network, network firms,</del></p>	

<p>personnel in the network or network firms, or service providers. (Ref: Para. A15, A70–A71)</p> <p><del>(b) Establishing policies or procedures that address the identification and evaluation of threats to compliance with the relevant ethical requirements and how identified threats should be addressed. (Ref: Para. A72)</del></p> <p><del>(c) 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. A73–A74)</del></p> <p><del>(d) [Moved to paragraph 41A(b)]</del></p>	
<p><b>Acceptance and Continuance of Client Relationships and Specific Engagements</b></p>	<p><b>Acceptance and Continuance of Client Relationships and Specific Engagements</b> (Ref: Para. 34–35)</p>
<p>34. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements <del>that are appropriate in the circumstances:</del> (Ref: Para. A76)</p> <p>(a) <del>Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</del></p> <p><del>(i) The firm obtains sufficient appropriate Relevant information obtained about the nature and circumstances of the</del></p>	<p><del>A76. [Deleted - moved to implementation guidance] Other components include responses that may affect or relate to the acceptance and continuance of client relationships and specific engagements component. For example:</del></p> <ul style="list-style-type: none"> <li><del>• 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.</del></li> <li><del>• The firm may use technological resources in the form of IT applications to facilitate the approval of client relationships or specific engagements at appropriate levels within the firm.</del></li> </ul>

engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) ~~that is sufficient to support such judgments; and based on such information makes appropriate judgments about whether to accept or continue a client relationship or specific engagement.~~ (Ref: Para. A77–A82)

~~(iib) 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. (Ref: Para. A83) when determining whether to accept or continue a client relationship or specific engagement, including that the firm has: (Ref: Para. A83)~~

~~(i) Resources to perform the engagement; and (Ref: Para. A84)~~

~~(ii) Access to information to perform the engagement, or to the persons who provide such information.~~

~~(be) The firm’s financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A85–A86)~~

~~• Governance and leadership addresses the responsibility of the firm with respect to appropriate resource planning and obtaining, allocating or assigning resources.~~

*The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client* (Ref: Para. 34(a)(i))

A77. The information obtained about the nature and circumstances of the engagement may include:

- The industry of the entity for which 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 nature of the underlying subject matter and the criteria ~~to be applied in the preparation of the subject matter information~~

*Example of underlying subject matter and criteria*

~~, for example, i~~n the case of integrated reporting:

- ~~t~~he underlying subject matter may include social, environmental and health and safety information; and
- ~~T~~he criteria may be performance measures established by a recognized body of experts.

A78. *[Deleted - moved to implementation guidance]* ~~In some circumstances 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.~~

~~(d)~~—[Moved to paragraph 41A(d)]

A79. The information obtained to support the firm's judgments about 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 nature and extent of information obtained may depend on factors such as:~~

Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client

- 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 client-imposed 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.

A80. The firm may obtain the information from a variety of internal and external sources, for example:

Examples of sources of information about the integrity and ethical values of the client

- In the case of an existing client, ~~consideration of matters that have arisen during the information from~~ 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 a service provider to perform the background search.

A81. 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 in most cases also relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, ISA 220 (Revised)<sup>10</sup> 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 complying with the requirements of ISA 220 (Revised)~~.

A82. Professional standards or legal and regulatory 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,

<sup>10</sup> Proposed ISA 220 (Revised), paragraph 21

when there has been a change of auditors, ISA 300<sup>11</sup> requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.

*The Firm's Ability to Perform Engagements* (Ref: Para. 34(a)(ii)(b))

A83. The ~~consideration of whether the firm's is ability~~ to perform the engagements in accordance with professional standards and applicable legal and regulatory requirements ~~may be affected by~~includes determining that:

- The availability of appropriate resources to perform the engagement;
- Having access to information to perform the engagement, or to the persons who provide such information; and.
- Whether the firm, its personnel and others ~~individuals involved in the engagement~~ are able to fulfill their responsibilities in relation to the relevant ethical requirements.

A84. ~~The judgments about whether the firm has the resources to perform the engagement may involve reviewing the specific circumstances of the engagement and considering whether the firm has the resources to perform the engagement within the reporting deadline, including whether there are:~~

Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement

- The circumstances of the engagement and the reporting deadline.

<sup>11</sup> ISA 300, *Planning an Audit of Financial Statements*, paragraph 13(b)

- The availability of Human resources/individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes:
  - Individuals/Personnel to direct and supervise the engagement and take overall responsibility; and
  - Human resources/Individuals with 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 availability of Experts that are available, if needed.
- If an Engagement quality reviewer is needed, whether there is an individual available who meets the eligibility requirements in ISQM 2, if applicable.
- The need for Technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

*The Firm's Financial and Operational Priorities* (Ref: Para. 34(~~be~~))

A85. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialization or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but, notwithstanding the firm's operational and financial priorities, it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks ~~appropriate~~ integrity and ethical values).

	<p>A86. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The IESBA Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.</p> <p><i>Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: Para. 34(d))</i></p> <p>A87. <i>[Moved to paragraph A153E]</i></p> <p>A88. <i>[Moved to paragraph A153E]</i></p> <p>A89. <i>[Moved to paragraph A153F and A153G]</i></p> <p>A90. <i>[Deleted - moved to implementation guidance]</i> <del>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. 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.</del></p>
<p>35. <i>[Moved to paragraph 41A(d)]</i></p>	
<p><b>Engagement Performance</b></p>	<p><b>Engagement Performance</b> <del>(Ref: Para. 36)</del></p>

<p>36. The firm shall establish the following quality objectives that address the performance of quality engagements: <del>(Ref: Para. A112A)</del></p> <p>(a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, <del>:-</del></p> <p><del>(i) The overall responsibility of the engagement partners' s overall responsibility for managing and achieving quality on the engagement and being for being sufficiently and appropriately involved throughout the engagement, and (Ref: Para. A924)</del></p> <p><del>(b#) The nature, timing and extent of direction and supervision of the engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced members of the engagement teams is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A932-A93A)</del></p> <p><del>(cb) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A96)</del></p>	<p><del>A91. [Deleted] ISA 220 (Revised)<sup>12</sup> requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement.</del></p> <p><del>Responsibilities of the Engagement Team and Direction, Supervision and Review (Ref: Para. 36(a) and 36(b)(#))</del></p> <p><del>A92. The responsibilities of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement include responsibility direction, supervision and review may address:</del></p> <p><del>The responsibilities of the engagement partner for appropriate direction and supervision of the engagement team and review of the work performed, and</del></p> <p><del>The need for the work performed by less experienced members of the engagement team to be directed, supervised and reviewed by more experienced engagement team members.</del></p> <p><u>A93. Examples of responsibilities for supervision and review:</u></p> <ul style="list-style-type: none"> <li>• Examples of responsibilities for supervision include:             <ul style="list-style-type: none"> <li>○ Tracking the progress of the engagement;</li> <li>○ 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;</li> <li>○ Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and</li> <li>○ Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.</li> </ul> </li> </ul>
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<sup>12</sup> Proposed ISA 220 (Revised), paragraph 11

- (de) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A98–A99A)
- (ed) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm’s system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A100)
- (fe) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or other professional standards.(Ref: Para. A108–A111)

- Examples of responsibilities for review include 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 consultations have been undertaken 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 for an assurance engagement is sufficient and appropriate to support the report; and
  - The objectives of the engagement procedures have been achieved.

A93A. Examples of responsibilities for supervision and review

In some circumstances, the firm may use a service delivery center and individuals from the service delivery center may be included in the engagement team. In such cases, the firm’s policies or procedures addressing direction, supervision and review may specify:

- What aspects of the engagement may be assigned to individuals in the service delivery center; and
- How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by individuals in the service delivery center.

The firm may also establish methods for communication between the engagement team and individuals in the service delivery center to facilitate

direction, supervision and review of the work undertaken by individuals in the service delivery center.

A94. *[Deleted in December 2019 draft– moved to implementation guidance]*

A95. *[Deleted in December 2019 draft– moved to implementation guidance]*

*Professional Judgment and Professional Skepticism* (Ref: Para. 36(~~cb~~))

A96. Professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team in performing the engagement. Other pronouncements of the IAASB may address the exercise of professional judgment or professional skepticism at the engagement level. For example, ISA 220 (Revised)<sup>13</sup> explains the impediments to the exercise of professional skepticism at the engagement level and actions that the engagement partner may take to deal with such impediments.

A97. *[Deleted in December 2019 draft– moved to implementation guidance]*

*Consultation* (Ref: Para. 36(~~de~~))

A98. 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. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a firm culture that promotes a commitment to quality.

A99. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify responsibilities for consultation may address how conclusions should be~~are~~ agreed and implemented.

<sup>13</sup> Proposed ISA 220 (Revised), paragraphs A27–A29

A99A.ISA 220 (Revised)<sup>14</sup> includes requirements for the engagement partner related to consultation.

*Differences of Opinion* (Ref: Para. 36(~~ed~~))

A100. The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter should be resolved, how the related conclusions should be implemented and conclusions documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

A101 to A107. [*Moved in December 2019 draft*]

*Engagement Documentation* (Ref: Para. 36(~~fe~~))

A108. 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 time limit may be determined by the firm.

*Example of time limit for assembly of final engagement files*

The firm establishes policies or procedures for~~In the case of an~~ audits of financial statements that require, for example, such a time limit would ordinarily not be more than engagement files to be assembled within 60 days after the date of the auditor's report.

A109. The retention and maintenance of engagement documentation may includes managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement

<sup>14</sup> Proposed ISA 220 (Revised), paragraph 32

documentation may be compromised if it is altered, supplemented or deleted without ~~the appropriate~~ authorization to do so, or if it is permanently lost or damaged.

~~A110. [Deleted in December 2019 draft – moved to implementation guidance]~~

A111. Law, regulation, relevant ethical requirements or other professional standards may prescribe the retention period for engagement documentation. If the retention periods are not prescribed, the firm may, in determining an ~~an appropriate~~ retention period, consider the nature of the engagements performed by the firm and the firm’s circumstances, ~~for example, including~~ whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements.

~~Example of retention period for engagement documentation~~

~~The firm establishes policies or procedures for~~~~in the case of~~ audits of financial statements ~~that require engagement files to be, the retained~~~~retention period would~~ ~~ordinarily be no shorter than for~~ 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.

~~Quality Risk Considerations~~

~~A112. [Deleted in December 2019 draft – moved to implementation guidance]~~

~~A112A. [Deleted] Examples of how the quality risk considerations may give rise to quality risks related to the engagement performance quality objectives:~~

~~The firm has a service delivery center located in another jurisdiction that performs certain aspects of the firm’s audit engagements (operating characteristics of the firm). This gives rise to a quality risk that the personnel are not appropriately directed and~~

~~The responses may include:~~

- ~~• Establishing policies or procedures that address:
 
  - ~~○ What aspects of the engagement may be assigned to personnel in the service delivery center; and~~~~

	<p><del>supervised and that their work is not appropriately reviewed.</del></p>	<ul style="list-style-type: none"> <li><del>○ How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by personnel in the service delivery center.</del></li> <li><del>● Assigning an individual with appropriate knowledge and experience to oversee personnel in the service delivery center.</del></li> <li><del>● Implementing IT applications that facilitate seamless face-to-face communication with personnel in the service delivery center.</del></li> </ul>
	<p><del>The firm operates in an environment where there is high competition for appropriately qualified personnel (the environment in which the firm operates). As a result, the firm tends to employ personnel who are still in the process of completing their tertiary education (the operating characteristics of the firm). This gives rise to a quality risk that the personnel are not sufficiently directed and supervised and their work reviewed and that the engagement team does not have the appropriate competence</del></p>	<p><del>The responses designed and implemented by the firm may include:</del></p> <ul style="list-style-type: none"> <li><del>● Allocating more time for engagement partners, or their designees, to spend on the engagement directing and supervising the engagement team and reviewing the work performed; and</del></li> <li><del>● Developing training programs that are designed to develop personnel, taking into consideration their general level of knowledge and experience.</del></li> </ul>

