

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 December 15, 2022)

EXTRACTS OF THE FULL DRAFT

MARKED FROM AGENDA ITEM 2-A

Introduction	Application and Other Explanatory Material
Scope of this ISQM	Scope of this ISQM (Ref: Para. 3–4)
...	...
<p>5. 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 <u>and the system of quality management that is established in accordance with the requirements of this ISQM enables the performance by the firm of all such engagements</u>).</p>	

The Firm's System of Quality Management	The Firm's System of Quality Management (Ref: Para. 6–9)
<p>6. A system of quality management is <u>operates in a continual and</u>, iterative <u>manner</u> and <u>is</u> 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. A3)</p> <ul style="list-style-type: none"> (a) The firm's risk assessment process; (b) Governance and leadership; (c) Relevant ethical requirements; (d) Acceptance and continuance of client relationships and specific engagements; (e) Engagement performance; (f) Resources; (g) Information and communication; and 	<p>...</p>

<p>(h) The monitoring and remediation process.</p>	
<p>...</p>	<p>...</p>
<p>9. The purpose of a system of quality management is to provide the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved. This ISQM requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, <u>on behalf of the firm,</u> evaluates the system of quality management and the firm concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, <u>stated in paragraph 14(a) and (b),</u> are being achieved. (Ref: Para. A5)</p>	<p>...</p>
<p>...</p>	
<p><i>Networks and Service Providers</i></p> <p>11. This ISQM addresses the firm's responsibilities when the firm:</p>	

<p>(a) Belongs to a network, and the firm is required to compl<u>ies</u>y with network requirements or uses network services in the system of quality management or in the perform<u>anceing</u> of engagements; or</p> <p>(b) Uses resources from a service provider in the system of quality management or in the perform<u>anceing</u> of engagements.</p> <p>Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.</p>	
<p>Authority of this ISQM</p>	<p>Authority of this ISQM (Ref: Para. 12)</p>
<p>12. Paragraph 14 of T<u>Paragraph 14 of T</u>his 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, this ISQM contains related guidance in the</p>	<p>...</p>

<p>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>...</p>	
<p>Objective</p>	
<p>14. 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"> (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and (b) Engagement reports issued by the firm or engagement 	

<p>partners are appropriate in the circumstances.</p> <p>15. The public interest is served by the consistent performance of quality engagements. The design, implementation and operation of the system of quality management enables the consistent performance of quality engagements <u>by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved</u>. 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.</p>	
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Definitions	Definitions
16. For purposes of this ISQM, the following terms have the meanings attributed below:	
...	...
(k) Network firm – A firm or entity that belongs to <u>the firm's</u> network.	
<p>(l) Network – A larger structure: (Ref: Para. A19–A20)</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. 16(l), 48)</p> <p>A19. Networks and the firms within the network may be structured in a variety of ways. <u>For example, in</u> the context of a firm's system of quality management:</p> <ul style="list-style-type: none"> • The network may establish requirements for the firm related to its system of quality management, or provide services that are used by the firm in its system of quality management or in <u>the performanceing of</u> engagements; • Other firms within the network may provide services (e.g., resources) that are used by the firm in its system of quality management or in <u>the performanceing of</u> engagements; or • Other structures or organizations within the network may establish requirements for the firm related to its system of quality management, or provide services. <p>For the purposes of this ISQM, any network requirements or network services that are obtained from the network, another firm within the network or another structure or organization in the network are considered “network requirements or network services.”</p> <p>A20. The IESBA Code defines and provides guidance in relation to the terms “network” and “network firm.”</p>

