

### Paragraph 41A(e) of Proposed ISQM 1<sup>1</sup> and Related Application Material – Draft (Marked from December 2019)

(Previously Paragraph 41A(c) of Proposed ISQM 1)

This paper is a draft of the requirements in paragraph 41A(e) of proposed ISQM 1 (previously paragraph 41A(c)) and related application material, marked from the clean version presented at the December 2019 IAASB meeting (see [Agenda Item 8-A](#) for that meeting).

#### Paragraph 41A(e) Requirement

41A. In designing and implementing responses, the firm shall, ~~at a minimum,~~ include the following **specific** responses in accordance with paragraph 22F: (Ref: Para. A153A)

...

(e) **[Moved from 41A(c)]** The firm establishes policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for:

- (i) Audits of financial statements of listed entities;
- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. ~~A103A153H~~)
- (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate ~~:~~

~~(a) — As a response to assessed quality risks relating to the engagement performance quality objectives, based on the reasons for the assessments given to those risks, or (Ref: Para. ~~A104A153I-A105xA153K~~)~~

~~(b) — Due to the nature and circumstances of the engagement or the entity. (Ref: Para. ~~A105A-A106~~)~~

#### Application and Other Explanatory Material

*Engagements Subject to an Engagement Quality Review* (Ref: Para. 41A(~~ee~~))

A101. **[Deleted]**

A102. **[Deleted]**

Engagement Quality Review Required by Law or Regulation (Ref: Para. 41A(~~ee~~)(ii))

~~A103A153H.~~ Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:

<sup>1</sup> Proposed International Standard on Quality Management (ISQM) 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*

- Are public interest entities as defined in a particular jurisdiction;
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds);
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

Engagement Quality Review as a Response to Assessed Quality Risks (Ref: Para. 41A(~~ee~~)(iii)(~~a~~))

~~A104A153l. When identifying and assessing quality risks, paragraph 22E(a)(ii) requires the firm to understand factors relating to the nature and circumstances of the engagements performed by the firm that may adversely affect the achievement of its quality objectives. In designing and implementing responses to address assessed quality risks relating to the engagement performance quality objectives, certain conditions and circumstances may lead the firm to determine that an engagement quality review (i.e., an objective evaluation of significant judgments made by the engagement team and the conclusions reached thereon) is the appropriate response. Audits or other engagements for which the firm may determine that an engagement quality review is appropriate as a response to assessed quality risks may include, for example, engagements.~~

Examples of such conditions and circumstances may include:

Conditions and circumstances relating to the types and characteristics of engagements performed:

- Engagements That that involve a high level of complexity or judgment, such as:
  - ~~An audit Audits~~ of financial statements for ~~an entity entities~~ operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on ~~the entity's~~their ability to continue as a going concern.
  - ~~An assurance Assurance~~ engagements that requires specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which~~Where~~ issues have been encountered ~~on the engagement~~, such as audit engagements with recurring internal or external inspection findings, unremediated deficiencies in internal control, or a material restatement of comparative information in the financial statements.
- ~~For entities in emerging industries or that involve emerging technologies, or for which the firm has no previous experience.~~ [Moved below]
- Engagements For for which unusual circumstances ~~are~~ have been identified during the firm's acceptance and continuance ~~of client relationships and specific engagements~~process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements That that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, or that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.

Conditions and circumstances relating to the types of entities for which engagements are undertaken:

~~For e~~Entities in emerging industries or that involve emerging technologies, or for which the firm has no previous experience.

- ~~For e~~Entities for which concerns were expressed in communications from securities or prudential regulators.
- Entities with The public interest or public accountability characteristics ~~of the entity~~, such as entities thethat holding ~~of~~ a significant amount of assets in a fiduciary capacity for a large number of stakeholders. ~~Examples include~~eing financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.
- Entities with Thea high public profile, or whose of the entity or its management or owners have a high public profile.
- Entities with a large number or diverse range of shareholders.

[Last three bullets moved from paragraph A105A]

~~A105A153J.~~ In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review is appropriate as a response to assessed quality risks (e.g., when other responses to assessed quality risks are determined by the firm to be appropriate).

#### Public sector considerations

~~A105xA153K.~~ [Moved from A107] The firm may determine that an engagement quality review is appropriate as a response to assessed quality risks for public sector engagements for which law or regulation establishes additional reporting requirements (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements). Another factor that may be considered for larger public sector entities is the social or economic influence on the community or region in which the entity operates. [Last sentence moved from paragraph A106]

#### ~~Engagement Quality Review Based on the Nature and Circumstances of the Engagement or the Entity (Ref: Para. 41A(c)(iii)(b))~~

~~A105A. [Deleted] The firm may establish criteria for identifying audits or other engagements for which an engagement quality review is determined to be appropriate due to the nature and circumstances of the engagement or the entity. Factors that the firm may consider in developing such criteria include, for example:~~

~~The public interest or public accountability characteristics of the entity, such as the holding of a significant amount of assets in a fiduciary capacity for a large number of stakeholders. Examples include financial institutions, such as certain banks, insurance companies, and pension funds.~~

~~The high public profile of the entity or its management or owners.~~

~~The number and diversity of shareholders.~~

~~Expectations about how the engagement report or other engagement deliverables may be used by stakeholders.~~

~~A105B. [Deleted] Although the firm may take into account public interest or public accountability characteristics of the entity in establishing such criteria, this ISQM does not require the performance of an engagement quality review for public interest entities, as defined in a particular jurisdiction, unless otherwise required by law or regulation.~~

#### Public sector considerations

~~A106. [Deleted] In determining whether an engagement quality review may be appropriate for a public sector entity due to the nature and circumstances of the engagement or the entity, the firm may consider factors similar to those in paragraph A105A. Another factor that may be considered for larger public sector entities is the social or economic influence on the community or region in which the entity operates.~~ [Last sentence moved to paragraph A105xA153K]

~~A107. [Moved to A105x]~~