	<p><del>and capabilities to perform the engagement.</del></p>	
	<p><del>There is a small firm (operating characteristics of the firm) and the leadership of the firm is strongly dominated by one individual (characteristics of management). This gives rise to a quality risk that personnel do not bring differences of opinion that involve leadership to the attention of the firm.</del></p>	<p><del>The firm's responses may include establishing policies or procedures that:</del></p> <ul style="list-style-type: none"> <li><del>• Specify how differences of opinion with the firm's leadership should be raised; and</del></li> <li><del>• Require the difference of opinion to be resolved through consultation with a service provider, or a professional or regulatory body.</del></li> </ul>
	<p><del>The firm's engagement documentation is mostly in electronic format and there are increasing occurrences globally of security breaches to access confidential information (the environment in which the firm operates). This gives rise to a quality risk that the integrity of engagement documentation may be compromised.</del></p>	<p><del>The firm's responses may include:</del></p> <ul style="list-style-type: none"> <li><del>• Employing specialized IT resources to focus on the firm's IT security; and</del></li> <li><del>• Rigorous and ongoing reviews of the firm's IT processes to determine that they are up-to-date in preventing unauthorized access.</del></li> </ul>
	<p><del>The firm performs audits of financial statements for entities that operate in an industry where there are highly complex accounting estimates (the types of entities for whom the firm performs engagements). This gives rise to a quality risk that engagement teams exercise inappropriate professional judgment or professional</del></p>	<p><del>The firm's responses may include establishing policies or procedures that require:</del></p> <ul style="list-style-type: none"> <li><del>• The assignment of individuals to the engagement that have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> </ul>

	<p><del>skepticism and that the engagement team does not have the appropriate competence and capabilities to perform the engagement.</del></p>	<ul style="list-style-type: none"> <li><del>• Consultation on the highly complex accounting estimates with certain individuals in the firm; and</del></li> <li><del>• An engagement quality review to be performed.</del></li> </ul>
	<p><del>The firm performs compilation engagements for entities that operate in an industry where there are complex financial statement disclosures (the types of entities for whom the firm performs engagements). This gives rise to a quality risk that engagement teams exercise inappropriate professional judgment in compiling the disclosures.</del></p>	<p><del>The firm's responses may include:</del></p> <ul style="list-style-type: none"> <li><del>• Assigning individuals to the engagement that have appropriate experience in compiling financial statements of entities in the industry;</del></li> <li><del>• Developing disclosure checklists to be completed by the engagement team; and</del></li> <li><del>• Requiring an internal preissuance review of the financial statements before they are submitted to the entity.</del></li> </ul>
<p><del>37. [Moved in December 2019 Draft]</del></p>		
<p><b>Resources</b></p>	<p><b>Resources</b> (Ref: Para. 38-39)</p>	
<p>38. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including <u>resources from service providers, human resources, technological resources, and intellectual resources</u>, in a timely manner to enable the design, implementation and</p>	<p>A113. Resources for the purposes of the resources component include:</p> <ul style="list-style-type: none"> <li>• Human resources.</li> <li>• Technological resources, for example, IT applications.</li> <li>• Intellectual resources, for example, written policies or procedures, a methodology or guides.</li> </ul>	

operation of the system of quality management:  
(Ref: Para. A113–A115)

(a) ~~The firm Personnel are hired~~s, develop~~ed~~s and retained~~ed~~s personnel, including engagement partners, and who have the competence and capabilities to: (Ref: Para. A117–A119)

(i) Consistently perform quality engagements, including having knowledge or experience regarding professional standards and applicable law or regulation relevant to the engagements the firm performs; or

(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.

(b) ~~The firm assigns an engagement partner and other human resources~~Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A120)

(c) ~~The firm assigns human resources~~Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities,

~~[Moved to implementation guidance] Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm’s human resources, technological resources and intellectual resources. The governance and leadership component addresses appropriate resource planning for all resources. Given the nature of financial resources, the quality objectives and responses in governance and leadership, such as those that address financial and operational priorities, address financial resources. This component addresses specific aspects of human resources, technological resources and intellectual resources.~~

A114. ~~[Deleted - moved to implementation guidance] Resources are pervasive to all components of the system of quality management and therefore the firm’s responses for resources will address assessed quality risks specific to resources, as well as assessed 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.~~

A115. Resources may be internal to the firm, or may be obtained externally from a network, network firm or service provider.:

- ~~• In such circumstances when a resource is obtained from a service provider, the quality objectives in this component apply to the resource provided by the service provider.~~

- ~~• In circumstances when a resource is obtained from a network or another network firm, the firm is required to in addition to complying with the requirements for resources set out in this component, the firm is also required to comply with paragraphs 58–63 addressing network requirements or network services in achieving the objectives in this component or paragraphs 64–65 addressing the use of resources from a service provider.~~

Example of how the quality objectives in this component are relevant to a resource obtained from a service provider

including sufficient time, to perform such activities. (Ref: Para. A120)

(d) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A121–A123)

(e) ~~The firm obtains or develops, implements and maintains~~ a appropriate technological resources are obtained or developed, implemented and maintained, and appropriately used, to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: Para. A124–A131 A, A134)

(f) ~~The firm obtains or develops, implements and maintains a~~ appropriate intellectual resources are obtained or developed, implemented and maintained, and appropriately used, to enable the operation of the firm’s system of quality management and 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. A132–A134 3)

~~(g) Personnel appropriately use the firm’s technological and intellectual resources.~~ (Ref: Para. A134)

The firm may use an IT application from a service provider. As a result, the quality objectives in paragraphs 38(e) and 38(g) apply to the resource. Furthermore, the use of the IT application from a service provider may also create the need for additional responses from the firm, including obtaining other resources, for example, the firm may need to have specific infrastructure to support the IT application or the firm may need to train individuals who will use the IT application so that it is used in the manner intended.

~~A116. [Deleted - moved to implementation guidance] Other components include responses that may affect or relate to the resources component. For example, the information necessary to facilitate the appropriate assignment of personnel or the evaluation of personnel is identified, captured, processed and maintained through the information and communication component.~~

Human Resources (Ref: Para. 38(a)–38(d))

A117. 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 technical competence, professional skills, and professional ethics, values 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.

A118. Professional standards, law or regulation may establish requirements addressing competence and capabilities.

Example of requirements in law or regulation that address competence and capabilities

(g) Resources obtained by the firm from service providers, if any, are appropriate for use in the firm's system of quality management and performance of engagements. (Ref: Para. A134A–A134E)

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.

A119. Examples of matters that the firm may address regarding ~~The firm's responses that relate to the~~ hiring, development and retention of personnel may include

- The firm may develop a Recruitment strategies that focused on selecting individuals who have appropriate competency, or the ability to develop ~~the competence necessary to consistently perform quality engagements or activities in relation to the operation of the system of quality management.~~
- The firm's Training programs, which may form part of the firm's intellectual resources, may focus on ~~developing personnel's the competence of personnel to enable them to perform their roles and responsibilities.~~
- The firm may Policies addressing the continuing professional development of personnel, including personnel's responsibility to maintain an appropriate level of continuing professional development, and ~~how the firm will support them training resources and other assistance provided by the firm.~~
- The firm may establish Evaluation mechanisms that ~~are undertaken at appropriate intervals and include~~ establish competency areas and other performance measures, ~~and facilitate the evaluation of personnel at appropriate intervals.~~
- The firm may set Compensation, promotion and other incentives, ~~appropriate to the nature and circumstances of the firm,~~ for all personnel, including engagement partners ~~and, the~~ individuals assigned roles and responsibilities related to ultimate responsibility and accountability for the firm's system of quality management, ~~and the individual(s) assigned operational responsibility the firm's system of quality management or other~~

aspects of the system of quality management.

A120. ~~Human resources~~Individuals assigned to engagements or other roles may include individuals from a network, another network firm or a service provider, or individuals from personnel in a service delivery center. ~~Individuals from a service delivery center may be employed by the firm or they may be employed by human resources engaged by the firm (i.e., a service provider) or human resources from a network, another or network firm or a service provider.~~ The quality objectives in paragraphs 38(b) and 38(c) apply to all individuals assigned to engagements or other roles in the system of quality management.

A121. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, for example, such as in the case of ~~smaller~~ firms with fewer personnel.

A122. ~~Evaluations of~~Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as used by the firm in determining ~~the~~through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

A123. The manner in which the firm holds personnel accountable for ~~may take action for~~ ~~personnel who demonstrate~~ actions or behaviors that negatively affect quality, such as including failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed, ~~(e.g., an individual breaches the firm's policies or procedures related to independence).~~ The consequences or actions taken by the firm may depend on the nature of the action or behavior, including its severity of the failure and the frequency of occurrence, and may include, for example:

Examples of actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality

- Training or other professional development.

- Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of ~~those involved~~the individual(s); ~~or~~
- ~~Taking~~dDisciplinary 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))

A124. 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 and the IT processes and human resources involved in those processes ~~that the firm uses in the operation of its system of quality management:~~

- 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 IT 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.

A125. ~~An~~ technological resource~~IT application, IT infrastructure or IT process~~ may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that ~~Only IT applications, IT infrastructure or IT processes that support the firm's system of quality management~~ are relevant for the purposes of this ISQM are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in performing engagements; and

- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ

- In a less complex firm, the technological resources may comprise of a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).

- In a more complex firm, the technological resources may be more complex and comprise of:

- Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as:

- IT applications used by engagement teams (e.g., engagement software and automated audit tools).

- IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign individuals to engagements).

- The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

~~A126. [Deleted] In some cases, the network may require the firm to use an IT application, the firm may choose to use an IT application provided by the network, or the firm~~

~~may purchase an IT application from a service provider. The firm may also use the network or a service provider to manage certain aspects of the IT processes.~~

~~A127. [Deleted - moved to implementation guidance] Paragraph 40(a) addresses the firm's responsibility to establish an information system that supports the system of quality management, which may include the use of IT elements and records in the form of digital information. The firm may also use certain IT applications to enable the operation of various aspects of its system of quality management, for example, IT applications used to monitor compliance with relevant ethical requirements and record and maintain information about independence. Other IT applications may be implemented by the firm for use by engagement teams in performing engagements, for example, the firm may mandate the use of an IT application that facilitates the documentation of work performed or the firm may offer an IT application to perform analyses of the client's information that engagement teams may choose to use.~~

~~A128. [Deleted] The IT environment for a larger firm may be comprised of customized or integrated IT applications, with dedicated human resources to manage the IT infrastructure and IT processes. The IT environment for smaller 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.~~

~~A129. [Deleted - moved to implementation guidance] 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 enable the design, implementation and operation of the system of quality management. General IT controls may be part of the responses designed and implemented by the firm to address quality risks identified and assessed by the firm.~~

A130. ~~Example of matters that may be considered by the firm in obtaining, developing, implementing and maintaining an IT application~~When implementing an IT application, particularly a customized IT application that has been developed specifically for the firm, it is necessary for the firm to determine that the IT application operates appropriately. This determination may involve consideration of whether:

- ~~• The data inputs are complete and 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.~~
- ~~• The firm may specifically prohibit the use of IT applications or features of IT applications, until such time that it has been determined that they operate appropriately and have been approved for use by the firm.~~
- ~~• A131. Engagement teams may need training on how to use the IT applications appropriately. Furthermore, for certain IT applications, s~~

- ~~[Moved from paragraph A131] The need for specialized skills may be needed to utilize the the IT application effectively, including the training of individuals who will use the IT application. and the firm may need to~~
- ~~The need to develop procedures specify procedures that set out how the engagement team operates the IT application operates. For example, in some instances the firm's IT application for the performance of engagements may require that the engagement team complete certain information about the client and the circumstances of the engagement in order to generate an appropriate engagement file template for the circumstances of the engagement.~~

~~A131. [Moved to paragraph A130]~~

~~A131A. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm.~~

*Intellectual Resources* (Ref: Para. 38(f))

A132. Intellectual resources include the information the firm uses to promote consistency in the performance of engagements.

Examples of intellectual resources

~~for example, w~~Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting 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).

A133. The intellectual resources may be made available ~~to personnel~~ through technological resources.

Example of intellectual resources made available through technological resources

~~for example, the firm's audit methodology may be embedded in the audit IT application that facilitates the planning and performance of the engagement. The firm may also need human resources to develop, implement and maintain its intellectual resources. 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.~~

Personnel's Use of Technological and Intellectual Resources (Ref: Para. 38(eg)-38(f))

A134. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in performing engagements, ~~for example, engagement teams may be required to use the firm's methodology when performing the engagement. They may also be required to use IT applications that facilitate the performance or relating to other aspects of the engagement, such as in and the archiving of the engagement file.~~
- Specify the qualifications or experience ~~that of individuals~~ personnel that are needed to use the IT application resource, including the need for an expert or training for example, the firm may specify the qualifications or expertise needed to use an IT application for the performance of automated techniques and to interpret the results.
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources, including circumstances when technological and intellectual resources are used on the engagement that have been obtained by the engagement team (i.e., the firm has not provided the resource).

- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

Example of when qualifications or expertise are needed to use a technological or intellectual resource

The firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills are needed to interpret the results.

Service Providers (Ref: Para. 38(g)) [Moved from paragraphs A205–A210]

~~A134A205. In some circumstances, the firm may use human resources, technological resources or intellectual resources that are obtained from provided by a service provider, particularly in circumstances when the firm does not have access to the appropriate resources internally. The service providers used by the firm include are individuals or organizations that are external to the firm, who excluding networks, network firms or other structures or organizations in the network are engaged by the firm and used in the system of quality management, including in the performance of engagements. Service providers exclude networks, network firms or other structures or organizations in the network.~~

Examples of resources from a service provider include:

- ~~Human resources~~ Individuals used engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters.
- A commercial IT application used to perform audit engagements.

- ~~Human resources~~ Individuals engaged to assist used in the performingance of engagements, for example, to attend a physical inventory count or inspect physical fixed assets at a remote location.
- ~~An auditor's~~ External experts engaged by the firm to assist the engagement team in obtaining audit evidence used in the performance of engagements.

~~In such cases, there may be requirements in the other IAASB standards that address the competence, capabilities and objectivity of the external expert, understanding of the expert and agreement with the expert which apply in conjunction with the requirements of this ISQM.<sup>15</sup> The use of resources from a A service provider does not include the use of component auditors external to the firm in the context of an audit of group financial statements, or the use using the work of an entity's internal audit function in the performance of engagements, since in both cases they are engaged by the entity, in accordance with ISA 610 (Revised 2013).<sup>16</sup>~~

~~A206- [Deleted] The determination of whether the matters described in paragraph 64 are relevant for a service provider depends on a variety of factors including:~~

- ~~The nature of the resources provided by the service provider, including how and the extent to which it will be used within the firm.~~
- ~~The reasons for the assessments given to the assessed quality risks to which the resource relates.~~
- ~~Whether the resource itself gives rise to quality risks. For example, when the firm uses human resources from a service provider in the performance of engagements, there may be a quality risk that such resources do not have the~~

<sup>15</sup> See, for example, ISA 620, *Using the Work of an Auditor's Expert*.

<sup>16</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

~~competence and capabilities to perform the engagement, exercise inappropriate judgment when performing the engagement, do not implement the firm's responses at the engagement level or do not fulfill their responsibilities in accordance with 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 greater oversight on a more frequent basis and perform more in-depth reviews of work performed by the individual.~~

~~A207. [Deleted] The firm may establish policies or procedures that address circumstances when a service provider is used in the performance of engagements that set out the responsibility of the engagement team when engaging a service provider, which may include responsibility for certain matters in paragraph 64.~~

~~A134B. The resources provided by service providers are a consideration in identifying and assessing quality risks as part of the firm's risk assessment process.~~

*Examples of characteristics of the service providers used by the firm, and the resources they provide, that the firm may determine give rise to an assessed quality risk*

- The resource from the service provider is significant to the firm's system of quality management because it is used extensively across the firm, or it is being used by the firm to address another quality risk.
- The resource from the service provider has been customized by the service provider for the firm.
- The firm has not previously used the service provider and the service provider is not well-known in the market.
- The service provider is new to the industry.

~~A134C208. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management, the firm may:~~

- ~~Obtain~~ing an understanding of the service provider, ~~including the reputation, competence and capabilities of the service provider; —may include understanding~~
- ~~Determine the nature and scope of the resources, and~~ the conditions of the service ~~(e.g., for example, in relation to an IT application, how often updates will be provided for an IT application, limitations on the use of the IT application and how the service provider addresses confidentiality of data).~~ Paragraph 41(c)(iii) ~~requires the firm to establish policies or procedures that address the nature, timing, extent and content of communication with the service provider, for example, information to support the firm's understanding of the service provider and use of the resource (e.g., updates or changes to the resource or deficiencies in the resource).~~
- ~~Consider how the resource will be used by the firm in its system of quality management and whether it is suitable for that purpose.~~

~~A134D209.~~—The firm ~~may have's~~ responsibilities ~~in using the resources~~in using the service provider ~~may include matters~~ such as the actions the firm needs to take in order to implement the resource or information the firm needs to communicate to the service provider in order that the resource can function effectively ~~(e.g., For example, in the case of relation to~~ an IT application, the firm may need to have ~~appropriate~~ supporting IT infrastructure and IT processes in place).

~~A134E210.~~ ~~In determining whether the resource is appropriate, the firm may make inquiries of the service provider or request documentation from the service provider about matters such as:~~

~~For human resources, the qualifications, experience and location of the individuals, including professional licenses or membership obligations, and how they develop and maintain the appropriate competence to perform the services.~~

~~For technological or intellectual resources, the procedures undertaken by the service provider in designing, implementing and operating the resources.~~

	<p><del>How the service provider identifies and responds to changes that affect the resources, for example, changes in the professional standards or information that indicates a deficiency in the resources;</del></p> <p><del>How the resource will be evaluated, monitored or remediated by the service provider.</del></p> <p>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.</p>
<p>39. <del>[Deleted]The firm shall design and implement responses to address the quality risks identified and assessed by the firm relating to the resources quality objectives.</del></p>	
<p><b>Information and Communication</b></p>	<p><b>Information and Communication</b> (Ref: Para. 40-44)</p>
<p>40. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A135)</p> <p>(a) <del>The firm has an</del>The information system that supports the system of quality management by identifying, capturing, processing and maintaining relevant and reliable information, whether from internal or external sources. (Ref: Para. A136–A138A)</p>	<p>A135. Obtaining, generating or communicating information is generally an ongoing process that involves all 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. <del>[Moved to implementation guidance] and therefore the firm's responses for information and communication address assessed quality risks specific to information and communication, as well as assessed quality risks for the other components. Such responses may be designed and implemented individually for each component, or for all components holistically. Paragraphs A51, A69, A76 and A116 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.</del></p>

(be) *[Moved - previously was (c)]* The firm's culture of the firm promotes and emphasizes the responsibility of ~~individuals~~ personnel to exchange information with the firm and with one another. (Ref: Para. A139)

(cb) ~~The firm communicates r~~ Relevant and reliable information is exchanged throughout the firm, including te:

(i) Information is communicated to engagement teams and other individuals ~~personnel~~, the nature, timing and extent of which is sufficient to enable them ~~personnel~~ to understand and carry out their responsibilities relating to the performance of engagements or activities within the system of quality management. (Ref: Para. A139)

(ii) *[Moved - previously was (d)]* Personnel communicate relevant and reliable information to the firm when performing engagements or activities within the system of quality management. (Ref: Para. A139)

(iii) Information is communicated by the firm to the network or service providers, if any, to enable the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided

*The Firm's Information System* (Ref: Para. 40(a))

A136. Reliable information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

~~A137. *[Deleted]* The information system in smaller firms is likely to be less sophisticated than in larger firms and involve a less complex IT environment.~~

A138. The information system may include the use of manual or IT elements, 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 responses for monitoring and remediation may define how information from the results of the firm's monitoring activities is captured, processed, maintained and communicated.~~ In addition, digital records may replace or supplement physical records. ~~For example, the firm may use an IT application to obtain a documented confirmation of compliance with independence requirements from personnel.~~

138A. Scalability example to demonstrate how the information system may be designed in a less complex firm:

Less complex firms with fewer personnel, and direct involvement of firm leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.

by the service provider; (Ref: Para. A141A)

(iv) Information is communicated by the firm to external parties when required by law, regulation or professional standards, or when the firm determines appropriate to support external parties' understanding of the system of quality management, including the quality of the engagements performed by the firm. (Ref: Para. A142–A153)

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

~~(d)~~ [Moved to (c)(ii)]

~~(e)~~ The firm communicates relevant and reliable information to external parties regarding the firm's system of quality management, as the firm determines appropriate. (Ref: Para. A142–A153)

~~Communication Within the Firm~~ (Ref: Para. 40(b), 40(c)(i) and 40(c)(ii), 41(a)–(b))

A139. The firm may promote and emphasize the responsibility of individuals to exchange information with the firm and with one another by establishing two-way communication channels to facilitate communication across the firm.

~~A139. Examples of two-way communication among the firm, engagement teams and other individuals and its personnel share relevant information to enable the proper functioning of the firm's system of quality management. For example:~~

- The firm communicates the responsibility for implementing the firm's responses to engagement teams and other individuals.
- ~~[Moved from paragraph A140] Matters communicated by the firm~~ communicates to engagement teams or other personnel performing activities within the firm's system of quality management may include changes to the system of quality management to engagement teams and other individuals, to the extent that the changes are relevant to their responsibilities and enables the engagement teams and other individuals personnel to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information to engagement teams, such as information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate information to the firm, for example, information about:
  - The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to

	<p>accepting or continuing the client relationship or specific engagement.</p> <ul style="list-style-type: none"><li>○ The operation of the firm's responses <del>to assessed quality risks</del> (e.g., concerns about the firm's processes for assigning <del>individuals/personnel</del> to engagements), <del>which</del> :<ul style="list-style-type: none"><li>○ <del>In</del> some cases, <del>the information communicated by the engagement team</del> may indicate a <del>finding/deficiency</del> in the firm's system of quality management.</li></ul></li><li>● <del>Personnel performing activities within the firm's system of quality management share information. For example, t</del>he individual(s) assigned operational responsibility for compliance with independence requirements <del>may communicate</del> <del>to relevant individuals to the person with ultimate responsibility for the system of quality management</del> changes in the independence requirements and <del>how</del> the firm's policies or procedures <del>have been updated in response to</del> <u>address</u> such changes.</li><li>● <del>Two-way communication may also be among the various parties, for example, E</del>engagement teams <del>may</del> communicate information <u>to the engagement quality reviewer or individuals providing consultation directly to the personnel performing activities within the firm's system of quality management.</u></li></ul> <p>A140. <i>[Moved to paragraph A139]</i></p> <p>A141. <i>[Deleted]</i> <del>Responsibility for operating the responses designed and implemented by the firm may be assigned to:</del></p> <ul style="list-style-type: none"><li>● <del>The engagement team, as described in paragraph A62;</del></li><li>● <del>Personnel performing activities within the firm's system of quality management (e.g., assigning responsibility for the performance of an engagement quality review to an engagement quality reviewer); or</del></li></ul>
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~~• A combination of the engagement team and personnel performing activities within the firm's system of quality management.~~

~~The firm may also use human resources external to the firm to assist in operating the responses.~~

~~Communication with External Parties (Ref: Para. 40(e), 41(c))~~

~~Communication with the Network and Service Providers (Ref: Para. 40(c)(iii))~~

~~A141A3.[Moved from paragraph A143] When the firm belongs to a network, frequent communication with the network supports the network in establishing network requirements and providing network services that promote the consistent performance of quality engagements. Furthermore, in addition to the firm communicating information to the network or a service provider, the firm may need to obtain information from the network or a service provider's communication of relevant information that supports the firm in the design, implementation and operation of its system of quality management.~~

~~Example of a information obtained by the firm from the network~~

~~Such communication may include mThe firm obtains information from the network as theatters related to independence, for example, in circumstances when relevant ethical requirements include requirements for independence that apply to network firms or employees of network firms.~~

~~Communication Required by Law or Regulation (Ref: Para. 401(c)(iv))~~

A142. ~~Examples of when~~ Law, regulation or professional standards may require the firm to communicate information to external parties. For example:

- ~~In circumstances when~~ the firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements may require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
- Law, regulation or professional standards may require the firm to publish a transparency report and may specify the nature of the information that is required to be included in the transparency report.

~~Communication with the Network (Ref: Para. 41(c)(ii))~~

~~A143. [Moved to paragraph A141A]~~

~~Communication with Service Providers (Ref: Para. 41(c)(iii))~~

~~A144. [Deleted] When the firm uses a service provider, the service provider's communication of relevant information to the firm that affects the firm's system of quality management supports the firm in the design, implementation and operation of its system of quality management.~~

~~Communication to External Parties to Support an Understanding of About the Firm's the System of Quality Management (Ref: Para. 40(c)(iv)) 41(c)(iv))~~

A145. 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, stakeholders' perception of the quality of engagements performed by the firm may be improved.~~ In circumstances when the firm is transparent about the activities that it has undertaken to address quality, and the effectiveness of those activities, stakeholders' perception of the quality of engagements performed by the firm may be improved. The form of communication may vary.