...	
<p>(n) Personnel – Partners and staff <u>in the firm</u>. (Ref: Para. A21–A22)</p>	<p><i>Personnel</i> (Ref: Para. 16(n))</p> <p>A21. Personnel includes partners and staff in a service delivery center of the firm.</p> <p>A212. In addition to its personnel (<u>i.e., individuals in the firm</u>), the firm may use other individuals external to the firm in performing activities in the system of quality management or in <u>the performanceing of engagements</u>. <u>For example, individuals external to the firm may include individuals from other network firms (e.g., individuals in service delivery center of a network firm) or individuals employed by a service provider (e.g., a component auditor from another firm not within the firm’s network).</u></p> <p><u>A22. Personnel also includes personnel in other structures of the firm, such as a service delivery center of the firm.</u></p>
...	
...	<p><i>Response</i> (Ref: Para. 16(u))</p> <p>...</p> <p>A28. If the firm uses individuals external to the firm in the system of quality management or in <u>the performanceing of engagements</u>, different policies or procedures may need to be designed by the firm to address the actions of the individuals. <u>Proposed ISA 220 (Revised)¹ provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.</u></p>
<p>(v) Service provider (in the context of this ISQM) – An individual or organization external to the firm that provides a resource that is used in the system of quality</p>	<p><u><i>Service Provider</i></u></p> <p><u>A28A. Service providers include component auditors from other firms not within the firm’s network.</u></p>

¹ Proposed ISA 220 (Revised), paragraphs A22–A24

<p>management or in <u>the</u> performing <u>of</u> engagements. Service providers exclude the firm's network, other <u>network</u> firms within the network or other structures or organizations in the network. (Ref: Para. A105)</p>	
<p>...</p>	
<p>Requirements</p>	
<p>Applying, and Complying with, Relevant Requirements</p>	<p>Applying, and Complying with, Relevant Requirements (Ref: Para. 17)</p>
<p>...</p>	<p>...</p>
<p>18. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management <u>overall</u> 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><u>A29A. Paragraph 20 addresses the assignment of responsibilities.</u></p>

<p>...</p>	<p>...</p>
<p><i>Responsibilities</i></p> <p>20. The firm shall assign: (Ref: Para. A32–A35)</p> <p>(a) 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) Operational responsibility for the system of quality management <u>overall</u>;</p> <p>(c) Operational responsibility for specific aspects of the system of quality management, including:</p> <p>(i) Compliance with independence requirements; and (Ref: Para. A36)</p> <p>(ii) The monitoring and remediation process.</p>	<p><i>Responsibilities</i> (Ref: Para. 20–21, 28(d))</p> <p>...</p> <p>A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraphs <u>53 and 54, although</u> the firm is responsible for the evaluation of the system of quality management <u>and conclusion thereon</u>, the firm assigns the performance of these activities evaluation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p> <p>A34. An individual(s) assigned responsibility for the matters in paragraph 20 is typically a partner of the firm so that they have appropriate influence and authority within the firm to fulfill the requirements of paragraph 21. However, based on the legal structure of the firm, there may be circumstances when an individual(s) may not be a partner of the firm or employed by the firm but the individual(s) has the appropriate influence and authority within the firm to perform their assigned role because of <u>formal</u> arrangements made by the firm or the firm’s network.</p> <p>A35. 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. An individual(s) assigned responsibility for a matter(s) in paragraph 20 may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities. However, an individual(s) assigned responsibility for a matter(s) in paragraph 20 remains responsible and accountable for the responsibilities assigned to them.</p> <div data-bbox="737 1179 1871 1391" style="border: 1px solid black; padding: 5px;"> <p><i>Scalability example to demonstrate how assigning roles and responsibilities may be undertaken</i></p> <ul style="list-style-type: none"> • In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of </div>

	<p>the system of quality management, including operational responsibility for the system of quality management <u>overall, and operational responsibility for</u> compliance with independence requirements and the monitoring and remediation process.</p> <ul style="list-style-type: none"> 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. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 20(c), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line.
...	...
<p>22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management <u>overall, and operational responsibility for</u> compliance with independence requirements and the monitoring and remediation process, have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	
<p>The Firm's Risk Assessment Process</p>	<p>The Firm's Risk Assessment Process (Ref: Para. 23)</p>
...	<p>A39. 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.</p>