~~A149.~~ *[Moved from paragraph A149] Examples of ~~The~~ Form of ~~Communication to External Parties~~*

- ~~\_\_\_\_\_ may include a webpage.~~
- ~~\_\_\_\_\_ A publication such as a transparency report or audit quality report, webpage,~~
- ~~\_\_\_\_\_ Targeted communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process), or~~
- ~~\_\_\_\_\_ Direct conversations with the external party.~~

*A146. Examples of matters the firm may consider in determining whether it is appropriate to communicate with external parties to support an understanding of the system of quality management, and the nature, timing and extent of such communication*

- ~~\_\_\_\_\_ The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken and whether there are external parties who may use information about the firm's system of quality management to support their understanding of the quality of the engagements performed by the firm.~~
- ~~\_\_\_\_\_ The nature and circumstances of the firm including:
  - ~~\_\_\_\_\_ The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates; and~~
  - ~~\_\_\_\_\_ The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.~~~~
- ~~\_\_\_\_\_ The information that is already available to external parties. External parties who may use information about the firm's system of quality management~~

~~(Ref: Para. 41(c)(iv)(a))~~

- ~~How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial statements, or other assurance or related services engagements.~~

~~A146. Examples of external parties who may use information about the firm's system of quality management~~

- ~~may include management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement, the firm's network or network firms,~~
- ~~External oversight authorities,~~
- ~~Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) or service providers.~~
- ~~External parties may also include other users of the firm's engagement reports, for example, investors who use engagement reports in their decision making, current shareholders and credit providers of the entities for whom the firm performs engagements.~~

~~A147. [Deleted] The firm exercises professional judgment when taking into account whether there are external parties who may use information about the firm's system of quality management. Whether there are such external parties may depend on the nature of the engagements the firm performs and the types of entities for which such engagements are performed. For example, for a firm that performs audits of financial statements of listed entities or entities that may be of significant public interest described in paragraph A23, external parties such as shareholders of such entities may use a transparency report or similar publication to inform their understanding of the quality of engagements performed by the firm. On the other hand, for a firm that only performs compilation engagements, external parties who may use information~~

~~about the firm's system of quality management may be limited, and they may obtain such information through discussions and direct interaction with the firm.~~

~~Nature and circumstances of the firm (Ref: Para. 41(c)(iv)(b))~~

~~A148. [Deleted] Factors that may affect the firm's operating environment include the nature and circumstances of the financial markets in which the firm operates and the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.~~

~~Nature, timing, extent and content of communications to external parties about the system of quality management (Ref: Para. 41(c)(iv))~~

~~A149. [Moved to paragraph A145]~~

~~A150. [Moved to paragraph A151]~~

~~A151. The firm may consider the following attributes in preparing the information that is communicated to external parties about the firm's system of quality management that has the following attributes contributes to an enhanced understanding of the quality of the engagements performed by the firm:~~

- ~~• The information is specific 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 becomes 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 (e.g. the information is appropriately balanced towards positive and negative aspects of the matter being communicated).~~
- ~~• 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 consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources ~~(e.g., for example, information located on the firm's website)~~.

~~A150. The information that is communicated to external parties about the firm's system of quality management may depend on a variety of factors, including the form of the communication, the nature and circumstances of the firm and the external parties with whom the communication is being undertaken. For e[Moved from paragraph A150] Examples of matters that may be, the communication may contain information by the firm about its system of quality management:~~

- 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.
- Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with ~~appropriate~~ narrative to explain the indicators.
- The results of the firm's monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them.
- The evaluation undertaken in accordance with paragraph ~~65A and 65AA55~~ of whether the system of quality management provides ~~the firm with~~ reasonable assurance that the objectives ~~stated in paragraph 18(a) and (b) of the system have been~~ ~~are being~~ achieved, including the basis for the judgments made in undertaking the evaluation.

- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes.
- ~~A152. In circumstances when the firm is part of a network, it may be useful to provide information about the relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, in certain external communications, such as a transparency report. Such information helps facilitate an understanding of the responsibilities of the firm and the network, and clarifies how the network requirements or network services promote the consistent performance of quality engagements across the network firms. Such information may include:~~
  - ~~The nature of the relationship between the firm and the network and the overall structure of the network.~~
  - ~~Requirements established by the network for the firm or network services that are used by the firm in its system of quality management.~~
  - ~~and information about the overall scope and results of network monitoring activities across the network firms that the network has provided to the firm in accordance with paragraph 61, if applicable.~~
- ~~In some circumstances, the network may provide external communication about the above matters, for example, in the form of a network transparency report, which may support the firm in communicating the information.~~

A153. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.

Examples of when the firm may be precluded from communicating information externally

- Privacy or secrecy law or regulation prohibits disclosure of For example, certain information. may be subject to privacy or secrecy laws or regulations or the firm may be precluded from communicating certain
- Law, regulation or relevant ethical requirements include provisions addressing information because of the duty of confidentiality under law, regulation or relevant ethical requirements.

41. ~~[Deleted]~~ ~~In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the information and communication quality objectives, the firm shall include the following responses:~~

~~(a) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated by the firm with engagement teams. (Ref: Para. A140)~~

~~(b) Communicating the responsibility for implementing the firm's responses to relevant personnel, including engagement teams. (Ref: Para. A141)~~

~~(c) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated with external parties, including:~~

~~(i) Communication to external parties in accordance with law, regulation or professional standards. (Ref: Para. A142)~~

~~(ii) Communication with the network. (Ref: Para. A143)~~

<p><del>(iii) Communication with service providers. (Ref: Para. A144)</del></p> <p><del>(iv) Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm determines it appropriate to do so, taking into account: (Ref: Para. A145, A149–A153)</del></p> <p><del>a. Whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm; and (Ref: Para. A146–A147)</del></p> <p><del>b. The nature and circumstances of the firm, including the nature of the firm's operating environment. (Ref: Para. A148)</del></p>	
<p><b>Specified Responses</b></p>	<p><b>Specified Responses</b> (Ref: Para. 41A)</p>
<p>41A. In designing and implementing responses, the firm shall, <del>at a minimum,</del> include the following <del>specific</del> responses <del>in accordance with paragraph 22F:</del> (Ref: Para. A153A)</p> <p>(a) The firm assigns operational responsibility for compliance with independence requirements to an individual(s) <del>who fulfills the criteria</del> in <del>accordance with</del> paragraph 22A. (Ref: Para. A153B)</p> <p><del>(b) [Moved from paragraph 33(d)] The firm obtains</del> <u>Obtaining</u>, at least annually, a documented confirmation of compliance with independence requirements from all</p>	<p>A153A. <del>The specified responses alone are not sufficient to achieve the objectives of the system of quality management and</del> <u>The responses specified in this ISQM</u> may address quality risks that are relevant to multiple components.</p> <p><i>Responsibility for Compliance with Independence Requirements</i> (Ref: Para. 41A(a))</p> <p>A153B. Compliance with independence requirements is essential to the performance of audits, or reviews of financial statements, or other assurance engagements, and is an expectation of stakeholders relying on the firm's reports. <i>[Moved from paragraph A69]</i> <del>Furthermore, t</del> <u>The individual in the firm</u> assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence <u>so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements,</u> <del>including the policies or procedures addressing communication of breaches of independence requirements and determining that appropriate actions</del></p>

personnel required by relevant ethical requirements to be independent.

(cb) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about the commitment to quality of the firm or its personnel. (Ref: Para. A153C–A153D)

(d) The firm ~~establishes policies or procedures to address~~ responds ~~appropriately~~ in circumstances when:

(i) ~~[Moved from paragraph 34(d)]~~ The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; ~~or~~ (Ref: Para. A153E87–A153G88)

(ii) ~~[Moved from paragraph 35]~~ In ~~designing and implementing responses to address the quality risks identified and assessed by the firm relating to the acceptance and continuance quality objectives, the firm shall include policies or procedures that address circumstances when~~ the firm is obligated by law or regulation to accept ~~at~~ the client relationship or specific

~~have been taken to address the causes and consequences of the breach. Assigning operational responsibility for compliance with independence requirements to an individual(s) may be particularly important in circumstances when the firm is large or has multiple locations, so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.~~

Complaints and Allegations (Ref: Para. 41A(cb))

A153C. Establishing policies or procedures for dealing with complaints and allegations about a failure to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures, may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:

- Identifying and dealing with individual(s), including leadership, who do not act or behave in a manner that supports the firm’s commitment to quality; or
- Identifying findings ~~that may be deficiencies~~ in the system of quality management, ~~and remediating such deficiencies.~~

A153D. Complaints and allegations may originate from within or outside the firm and they may be made by ~~individuals internal or external to the firm~~ personnel or external parties, such as ~~(e.g., clients or others within the firm’s network).~~

Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: Para. 41A(d))

A153E87. ~~[Moved from paragraph A87]~~ Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:

- Have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or
- Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.

engagement, ~~if applicable~~. (Ref: Para. A153F–A153G89–A90)

(ee) [Placeholder for engagement quality reviews – refer to Agenda Item 5]

~~The information may come to the attention of the firm in a variety of ways, including through the engagement partner or engagement team. For example, ISA 220 (Revised)<sup>17</sup> requires the engagement partner to communicate information to the firm that the engagement partner obtains that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement.~~

~~A88.—[Moved from paragraph A88] Examples of matters addressed in the firm’s policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement may include policies or procedures that set out the actions to be taken, including:~~

- Undertaking ~~appropriate~~ consultation within the firm or with legal counsel.
- 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 governance or the engaging party 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.~~
- ~~If the firm does not withdraw from the engagement, considering the effect of the information on the performance of the engagement and the additional~~

<sup>17</sup>—Proposed ISA 220 (Revised), paragraph 22

~~actions to be taken by the firm or the engagement partner in managing quality at the engagement level (e.g., assigning more experienced personnel to the engagement, requiring an engagement quality review or increasing the extent and frequency of the engagement partner's direction and supervision of engagement team members and review of their work).~~

~~Circumstances When the Firm is Obligated to Accept or Continue a Client Relationship or Specific Engagement (Ref: Para. 35)~~

~~A153F89.[Moved from paragraph A89] There may be circumstances when the firm is obligated to accept or continue a client relationship or specific engagement. For example, in some circumstances, jurisdictional law or regulation 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 appointed through statutory provisions. In such circumstances, when the firm becomes aware of information that would otherwise have caused the firm to decline or discontinue the engagement, the firm may design and implement additional responses to address the assessed quality risk(s) arising from the performance of such engagements.~~

A153G.Example of matters addressed in the firm's policies or procedures in circumstances when the firm is aware of information that would have caused the firm to decline or discontinue an engagement, however the firm is obligated to accept or continue the engagement or the firm is unable to withdraw from the engagement

- The firm considers the effect of the information obtained in determining whether to accept or continue a client relationship or specific engagement on the performance of the engagement.
- assign more experienced personnel to the engagement or may require that an engagement quality review be performed in respect of the engagement. There may also be actions at the engagement level to manage quality when performing such engagements, for example, iThe firm communicates the information to the engagement partner, and requests the engagement

	<p><del>partner to increase</del>ing the extent and frequency of their <del>engagement partner's</del> direction and supervision of engagement team members and review of their work.</p> <ul style="list-style-type: none"> <li>• <u>The firm assigns more experienced individuals to the engagement.</u></li> <li>• <u>The firm determines that an engagement quality review should be performed.</u></li> </ul> <p><i>Engagements Subject to an Engagement Quality Review (Ref: Para. 41A<del>(ee)</del>)</i></p> <p>[Placeholder for application material– refer to Agenda Item 5]</p>
<p><b>Monitoring and Remediation Process (Ref: Para A154)</b></p> <p>42. The firm shall establish a monitoring and remediation process to: <u>(Ref: Para. A154)</u></p> <p>(a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</p> <p>(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</p>	<p><b>Monitoring and Remediation Process (Ref: Para. 42–54)</b></p> <p><u>A154. In addition to enabling the firm's evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management.</u></p> <p><del>A155. [Deleted in December 2019 draft – moved to implementation guidance]</del></p>
<p><del>43. [Deleted in December 2019 draft]</del></p>	
<p>43<u>A</u>. The firm shall assign operational responsibility for the monitoring and remediation process to an individual(s) <u>who fulfills the criteria in in-accordance with</u> paragraph 22A<u>A</u>.</p>	

<p><i>Designing and Performing Monitoring Activities</i></p> <p>44. The firm shall design and perform monitoring activities to <u>prevent or detect</u> <del>identify</del> deficiencies that, individually or in aggregate, could result in the system of quality management not providing <u>the firm with</u> reasonable assurance that the objectives of the system <u>are being</u><del>have been</del> achieved. In determining the nature, timing and extent of the monitoring activities, <u>including the appropriate combination of ongoing and periodic monitoring activities</u>, the firm shall take into account: (Ref: Para. A155A–A159)</p> <p>(a) The reasons for the assessments given to the quality risks, including:</p> <p>(i) <u>The factors giving rise to the quality risks; and (Ref: Para. A159B)</u></p> <p>(ii) <u>The likelihood of the quality risks occurring and the effect of the quality risks on the achievement of a quality objective(s); and</u></p> <p>(ii) <del>The quality risk considerations; (Ref: Para. A159A)</del></p> <p>(b) The design of the responses;</p> <p>(c) <u>, or f</u>For monitoring activities over the firm’s risk assessment process, the design of that process; (Ref: Para. <del>A160–</del>A161A)</p> <p>(d) Changes in the system of quality management. (Ref: Para. A162)</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 44–46)</p> <p>A155A. The monitoring activities undertaken by the firm may detect a deficiency, or may prevent a deficiency from arising through <del>detecting a finding and</del> responding to <u>the</u> finding before it rises to a level of severity or pervasiveness that results in a deficiency.</p> <p>A156. <del>The firm’s monitoring activities may comprise ongoing monitoring activities, periodic monitoring activities or a combination of both.</del> In most cases, ongoing monitoring activities identify findings in the system of quality management in a timelier manner.</p> <p>A157. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while in process <u>that which</u> appear similar in nature to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent an assessed quality risk from occurring). <del>Determining t</del>The purpose of <u>the activity</u><del>an action will guide</del><del>is necessary in determining</del> its design and implementation, and where it fits within the system of quality management (i.e., whether it is a monitoring activity <u>that is</u><del> an</del> inspection of in-process engagement) or <u>an engagement review that is a</u> response to address an assessed quality risk <del>(an engagement review)</del>.</p> <p>A158. The nature, timing and extent of the monitoring activities may also be affected by other <u>matters</u><del>factors</del>, including:</p> <ul style="list-style-type: none"> <li>• <u>The size, structure and organization of the firm.</u></li> <li>• The involvement of the network in monitoring activities.</li> <li>• The resources that the firm intends to use to enable monitoring activities, <u>for examples such as</u>, the use of IT applications <del>in addition to human resources</del>.</li> </ul>
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<p>(<del>e</del>) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A163–A164)</p> <p>(<del>f</del>e) Other relevant information, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A165–A167)</p>	<p>A159. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, <del>such as when. For example, the firm may identify</del> findings <del>that</del> indicate the need for more extensive monitoring activities.</p> <p><del>The Reasons for the Assessments Given to the Quality Risks (Ref: Para. 44(a)(ii))</del></p> <p><del>A159A. [Deleted] Example of how the quality risk considerations may affect the nature, timing and extent of the monitoring activities:</del></p> <table border="1"> <tr> <td data-bbox="909 521 1514 1357"> <p><del>The firm performs audits of financial statements for entities that operate in an industry where there are highly complex accounting estimates (the types of entities for whom the firm performs engagements). This gives rise to a quality risk that engagement teams exercise inappropriate professional judgment or professional skepticism</del></p> <p><del>The firm's responses may include establishing policies or procedures that require:</del></p> <ul style="list-style-type: none"> <li><del>• The assignment of individuals to the engagement that have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• Consultation on the highly complex accounting estimates with certain individuals in the firm; and</del></li> </ul> </td> <td data-bbox="1514 521 1938 1357"> <p><del>In designing the monitoring activities, the firm may determine that for each audit of financial statements of an entity operating in that industry, an in-process engagement inspection will be performed to determine that:</del></p> <ul style="list-style-type: none"> <li><del>• The individuals assigned to the engagement have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• The engagement team has initiated consultation on the highly complex accounting estimates, where appropriate; and</del></li> <li><del>• An engagement quality reviewer has been appointed to perform the review and has been appropriately involved in</del></li> </ul> </td> </tr> </table>	<p><del>The firm performs audits of financial statements for entities that operate in an industry where there are highly complex accounting estimates (the types of entities for whom the firm performs engagements). This gives rise to a quality risk that engagement teams exercise inappropriate professional judgment or professional skepticism</del></p> <p><del>The firm's responses may include establishing policies or procedures that require:</del></p> <ul style="list-style-type: none"> <li><del>• The assignment of individuals to the engagement that have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• Consultation on the highly complex accounting estimates with certain individuals in the firm; and</del></li> </ul>	<p><del>In designing the monitoring activities, the firm may determine that for each audit of financial statements of an entity operating in that industry, an in-process engagement inspection will be performed to determine that:</del></p> <ul style="list-style-type: none"> <li><del>• The individuals assigned to the engagement have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• The engagement team has initiated consultation on the highly complex accounting estimates, where appropriate; and</del></li> <li><del>• An engagement quality reviewer has been appointed to perform the review and has been appropriately involved in</del></li> </ul>
<p><del>The firm performs audits of financial statements for entities that operate in an industry where there are highly complex accounting estimates (the types of entities for whom the firm performs engagements). This gives rise to a quality risk that engagement teams exercise inappropriate professional judgment or professional skepticism</del></p> <p><del>The firm's responses may include establishing policies or procedures that require:</del></p> <ul style="list-style-type: none"> <li><del>• The assignment of individuals to the engagement that have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• Consultation on the highly complex accounting estimates with certain individuals in the firm; and</del></li> </ul>	<p><del>In designing the monitoring activities, the firm may determine that for each audit of financial statements of an entity operating in that industry, an in-process engagement inspection will be performed to determine that:</del></p> <ul style="list-style-type: none"> <li><del>• The individuals assigned to the engagement have appropriate experience in performing audits of financial statements of entities in the industry;</del></li> <li><del>• The engagement team has initiated consultation on the highly complex accounting estimates, where appropriate; and</del></li> <li><del>• An engagement quality reviewer has been appointed to perform the review and has been appropriately involved in</del></li> </ul>		

~~• An engagement quality review to be performed.~~

~~the engagement as it has progressed.~~

The Reasons for the Assessments Given to the Quality Risks (Ref: Para. 44(a))

A159B. The factors giving rise to the quality risks include the nature and circumstances of the firm and the engagements it performs, as set out in paragraph 22E of this ISQM.

The ~~Design of the Response or the~~ Design of the Firm's Risk Assessment Process (Ref: Para. 44(~~cb~~))

A160. ~~[Deleted - moved to implementation guidance] How a response is designed may affect the nature, timing and extent of the monitoring activities. For example, the frequency of a monitoring activity for a response that occurs annually will differ from the frequency of a monitoring activity for a response that occurs multiple times on a daily basis. Furthermore, the extent to which the response utilizes technological resources may affect how a monitoring activity is designed.~~

A161. ~~[Moved in December 2019 draft]~~

A161A. ~~The monitoring activities may also include monitoring of the firm's risk assessment process, to determine that it is designed and implemented in a manner that enables the firm to establish quality objectives, identify and assess quality risks and design and implement responses.~~ How the firm's risk assessment process is designed (e.g., a centralized or decentralized process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities.

Changes in the System of Quality Management (Ref: Para. 44(~~de~~))

A162. Changes in the system of quality management may include:

- Changes to address an identified deficiency in the system of quality management.

- Changes to the responses, ~~for example, because they have become obsolete over time or more effective responses are designed and implemented, such as the use of IT applications 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 system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

Examples of matters that may give rise to change to the responses

- Changes in the nature and circumstances of the firm and the engagements it performs.
- Responses have become obsolete over time.
- More effective responses are available, such as the use of IT applications to replace manual processes.

*Previous Monitoring Activities* (Ref: Para. 44(~~ed~~), 50)

A163. The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency ~~may~~could arise, particularly areas where there is a history of deficiencies. Furthermore, the monitoring activities may need to evaluate the effectiveness of the remedial actions that have been implemented to address deficiencies previously identified.

A164. Previous monitoring activities undertaken by the firm on areas of the system of quality management that have not changed may no longer provide the firm with information to support the evaluation of the system, including in circumstances ~~when for example, because of the time that~~ has elapsed since the monitoring activities were undertaken.

Other Relevant Information (Ref: Para. 44(~~fe~~))

	<p>A165. In addition to the sources of information indicated in paragraph 44(<del>fe</del>), other relevant information may include:</p> <ul style="list-style-type: none"> <li>• Information communicated by the network in accordance with paragraphs 60(c) and 61(<del>b</del>) about the firm’s system of quality management, including the network requirements or network services that the firm has included in its system of quality management.</li> <li>• Information communicated by a service provider about the resources the firm uses in its system of quality management.</li> <li>• <u>Information available from other regulators, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in their financial statements).</u></li> </ul> <p>A166. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm’s consideration of the <del>appropriate</del> nature, timing and extent of the monitoring activities.</p> <p>A167. External inspections are not a substitute for the firm’s internal monitoring activities. Nevertheless, the results of external inspections may <u>provide a basis for inform</u> the nature, timing and extent of the monitoring activities.</p>
<p>45. The firm’s <del>monitoring activities</del> shall include the inspection of completed engagements <u>in its monitoring activities</u>. In <u>determining the selection of engagements for inspection, and taking into account the matters in paragraph 44, selecting completed engagements for inspection, the firm shall take into account the nature, timing and extent of other monitoring activities undertaken by the firm shall</u>and: (Ref: Para. A168–A170)</p>	<p><i>Engagement Inspections</i> (Ref: Para. 45)</p> <p>A168. <del>The identified quality risks that may arise as a result of the nature and circumstances of the engagements performed by the firm that may affect the firm’s selection of completed engagements for inspection may relate to:</del> <u>The matters in paragraph A158 may also affect the firm’s selection of completed engagements for inspection.</u></p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Examples of matters in paragraph 44 that may be considered by the firm in selecting completed engagements for inspection</u></p> <ul style="list-style-type: none"> <li>• <u>In relation to the factors giving rise to the quality risks:</u></li> </ul> </div>

<p>(a) <del>Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities. Determine which engagements should be subject to inspection, taking into account the relevant factors in paragraph 44, including the identified quality risks as a result of the nature and circumstances of the engagements performed by the firm;</del> and</p> <p>(b) <del>Select</del> <u>Include the inspection of</u> at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<ul style="list-style-type: none"> <li>○ The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement.</li> <li>○ <u>The types of entities for which engagements are undertaken, for example:</u> <ul style="list-style-type: none"> <li>● <u>Entities that are listed,</u></li> <li>● <u>Entities operating in emerging industries.</u></li> <li>● <u>Entities operating in industries associated with have a high level of complexity or judgment, large number and wide range of stakeholders, or circumstances when the firm has performed an engagement for an entity that</u></li> <li>● <u>Entities operating in an industry that is new to the firm.</u></li> </ul> </li> <li>○ <u>The tenure and experience of engagement partners.</u></li> <li>● <u>The results of previous inspections of completed engagements, including for each engagement partner.</u></li> <li>● <u>In relation to other relevant information:</u> <ul style="list-style-type: none"> <li>○ <u>Complaints or allegations regarding an engagement partner's commitment to quality.</u></li> <li>○ <u>The results of external inspections, including for each engagement partner.</u></li> <li>○ <u>The results of the firm's evaluation of each engagement partner's commitment to quality.</u></li> </ul> </li> </ul> <p><del>A168A. [Deleted] Other quality risk considerations may also affect the selection of completed engagements for inspection, such as the complexity and operating characteristics of the firm, including the size of the firm and number of geographical locations.</del></p>
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A168B. Examples of how the the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities may affect the inspection of completed engagements

The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:

- Which completed engagements should be selected for inspection.
- Which engagement partners should be selected for inspection, and which engagements that the partner is responsible for should be selected.
- How frequently an engagement partner should be selected for inspection.
- The matters to be considered when performing the inspection of completed engagements.

~~A169. Selecting The inspection of a completed engagements for inspection for each engagement partners on a cyclical basis may assist the firm in monitoring whether each engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to. The following factors may affect the firm's determination of the appropriate cyclical basis for selecting engagement partners for inspection of completed engagements:~~

~~\_\_\_\_\_ The tenure and experience of the engagement partner, including experience in performing engagements for entities operating in the industries assigned to the engagement partner.~~

~~\_\_\_\_\_ The results of previous internal inspections, or results of external inspections related to the engagement partner. The nature of engagements performed by the engagement partner.~~

A169AB. Examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner

The firm may establish policies or procedures that require the inspection of a completed engagement for each engagement partner performing audits of financial statements of listed entities once every three years. The firm's policies or procedures may also include the selection of:

- Engagement partners in a manner that is unpredictable; and
- Engagements or engagement partners where there is an increased need to do so.