	<p><i>Scalability examples to demonstrate how the firm’s risk assessment process may differ</i></p> <ul style="list-style-type: none"> • In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management <u>overall</u> may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process independently. <u>Furthermore, and they may documentation of</u> the quality objectives, quality risks and responses <u>may be less extensive and more condensed than for a more complex firm (e.g., it may be documented in a single document/multiple form)</u>. • In a more complex firm, there may be a formal risk assessment process, involving multiple individuals and numerous activities. 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. <p>...</p>
<p>...</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 24)</p> <p>A42. Law, or regulation <u>or professional standards</u> may establish requirements that give rise to additional quality objectives, such as when the firm is required to appoint non-executive individuals to the firm’s governance structure <u>and the firm establishes additional quality objectives to address the requirements</u>.</p> <p>...</p>
<p>...</p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 25)</p> <p>...</p>

	<p>A46. A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of are quality risks. The firm exercises professional judgment in determining whether a risk is a quality risk, which is based on the firm’s consideration of whether there is a reasonable possibility of the risk occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p>
<p><i>Examples of the firm’s understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i></p>	<p><i>Examples of quality risks that may arise</i></p>
<p>The strategic and operational decisions and actions, business processes and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in the performing of engagements within the scope of this ISQM.
<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Leadership’s responsibilities and accountability for quality are not clearly defined and assigned.

			<ul style="list-style-type: none"> The actions and behaviors of leadership that do not promote quality are not questioned.
		<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to a number of quality risks including:</p> <ul style="list-style-type: none"> Technological resources used by the two merged firms may be incompatible. Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
...		<p>...</p> <p>A48. The degree to which a risk, individually, or in combination with other risks may adversely affect the achievement of a quality objective(s) may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk and how they affect the quality objective(s), such as:</p> <ul style="list-style-type: none"> How frequently the condition, event, circumstance, action or inaction is expected to occur. How long<u>much time</u> it would take after<u>for</u> the condition, event, circumstance, action or inaction <u>occurred for it</u> to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action or inaction. How long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred. <p>The assessment of quality risks need not comprise formal ratings or scores, <u>however firms are not precluded from using them.</u></p>	
...		...	

<p>27. The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A534)</p> <p>(a) Establish, or modify, additional quality objectives <u>or modify additional quality objectives already established by the firm</u>; (Ref: <u>Para. A54</u>)</p> <p>(b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or</p> <p>(c) Design and implement additional responses, or modify the responses.</p>	<p><i>Changes in the Nature and Circumstances of the Firm or its Engagements</i> (Ref: Para. 27)</p> <p>...</p> <p>A54. The firm may have established additional quality objectives in addition to those specified by this ISQM. The firm may <u>also</u> identify information that indicates that the additional quality objectives <u>already established by the firm</u> are no longer needed, or need to be modified.</p>
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Governance and Leadership	Governance and Leadership
<p>28. The firm shall establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that <u>exists throughout the firm, which</u> recognizes and reinforces: (Ref: Para. A55–A56)</p> <p>(i) The firm’s role in serving the public interest by consistently performing quality engagements;</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>(iii) The responsibility of all personnel for quality relating to <u>the performanceing of</u> engagements or activities within the system of quality</p>	<p>...</p> <p><i>Resources</i> (Ref: Para. 28(e))</p> <p>A60. The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management <u>overall</u> is 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>A61. <u>As R</u>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>management, and their expected behavior; and</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.</p> <p>(b) Leadership is responsible and accountable for quality. (Ref: Para. A57)</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A58)</p> <p>(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management. (Ref: Para. A32, A33, A35, A59)</p> <p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is</p>	
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<p>consistent with the firm's commitment to quality. (Ref: Para. A60–A61)</p>	
<p>...</p>	<p>...</p>
<p>Engagement Performance</p>	<p>Engagement Performance</p>
<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>(a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the</p>	<p>...</p> <p>A77. In some circumstances, the firm may use individualspersonnel from at the firm's service delivery center of the firm or another network firm to perform procedures on-in-performing the engagement, i.e., the individualspersonnel may be included in the engagement team. In such circumstancesases, the firm's policies or procedures may specifically address the direction and supervision of the individualspersonnel and review of their work, such as:</p> <ul style="list-style-type: none"> • What aspects of the engagement may be assigned to individualspersonnel in the service delivery center; • How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by personnelindividuals in the service delivery center; and • The protocols for communication between the engagement team and individualspersonnel in the service delivery center. <p><i>Professional Judgment and Professional Skepticism</i> (Ref: Para. 31(c))</p> <p>A78. Professional skepticism supports the quality of judgments made on anthe assurance engagement and, through these judgments, the overall effectiveness of the engagement team in performing the assurance 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)² provides examples of impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate such impediments.</p>