The firm's policies or procedures therefore:

- Address the selection of engagement partners more frequently than three years if certain conditions or circumstances exist, such as when:
  - The engagement partner performs an engagement for an entity that has a higher public interest or public accountability, or high public profile, and the engagement has not been subject to a completed inspection in the last three years;
  - The engagement partner performs engagements for entities operating in a certain industry where there are increased risks of audit failures.
  - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
  - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.

	<ul style="list-style-type: none"> <li>○ <u>The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction.</u></li> <li>• <u>Allow the selection of the engagement partner to be deferred for a period(s) if certain conditions or circumstances exist, such as when engagements performed by the engagement partner have been subject to other monitoring activities, and the results of the other monitoring activities provide sufficient information about the engagement partner, i.e., performing the inspection of completed engagements would unlikely provide the firm with any further information about the engagement partner.</u></li> </ul> <p>A170. The matters considered in an inspection of an engagement depends on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses designed to be implemented at the engagement level have been implemented, <del>for example, the firm may determine whether engagement teams have applied the firm's methodology appropriately.</del></p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Example of a response at the engagement level that is considered by the firm in an inspection of an engagement</i><del>how the matters considered in an inspection are affected by how the inspection will be used to monitor the system of quality management:</del></p> <p><u>In inspecting engagements, the firm determines whether engagement teams have appropriately applied a change in the firm's methodology arising from changes in professional standards. The example in paragraph A159A demonstrates a circumstance when an in-process engagement inspection is designed to inspect only specific aspects of the engagement</u></p> </div>
<p>46. The firm shall establish policies or procedures that:</p> <p>(a) Require <del>the individuals</del> performing the monitoring activities to have the competence and capabilities, including sufficient time, to</p>	<p>Individuals Performing the Monitoring Activities (Ref: Para. 46<b>(b)</b>)</p> <p>A171. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. <del>Examples of a self-review threat regarding individuals performing the</del></p>

<p>perform the monitoring activities effectively; and</p> <p>(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 reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A171)</p>	<p><del>monitoring activities:</del>—A self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> <li>• An inspection of an engagement was:             <ul style="list-style-type: none"> <li>○ In the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or</li> <li>○ For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.</li> </ul> </li> <li>• Another type of monitoring activity had participated in designing, executing or operating the response being monitored.</li> </ul>
<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>47. The firm shall establish policies or procedures addressing the evaluation of the findings <del>arising from the monitoring activities, the results of external inspections and other relevant information</del> to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A17<del>32</del>–A177)</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i> (Ref: Para. 47)</p> <p>A172. <del>[Deleted] Findings about the firm's system of quality management may include matters related to individual engagements, including those identified from inspection of engagements.</del></p> <p>A173. The results of monitoring activities, results of external inspections and other relevant information may reveal other observations about the firm's system of quality management, such as:</p> <ul style="list-style-type: none"> <li>• Actions, behaviors or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or</li> <li>• When findings are identified, observations that similar findings did not arise in other circumstances that are of a similar nature to the matter to which the finding relates (e.g., in relation to engagements, observations that findings were not observed on other engagements of a similar nature).</li> </ul> <p>Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the</p>

firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.

A1732A. The firm may exercise professional judgment in determining whether a finding, individually or in combination with other findings, is of such significance that it results in a deficiency in the system of quality management. Significance is judged by the firm, taking into consideration the relative importance of the finding in the context of the aspect of the system of quality management to which it relates~~providing reasonable assurance that the objectives of the system are achieved~~. The firm's judgments may be affected by quantitative and qualitative factors relevant to the finding. In some circumstances, the firm may determine it appropriate to investigate the root cause(s) of a finding in order to determine whether a finding is a deficiency.

A1732B. Not all findings, including engagement findings, will be a deficiency in the system of quality management. ~~Therefore, not all findings are subject to further actions, such as investigating the root cause(s) of a deficiency and remediating a deficiency.~~

A174. *[Deleted in December 2019 draft]*

A175. *Examples of quantitative and qualitative factors that a firm may consider in determining whether a finding(s) is of such significance that it results in a deficiency*

*Quality risks and responses*

- If the finding relates to a response:
  - The design of the response.
  - The nature of the assessed quality risk to which the response relates, and the extent to which the finding indicates that the assessed quality risk has not been addressed.
  - Whether there are other responses that address the same assessed quality risk and whether there are findings for those responses.

*Nature of the finding and its pervasiveness*

	<ul style="list-style-type: none"><li>• The nature of the finding. For example, a finding related to leadership's actions and behaviors may be qualitatively significant, given the pervasive effect this <del>may</del> have on the system of quality management as a whole.</li><li>• Whether the finding, in combination with other findings, indicates a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.</li></ul> <p><i>Error rates and population size</i></p> <ul style="list-style-type: none"><li>• The design of the monitoring activity from which the finding arose. For example, the firm may consider the tolerable error rate of the activity and whether it was designed to focus on specific areas of risk or the whole population.</li><li>• 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.</li><li>• The extent of the findings in relation to the sample of the population covered by the monitoring activity. For example, in the case of inspection of engagements, the number of engagements selected where the finding was identified, relative to the total number of engagements selected.</li></ul> <p>A175A. Evaluating findings and identifying deficiencies, evaluating the severity and pervasiveness of a deficiency and investigating the root cause(s) of a deficiency are iterative.</p>
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	<p><i>Examples of the iterative nature of evaluating findings and identifying deficiencies, evaluating identified deficiencies, and investigating the root cause(s) of deficiencies:</i></p> <ul style="list-style-type: none"> <li>• In investigating the root cause(s) of a deficiency, the firm identifies a circumstance that also existed in relation to another finding that is not considered a deficiency. As a result, the firm adjusts its evaluation of the other finding and classifies it as a deficiency.</li> <li>• In evaluating the severity and pervasiveness of a deficiency, the firm identifies a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.</li> </ul> <p><del>A176.</del> <i>[Deleted in December 2019 draft – moved to implementation guidance]</i></p> <p>A177. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process.</p> <p><i><u>Example of how external inspection findings may reveal information about the effectiveness of the monitoring and remediation process</u></i></p> <p><del>For example, e</del> External inspection findings may indicate findings in the system of quality management that have not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.</p>
<p><i>Evaluating Identified Deficiencies</i></p> <p>48. The firm shall establish policies or procedures addressing: <a href="#">(Ref: Para. A175A)</a></p> <p>(a) The investigation of the root cause(s) of the identified deficiencies, including that the</p>	<p><i>Root Cause of the Identified Deficiencies</i> (Ref: Para. 48(a))</p> <p><del>A178.</del> <i>[Moved in December 2019 draft]</i></p> <p>A179. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies <u>to enable the firm to:</u></p>

nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity; and (Ref: Para. A179–A182A)

- (b) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management ~~as a whole~~. (Ref: Para. A183–A183A)

- Evaluate the severity and pervasiveness of the deficiency; and
- Appropriately remediate the deficiency.

Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.

- A180. The nature and circumstances of the firm, such as the complexity and operating characteristics of the firm, the size of the firm, the geographical dispersion of the firm, how the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities, may also affect ~~the nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may vary based on the nature of the identified deficiencies and their possible severity and the quality risk considerations.~~

*Examples of how the nature of identified deficiencies and, their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures undertaken to understand the root cause(s) of the identified deficiencies and quality risk considerations:*

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of A ~~an identified deficiency may be more rigorous in circumstances when deficiency identified with respect to~~ an engagement report related to an audit of financial statements of a listed entity being was issued that was inappropriate ~~and related to an audit of financial statements of a listed entity~~ or the identified ~~a~~ deficiency relates with respect to leadership's actions and behaviors regarding quality.
- The possible severity of the deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the ~~A~~ deficiency has been identified across multiple engagements or there is an indication that policies or procedures ~~that appear to~~ have high rates of non-compliance.

- ~~Quality risk considerations: The complexity and operating characteristics of the firm, including the size of the firm, the geographical dispersion of the firm, how the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities. For example: In the case of a less complex firm with a single location,~~
- ~~The firm's~~ procedures to understand the root cause(s) of a deficiency ~~in a small firm with a single location~~ may be simple, ~~since as~~ the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent. ~~However, in the case of a more complex firm with multiple locations,~~
- ~~The~~ procedures to understand the root cause(s) of a deficiency ~~in a large firm with multiple locations,~~ may include using ~~individuals/personnel~~ specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s).

~~A181. [Deleted in December 2019 draft – moved to implementation guidance]~~

~~A181A. In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the deficiency relates. For example, in relation to engagements, the firm may consider why the deficiencies did not arise on engagements of a similar nature. Such information may also be useful in determining how to remediate an identified deficiency.~~

~~*Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies*~~

~~The firm identifies findings on multiple engagements that are audits of financial statements and determines that a deficiency in the system of quality management~~

exists since the finding has occurred across multiple engagements. However, the firm observes several other engagements without these findings, and in considering why these other engagements do not have similar findings, the firm notes that the engagement partners were actively involved at all stages of the engagements. In contrast, for the engagements with the findings, the engagement partners were not actively involved. By contrasting the engagements, the firm concludes that the root cause of the deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagement.

A182. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.

*Example of identifying a root cause(s) that is appropriately specific:*

The firm identifies that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates where management's assumptions have a high degree of subjectivity. While the firm notes that engagement teams are not exercising appropriate professional skepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to challenge individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.

A182A. Although not required by this ISQM, investigating the root cause of positive outcomes may reveal opportunities for the firm to improve, or further enhance, the system of quality management. ~~Identifying the root cause of positive outcomes and understanding the underlying circumstances that led to the positive outcomes may also help the firm to identify the root causes of identified deficiencies and in determining how to remediate identified deficiencies.~~

Evaluating the Severity and Pervasiveness of Identified Deficiencies (Ref: Para. 48(b))

	<p>A183. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:</p> <ul style="list-style-type: none"> <li>• <u>    </u> The nature of the identified deficiency, including the aspect of the firm’s system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management;</li> <li>• <u>In the case of deficiencies related to responses, whether there are compensating responses to address the assessed quality risk to which the response relates;</u></li> <li>• The root cause(s) of the identified deficiency;</li> <li>• The frequency with which the underlying finding occurred; and</li> <li>• The magnitude of the identified deficiency, <del>the rate at which</del><u>how quickly</u> it occurred and the duration of time that it existed <u>and had an effect on the system of quality management.</u></li> </ul> <p>A183A. The severity and pervasiveness of deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>
<p><i>Responding to Identified Deficiencies</i></p> <p>49. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A184–A184<u>BA</u>)</p>	<p><i>Responding to Identified Deficiencies</i> (Ref: Para. 49–<del>50</del>)</p> <p>A184. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:</p> <ul style="list-style-type: none"> <li>• The root cause(s), <del>for example, whether it relates to an individual engagement, a certain category of engagements, or is more pervasive throughout the firm.</del></li> <li>• The severity and pervasiveness of the identified deficiency and therefore the urgency in which it needs to be addressed.</li> <li>• The effectiveness of the remedial actions in addressing the root cause(s), <del>for example, such as whether</del> the firm <del>may</del><u>needs</u> to implement more than one</li> </ul>

	<p>remedial action in order to effectively address the root cause(s), or <del>may</del> needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions.</p> <p>A184A. In some circumstances, the remedial action may include <u>establishing additional</u><del>modifying the firm's</del> quality objectives, <u>or modifying the</u> assessed quality risks or responses, because it is determined that they are not appropriate.</p> <p><u>A184B. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the remedial actions taken by the firm may include:</u></p> <ul style="list-style-type: none"> <li>• <u>Considering whether to continue using the resources provided by the service provider.</u></li> <li>• <u>Determining the remedial actions the firm needs to take to address the effect of the identified deficiency.</u></li> <li>• <u>Communicating the matter to the service provider.</u></li> </ul>
<p>50. The individual(s) assigned operational responsibility for monitoring and remediation shall evaluate whether the remedial actions:</p> <p><u>(a) Are</u> appropriately designed to address the identified deficiencies and their related root cause(s) and determine <del>whether that</del> they have been implemented; <del>and-</del></p> <p><del>(b) The individual shall also evaluate whether the remedial actions</del> implemented to address previously identified deficiencies are effective. (Ref: Para. A163)</p> <p><u>If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned</u></p>	