² Proposed ISA 220 (Revised), paragraphs A33–A35

<p>work performed is appropriate <u>based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams</u>, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)</p> <p>(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A78)</p> <p>(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)</p> <p>(e) Differences of opinion within the engagement team, or between the engagement team and the engagement</p>	<p><i>Engagement Documentation</i> (Ref: Para. 31(f))</p> <p>A83. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of an audit of financial statements or an other assurance engagement <u>other than an audit or review of historical financial information</u>, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the <u>auditor's engagement</u> report.</p> <p>A84. The retention and maintenance of engagement documentation may include 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 documentation may be compromised if it is altered, supplemented or deleted without authorization to do so, or if it is permanently lost or damaged.</p> <p>A85. Law, regulation or other professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of an audit of financial statements or an other assurance engagement <u>other than an audit or review of historical financial information</u>, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.</p>
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<p>quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)</p> <p>(f) 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. A83–A85)</p>	
<p>Resources</p>	<p>Resources (Ref: Para. 32)</p>
<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)</p>	<p>...</p> <p><i>Human Resources</i> (Ref: Para. 32(a))</p> <p>...</p> <div data-bbox="663 1182 1881 1380" style="border: 1px solid black; padding: 5px;"> <p>A90. <i>Examples of responses to address hiring, developing and retaining personnel</i></p> <p><u>The responses designed and implemented by the firm to address hiring, developing and retaining personnel may include policies or procedures that address:</u></p> <ul style="list-style-type: none"> The firm may develop a Recruitingment strategy focused on selecting individuals who </div>

<p><u>Human Resources</u></p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</p> <p>(b) 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</p>	<p>have, or are able to develop, appropriate competence.</p> <ul style="list-style-type: none"> • The firm’s tTraining programs may <u>focused</u> on developing the competence of personnel and continuing professional development. • The firm may establish eEvaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures. • The firm may set eCompensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm’s system of quality management. <p>...</p> <p>Engagement Team Members Assigned to Each Engagement (Ref: Para. 32(d))</p> <p>A95. Engagement team members may be assigned to engagements by <u>in a number of ways, for example:</u></p> <ul style="list-style-type: none"> • The firm, ordinarily assigns personnel, including <u>assigning</u> personnel from a service delivery center of the firm. • <u>The firm’s network or another network firm when</u> if the firm uses <u>individuals from</u> the firm’s network or another network firm to perform procedures on the engagement (e.g., a component auditor or a service delivery center of the network or another network firm), the engagement team members are ordinarily assigned by the network or other network firm. • <u>A service provider when</u> if the firm uses <u>individuals from</u> a service provider to perform procedures on the engagement (e.g., a component auditor from a firm that is not within the firm’s network), the engagement team members are ordinarily assigned by the service provider. <p>A96. Proposed ISA 220 (Revised)³ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor’s external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the</p>
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³ Proposed ISA 220 (Revised), paragraph 26

<p>through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)</p> <p>(c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: Para. A94)</p> <p>(d) 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. A88–A89, A95–A97)</p>	<p>appropriate competence and capabilities, including sufficient time, to perform the engagement. ISA 600⁴ expands on how ISA 220 (Revised) is to be applied in relation to an audit of group financial statements. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:</p> <ul style="list-style-type: none"> • Information that may be obtained byHow the engagement partner and factors to consider in <u>determining</u> that the engagement team members assigned to the engagement, including those assigned by the firm’s network, another network firm or service provider, have the competence and capabilities to perform the engagement. • How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm’s network, another network firm or service provider, may be resolved. For example, the firm’s policies or procedures may specify that: <ul style="list-style-type: none"> ○ The group engagement team first discuss concerns with the component auditor and request that they address them. ○ The group engagement team is required to consult within the firm if the group engagement team is unable to resolve the concerns with the component auditor.
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⁴ ISA 600, *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 19

- (e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.