<p><u>operational responsibility for monitoring and remediation shall take appropriate action to modify the remedial actions such that they are effective.</u></p>	
<p>Findings About a Particular Engagement</p> <p>51. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A185)</p> <p>(a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and</p> <p>(b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.</p>	<p>Findings About a Particular Engagement (Ref: Para. 51)</p> <p>A185. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:</p> <ul style="list-style-type: none"> <li>• Consulting with appropriate <del>personnel</del><u>individuals within the firm</u> regarding the appropriate action.</li> <li>• Discussing the matter with management of the entity or those charged with governance.</li> <li>• Performing the omitted procedures.</li> </ul> <p>The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings, identifying deficiencies and if it is determined that a deficiency exists, investigating the root cause(s) of the identified deficiency.</p>
<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>52. 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. A186)</p>	<p><i>Ongoing Communication Related to the Monitoring and Remediation</i> (Ref: Para. 52-<del>54</del>)</p> <p>A186. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management <del>and the individual(s) assigned operational responsibility for the system of quality management</del> provides the basis for the evaluation of the system of quality management, as required by paragraph 65A.</p> <p>A187. <i>[Deleted in December 2019 draft – moved to implementation guidance]</i></p>

<p>(a) A description of the monitoring activities performed;</p> <p>(b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and</p> <p>(c) The remedial actions to address the identified deficiencies.</p>	
<p>53. The firm shall communicate the matters described in paragraph 52 to <u>engagement teams and other individuals</u><del>personnel</del> to enable <u>them</u><del>personnel</del> to take prompt and appropriate action in accordance with their responsibilities.</p>	
<p>54. The firm shall communicate information about the results of the firm's monitoring and remediation process to external parties on a timely basis, in accordance with paragraph <del>404(c)</del>(iv).</p>	
<p><del>55 to 57</del> [Moved in December 2019 draft]</p>	<p><del>A188 to A194</del> [Moved in December 2019 draft]</p>
<p><b>Network Requirements or Network Services</b></p>	<p><b>Network Requirements or Network Services</b> (Ref: Para. 58-<del>62</del>)</p>
<p>58. When the firm operates as part of a network, the firm shall understand, when applicable: (Ref: Para. A192)</p> <p>(a) The requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or</p>	<p>A192. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm's system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that operate as part of the network. The extent to which a network will provide the firm with quality objectives, quality risks</p>

<p>through the network (i.e., network requirements);</p> <p>(b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm’s system of quality management (i.e., network services); and</p> <p>(c) The firm’s responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A194)</p> <p>The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A13, A195)</p>	<p>and responses that are common across the network will depend on the firm’s arrangements with the network.</p> <div data-bbox="982 284 1953 1161" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of network requirements:</i></p> <ul style="list-style-type: none"> <li>• Requirements for the firm to include <u>additional quality objectives or identified quality risks</u> in the firm’s system of quality management that are common across the network firms.</li> <li>• Requirements for the firm to include responses, <del>including resources</del>, in the firm’s system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm <u>or, resources, such as</u> network developed methodologies for the performance of engagements or IT applications.</li> <li>• Requirements that the firm be subject to the network’s monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network’s methodology appropriately), or to the firm’s system of quality management in general.</li> </ul> <p><i>Examples of network services:</i></p> <ul style="list-style-type: none"> <li>• Services or resources that are optional for the firm to use as a response in its system of quality management, such as voluntary training programs, or a service delivery center established at the network level, or by another firm or group of firms within the same network.</li> </ul> </div> <p><del>A193. [Moved in December 2019 draft]</del></p> <p>A194. The network may establish responsibilities for the firm in implementing the network requirements or network services.</p> <div data-bbox="982 1307 1953 1393" style="border: 1px solid black; padding: 5px;"> <p><u><i>Example of responsibilities for the firm in implementing network requirements or network services</i></u></p> </div>
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	<p style="color: red; border: 1px solid black; padding: 5px;">For example, in the case of implementing an IT application developed by the network, <del>the firm is required</del> <u>may need</u> to have <del>certain</del> <u>the appropriate</u> IT infrastructure and IT processes in place <u>to support an IT application provided by the network that the firm uses in the system of quality management.</u></p> <p>A195. The firm’s understanding of the network requirements or network services and the firm’s responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as:</p> <ul style="list-style-type: none"> <li>• The network’s governance and leadership.</li> <li>• The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services.</li> <li>• How the network identifies and responds to changes that affect the network requirements or network services or other information, <del>for example, such as</del> changes in the professional standards or information that indicates a deficiency in the network requirements or network services.</li> <li>• How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms’ monitoring activities, and the network’s processes for remediating identified deficiencies.</li> </ul>
<p>59. Based on the understanding, the firm shall:</p> <p>(a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality management, including how they are to be implemented; <u>and</u> (Ref: Para. A196)</p> <p>(b) Evaluate whether <u>and if so, how</u> the network requirements <u>or network services</u> need to be adapted or supplemented by the firm to be</p>	<p><i>Network Requirements or Network Services in the Firm’s System of Quality Management</i> (Ref: Para. 59)</p> <p>A196. The characteristics of the network requirements or network services are <del>also a factor in identifying and assessing</del> <u>quality risks</u> <del>consideration in as part of</del> the firm’s risk assessment process.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Example of a network requirement or network service that gives rise to a quality risk:</i></p> <p>A network requires the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This gives rise to a quality risk that the IT application does</p> </div>

<p>appropriate for use in its system of quality management;<del> and</del> (Ref: Para. A197-<del>A198</del>)</p>	<p>not <del>appropriately</del> address matters in <u>local</u> law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.</p>
<p><del>(c) Evaluate the appropriateness of the network services, to determine how to adapt or supplement them. (Ref: Para. A198)</del></p>	<p>A197. <del>The purpose of the n</del>Network requirements may <u>include the promotion of the</u> consistent performance of quality engagements across the firms that operate as part of the network,<del> and therefore t</del>The firm may be expected by the network to implement the network requirements,<del> however, Nevertheless,</del> the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and the engagements it performs,<del> taking into account the quality risk considerations.</del></p>
<p><del>A198. Examples of how the network requirements or networks services may need to be adapted or supplemented:</del></p>	
<p><u>Network requirement or network service</u></p>	<p><u>How the firm adapts or supplements the network requirement or network service</u></p>
<p><del>The network requires the firm to include additional and more granular quality objectives in the system of quality management, in addition to the quality objectives required by this ISQM.</del></p>	<p>The firm:</p> <ul style="list-style-type: none"> <li><del>• Determines that quality objectives in addition to the network quality objectives are needed to address matters contained in jurisdictional law or regulation.</del></li> <li><del>• Identifies and assesses quality risks related to all of the quality objectives, and designs and implements responses to address the quality risks.</del></li> </ul>
<p>The network requires the firm to include certain quality risks in the system of quality management, so that</p>	<p>As part of identifying and assessing quality risks, the firm assesses the</p>

		<p>all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.</p>	<p>quality risks that are required by the network. The firm also designs and implements responses to address the assessed quality risks <u>that are required by the network</u>.</p>
		<p>The network requires that the firm design and implement certain responses.</p>	<p>As part of designing and implementing responses, the firm determines:</p> <ul style="list-style-type: none"> <li>• How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and the engagements performed by the firm (e.g., tailoring a methodology to include matters related to law or regulation).</li> <li>• Which assessed quality risks the responses address.</li> </ul>
<p><u>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</u> <del>Monitoring and Remediation Process</del></p>	<p>A198. [Moved in December 2019 draft]</p>	<p><u>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</u> <del>Monitoring and Remediation Process</del> (Ref: Para. 60–62)</p>	<p>A199. The monitoring activities undertaken by the network may affect the nature, timing and extent of the firm's monitoring activities.</p>

<p>60. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:</p> <p>(a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities performed in accordance with paragraphs 44–45; (Ref: Para. A199)</p> <p>(b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and</p> <p>(c) As part of evaluating findings and identifying deficiencies in paragraph 47, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A200)</p>	<p><u><i>Example of how monitoring activities undertaken by the network affect the firm's monitoring activities</i></u></p> <p><del>For example, the network may undertake</del> inspections of completed engagements of the firm, <del>which may</del> <u>The firm determines, in the context of the scope and results of the network's inspection of the firm's engagements, affect</u> the extent of <u>engagements that will be selected by the firm in inspecting</u> <del>engagements of completed engagements undertaken by the firm.</del></p> <p>A200. The results of the network's monitoring activities of the firm's system of quality management may include information such as:</p> <ul style="list-style-type: none"> <li>• A description of the monitoring activities, including their nature, timing and extent;</li> <li>• Findings from the monitoring activities and deficiencies identified; and</li> <li>• The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the deficiencies and recommended remedial actions.</li> </ul>
<p><u><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></u></p> <p>61. The firm shall, <del>at least annually, obtain information from the network about:</del></p> <p>(a) <del>Understand</del> <u>How the overall scope of the monitoring activities undertaken by the network across the network firms, including network monitoring activities to</u> determines that network requirements have been appropriately implemented across the network firms, <u>and how the network will communicate the results of its monitoring activities to the firm; and</u></p>	<p><u><i>Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: Para. 61)</i></u></p> <p>A201. The information <u>from the network</u> about the overall <del>scope and</del> results of the monitoring activities <u>it undertakes</u> across the network firms' systems of quality management may be an aggregation or summary of the information described in paragraph A200 <del>for the network as a whole</del>, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:</p> <ul style="list-style-type: none"> <li>• <u>Be used by the firm:</u> <ul style="list-style-type: none"> <li>• <u>in considering</u> <del>In identifying and assessing quality risks.</del> <del>considerations</del> <del>or</del></li> <li>• <u>in determining the nature, timing and extent of the firm's monitoring activities.</u> <del>The information may also indicate</del> <u>As part of other relevant</u></li> </ul> </li> </ul>

(b) At least annually, obtain information from the network about T~~the overall scope and~~ results of the monitoring activities undertaken by the network across the network firms, if applicable, and communicate the information to engagement teams and other individuals, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and- (Ref: Para. A201–A202A)

61A. Based on the information obtained in paragraph 61, -(a) Based on the understanding, and if applicable, the information provided by the network, C~~consider the effect of the such information monitoring activities undertaken by the network across the network firms on the firm's system of quality management. (Ref: Para. A201)nature, timing and extent of the monitoring activities that need to be undertaken by the firm; and~~

~~(b) Communicate the information to personnel such that personnel take prompt and appropriate action in accordance with their responsibilities.~~

information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.

- Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a firm within the network who are subject to common network requirements (e.g., common quality objectives, quality risks and responses).

A202. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm., ~~for example, when a network firm performs work for 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.

Example of when information about another network firm's system of quality management affects the firm

Another network firm performs work for the firm's engagements, such as in the capacity of a component auditor.

A202A. In circumstances when the network does not provide the information about the overall results of the monitoring activities undertaken by the network across the network firms, the firm may take further actions, such as:

- Discussing the matter with the network; and
- Determining the effect on the firm's engagements, and communicating the effect to engagement teams.

Deficiencies in Network Requirements or Network Services Identified by the Firm

62. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A203–A204)

- (a) Communicate to the network relevant information about the identified deficiency; and
- (b) In accordance with paragraph 49, design and implement remedial actions to address the effect of the identified deficiencies in the network requirements or network services. Understand the planned remedial actions by the network, including the firm's responsibilities to implement the remedial actions;
- ~~(c) Understand whether the network's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s); and~~
- ~~(d) Determine the supplementary remedial actions needed by the firm, if any.~~

Deficiencies in Network Requirements or Network Services Identified by the Firm (Ref: Para. 61)

A203. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this ISQM regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.

Example of when a network requirement or network service is monitored by both the network and the firm

~~For example, the~~A network ~~may~~ undertakes monitoring activities at a network level for a common methodology, ~~however various monitoring activities at a~~The firm ~~also monitors the methodology through the performance of level~~ may support the evaluation of the methodology, including engagement inspections.

A204. In designing and implementing the remedial actions to address the effect of the identified deficiencies in the network requirements or network services, the firm may:

- Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and
- Consider whether supplementary ~~In some cases the firm may need to implement its own~~ remedial actions need to be taken by the firm to address ~~the~~an identified deficiencies and their related root cause(s).

Example of circumstances when supplementary remedial actions may be needed by the firm to address an identified deficiency in a network requirement or network service

• ~~for example, in circumstances when the firm also needs to take remedial action to address the deficiency, t~~The network has not taken appropriate remedial actions, ~~or~~

	<ul style="list-style-type: none"> <li>• <del>T</del>he network's remedial actions will take time to effectively address the identified deficiency.</li> </ul>
<p><del>63.</del> <i>[Moved in December 2019 draft]</i></p>	
<p><b><del>Service Providers</del></b></p> <p><del>64.</del> <i>[Deleted]</i> <del>When the firm intends to obtain or use resources provided by a service provider in its system of quality management, the firm's responses for resources shall include: (Ref: Para. A205–A207)</del></p> <p><del>(a)</del> <del>Obtaining an understanding of the service provider, including determining that the reputation, competence and capabilities of the service provider are appropriate in the context of the intended use of the resource; (Ref: Para. A208)</del></p> <p><del>(b)</del> <del>Establishing the nature and scope of the resources provided by the service provider, including the firm's responsibilities for any actions that are necessary in using the resources; and (Ref: Para. A209)</del></p> <p><del>(c)</del> <del>Determining whether the resource is appropriate for use in the system of quality management in the context of the quality risks identified and assessed by the firm and the reasons for the assessments given to the quality risks, including when changes are made to the resources provided. (Ref: Para. A210)</del></p> <p><del>Notwithstanding the firm's use of a service provider(s), the firm remains responsible for its system of quality management.</del></p>	<p><b><del>Service Providers</del></b> (Ref: Para. <del>64–65</del>)</p> <p><del>A205–A210</del> <i>[Moved to paragraph A134A–A134E]</i></p>

<p><del>65. [Deleted] As part of evaluating findings and identifying deficiencies in paragraph 47, if the firm identifies deficiencies in the resources provided by the service provider, the firm shall communicate to the service provider relevant information about the identified deficiencies. The firm shall also:</del></p> <p><del>(a) Understand the planned remedial actions by the service provider and consider whether the service provider's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s);</del></p> <p><del>(b) Determine the supplementary remedial actions needed by the firm, if any; and</del></p> <p><del>(c) Consider whether to continue using the services provided by the service provider.</del></p>	
<p><b>Evaluating the System of Quality Management</b></p>	<p><b>Evaluating the System of Quality Management (Ref: Para. 65A–65D)</b></p>
<p>65A. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate <u>whether</u> the system of quality management. <u>The evaluation shall be undertaken as of a point in time, and shall be performed at least annually. (Ref: Para. A209A–A209C)</u></p> <p><u>65AA. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude whether the system of quality management provides the firm with</u> reasonable assurance that the objectives of the system of quality management</p>	<p><u>A209A. The firm remains responsible and accountable for achieving the objectives of this ISQM. Nevertheless, the evaluation of the system of quality management reinforces the responsibility and accountability of the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</u></p> <p><u>A209B. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle. The evaluation may be undertaken more frequently than annually, such as in circumstances when the identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance that the objectives of the system have been achieved.</u></p>

~~have been~~are being achieved. ~~This evaluation shall take into account:~~ (Ref: Para. A210A–A210DDAB)

- ~~(a) The severity and pervasiveness of identified deficiencies; and~~
- ~~(b) The evaluation in paragraph 50 regarding whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s), and have been implemented.~~

~~A209C40B.~~[Moved from paragraph A210B] Scalability examples to demonstrate how the information to support the evaluation of the system of quality management from the firm's monitoring and remediation process may be obtained, generated or used:

- In a ~~less complex~~smaller firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management.
- In a ~~more complex~~larger firm, the firm may need to establish processes to collate, summarize and communicate the information needed to evaluate of the system of quality management.

A210A. In the context of this ISQM, it is intended that the operation of the system as a whole provides ~~the firm with~~ reasonable assurance that the objectives of the system of quality management are ~~being~~ achieved. In concluding whether the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may use the results of the firm's monitoring and remediation process and consider the following:

- The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management;
- Whether identified deficiencies have been remediated, or are being actively remediated (i.e., whether the actions taken thus far by the firm to remediate the identified deficiencies are appropriate, including whether remedial actions have been designed and implemented); and

- Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 51.

~~The evaluation undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management therefore determines whether the system is doing so.~~

Example of the evaluation and conclusion at a point in time of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved

- When identified deficiencies are severe and pervasive, have not been remediated or actively remediated, and the effect of the deficiencies have not been appropriately corrected, it may be determined that the system does not provide reasonable assurance that the objectives of the system of quality management are being achieved. A deficiency may be considered severe and pervasive when, for example, it relates to the firm's governance and leadership, and affects the overall environment that supports the operation of the system of quality management.
- When identified deficiencies are severe but not pervasive, have not been remediated or actively remediated, and the effect of the deficiencies have not been appropriately corrected, it may be determined that, except for the matters to which the deficiencies relate, the system nevertheless provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. A deficiency may be considered severe but not pervasive when, for example, there is a technological failure in the firm's IT application for accepting and continuing client relationships and specific engagements that results in the firm performing an engagement that would otherwise not have been accepted.

~~A210B.~~ [Moved to paragraph A209C]

	<p><del>A210C.</del> [Moved to paragraph A210DB]</p> <p><del>A210D.</del> [Moved to paragraph A210DD]</p> <p><u>A210DA.</u> [Moved from paragraph A210A] This ISQM does not require the firm to obtain an independent <del>tee</del> assurance report on its system of quality management.</p>
<p><del>65B.</del> [Deleted] <del>The evaluation in paragraph 55 shall be undertaken at least annually, or more frequently when the identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance that the objectives of the system have been achieved.</del></p>	
<p>65C. If the evaluation indicates that the system of quality management does not provide <u>the firm with</u> reasonable assurance that the objectives of the system <del>have been</del><u>are being</u> achieved, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall:</p> <p>(a) Take prompt and appropriate action in accordance with their responsibilities; and (Ref: Para. A210<del>DB</del><u>DC</u>)</p> <p>(b) Communicate to:</p> <p>(i) <u>Engagement teams and other individuals</u><del>Personnel</del> to the extent that it is relevant to their responsibilities; and (Ref: Para. A210DC)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required</p>	<p>A210<del>DB</del><u>DC</u>. [Moved from paragraph A210C] Prompt and appropriate action when the evaluation indicates that the system <u>of quality management</u> does not provide <u>the firm with</u> reasonable assurance that the objectives of the system <del>are being</del><u>have been</u> achieved may include:</p> <ul style="list-style-type: none"> <li><del>• Taking steps to determine whether the reports already issued by the firm were appropriate.</del></li> <li>• Taking measures to <u>support the performance of engagements and</u> confirm that reports <del>not yet</del> issued by the firm are appropriate in the circumstances, <u>until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams.</u></li> <li>• <u>Obtaining legal advice.</u></li> </ul> <p><u>A210DC.</u> In some circumstances the firm may have an independent governing body that <u>has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.</u></p> <div style="border: 1px solid black; padding: 5px;"> <p>A210<del>D</del><u>D</u>. [Moved from paragraph A210D] <i>Examples of circumstances when it may be appropriate for the firm to communicate to external parties:</i></p> </div>

<p>by paragraph <del>404</del>(c)(iv). (Ref: Para. A210DD)</p>	<ul style="list-style-type: none"> <li>• <u>    </u> When the firm belongs to a network.</li> <li>• <del>When and the information is relevant to the network or other firms within the other firms in the</del> network <del>who</del> use the work performed by the firm, for example, in the case of a group audit.</li> <li>• When a report issued by the firm is determined by the firm 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.</li> <li>• When law or regulation requires the firm to communicate to an oversight authority or a regulatory body that the system does not provide <u>the firm with</u> reasonable assurance that the objectives of the system <del>are being</del><u>have been</u> achieved.</li> </ul>
<p>65D. The firm shall undertake periodic performance evaluations of 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. In doing so, the firm shall take into consideration the <del>outcome of the</del> evaluation of the system of quality management. (Ref: Para. A210E–A210G)</p>	<p><i>Performance Evaluations</i> (Ref: Para. 65D)</p> <p>A210E. Periodic performance evaluations promote accountability. In considering the performance of <u>these</u> individuals, the firm may take into account:</p> <ul style="list-style-type: none"> <li>• The results of the firm’s monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. <del>For example</del><u>In some circumstances</u>, the firm may set targets for the individual and measure the results of the firm’s monitoring activities against those targets.</li> <li>• The actions taken by the individual(s) in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Scalability examples to demonstrate how the firm may undertake the performance evaluations:</i></p> <ul style="list-style-type: none"> <li>• In a <u>less complex</u><del>smaller</del> firm, the firm may engage a service provider to perform the evaluation, or the results of the firm’s monitoring activities may provide an indication of the performance of the individual(s).</li> </ul> </div>

	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <ul style="list-style-type: none"> <li>In a <del>more complex</del><b>larger</b> firm, the performance evaluations may be undertaken by an independent non-executive member of the firm's governing body, or a special committee overseen by the firm's governing body.</li> </ul> </div> <p>A210F.A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual's commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.</p> <p>Public Sector Considerations</p> <p>A210G.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 results of the performance evaluation, given the nature of the individual's appointment. Nevertheless, performance evaluations may still be undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.</p>
<p><b>Documentation</b></p> <p>66. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A211–A213)</p> <p>(a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the firm's system of quality management;</p>	<p><b>Documentation</b> (Ref: Para. 66–69)</p> <p>A211. Documentation provides evidence that the firm complies with this ISQM, as well as 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 about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this ISQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.</p>

(b) Support the consistent implementation and operation of the responses; and

(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management such that the firm is able to evaluate the system of quality management.

A212. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the firm's judgments about the form, content and extent of documentation, including how often documentation is updated, may include:

- The complexity of the firm and the number of offices;
- The nature and complexity of the firm's practice and organization;
- The ~~types-nature~~ of ~~engagements-services~~ the firm ~~performs-provides~~ and the nature of the ~~entities-clients~~ ~~for~~ whom ~~engagements-services~~ are ~~performed-provided~~; and
- The extent to which the documentation may be reviewed by an external party, such as a professional, legal or regulatory body;
- Whether the documentation would support an understanding of the system of quality management by an individual who is knowledgeable of matters related to quality management;
- The nature and complexity of the matter being documented, ~~for examplesuch as~~, whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter; and
- The frequency and extent of of changes in the system of quality management.

In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

A213. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include

	<p>specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.</p>
<p>67. The firm shall prepare documentation that includes: (Ref: Para. A214)</p> <p>(a) <u>The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management;</u></p> <p>(b) <u>The firm's quality objectives and assessed quality risks; (Ref: Para. A214)</u></p> <p>(c) <u>A description of the responses and how the firm's responses address the assessed quality risks; and</u></p> <p>(d) <u>Regarding the monitoring and remediation process:</u></p> <p>(i) <u>Evidence of the monitoring activities performed;</u></p> <p>(ii) <u>The evaluation of the findings, from the monitoring activities, results of external inspections and other relevant information, including the and identified deficiencies and their related root cause(s);</u></p> <p>(iii) <u>Remedial actions to address identified deficiencies and the evaluation of the</u></p>	<p>A214. <del>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 about its system of quality management. In documenting the assessed quality risks, the firm may document the reasons for the assessment of the quality risks.</del></p>

<p>design and implementation of such remedial actions;</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(ev) The basis for the <del>conclusion</del><u>evaluation</u> of whether the system of quality management provides <u>the firm with</u> reasonable assurance that the objectives <u>of the system of quality management</u><del>stated in paragraph 18(a) and (b) have been</del> <u>are being</u> achieved.</p>	
<p>68. The firm shall document the matters in paragraph 67 as they relate to network requirements or network services <u>and or resources provided by service providers and:</u></p> <p><del>(a) The</del> evaluation of the <del>effect of the</del> network requirements or network services in accordance with paragraph 59<del>(b) and the conclusions reached.</del> (Ref: <u>Para. A215</u>)</p> <p><del>(b) The firm's basis for determining that it is appropriate to use the resources from a service provider in its system of quality management.</del></p>	<p><u>A215. The documentation may be provided by the network.</u></p>
<p>69. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to <u>enable the firm to monitor the design, implementation and operation</u> <del>of permit those performing monitoring procedures to evaluate</del> the firm's system of quality management, or for a longer period if required by law or regulation.</p>	

Proposed ISQM 1 (Marked from ED-ISQM 1 and December 2019 IAASB Meeting)

*IAASB Main Agenda (March 2020)*