Technological Resources

- (f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)

Intellectual Resources

- (g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources

<p>are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A102–A104)</p> <p><u>Service Providers</u></p> <p>(h) Human, technological or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in <u>the performing</u> of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)</p>	
<p>...</p>	<p>...</p>
<p>Specified Responses</p>	<p>Specified Responses (Ref: Para. 34)</p>
<p>34. In designing and implementing responses in accordance with paragraph 26 and in order to achieve the quality objectives, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(a) The firm establishes policies or procedures for:</p>	<p>...</p> <p><i>Communication with External Parties</i> (Ref. Para: 34(e))</p> <p>A124. The firm’s ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable and transparent communication by the firm about the activities that it has undertaken to address quality, and the effectiveness of those activities.</p>

<p>(i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)</p> <p>(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)</p> <p>(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p> <p>(c) The firm establishes policies or procedures for receiving,</p>	<p>A125. External parties who may use information about the firm’s system of quality management, and the extent of their interest in the firm’s system of quality management, may vary based on the nature and circumstances of the firm and its engagements.</p> <div data-bbox="735 321 1879 828" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of external parties who may use information about the firm’s system of quality management</i></p> <ul style="list-style-type: none"> • 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. • External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction <u>and in understanding the work of firms</u>. • Other firms who use the work of the firm in <u>the performing of</u> engagements (e.g., in relation to a group audit) may have requested such information. • Other users of the firm’s engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information. </div> <p>A126. The information <u>about the system of quality management</u> provided to <u>external parties, including information communicated to</u> those charged with governance about how the system of quality management supports the consistent performance of quality engagements, or communications with external parties about the system of quality management may <u>address such matters as include:</u></p> <ul style="list-style-type: none"> • The nature and circumstances of the firm, such as the organizational structure, business model, strategy and operating environment. • The firm’s governance and leadership, such as its culture, how it demonstrates a commitment to quality, and assigned roles, responsibilities and authority with respect to the system of quality management. • How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence. • Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators.
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<p>investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures <u>established in accordance with this ISQM</u>. (Ref: Para. A120–A121)</p> <p>(d) The firm establishes policies or procedures that address circumstances when:</p> <p>(i) 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</p>	<ul style="list-style-type: none"> • 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 paragraphs 53–54 of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system 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. • The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms. <p><u>Communication with Those Charged with Governance</u></p> <p>A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement. <u>Given the nature of the information, discussion with those charged with governance may be appropriate instead of, or in addition to, written communication.</u></p> <p>A128. ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate⁵ and the communication process.⁶ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than listed entities (or when performing other</p>
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⁵ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

⁶ ISA 260 (Revised), paragraphs 18–22

<p>accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)</p> <p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)</p> <p>(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <p>(i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality <u>audit</u> engagements; (Ref: Para. A127–A128, A132)</p> <p>(ii) Address when it is otherwise appropriate</p>	<p>engagements), for example, entities which may have public interest considerations or public accountability characteristics, such as:</p> <ul style="list-style-type: none"> • Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds. • Entities with a high public profile, or whose management or owners have a high public profile. • <u> </u>Entities with a large number or diverse range of shareholders. <p><u>Public sector considerations (Ref: Para. 34(e)(i))</u></p> <p><u>A128A.</u> [Moved from paragraph A132] The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm’s system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of their stakeholders, and the nature of the services they provide, <u>and the role and scope of those charged with governance.</u></p> <p><u>Determining When it is Otherwise Appropriate to Communicate with External Parties</u></p> <p>A129. The firm’s determination of when it is appropriate to communicate with external parties about the firm’s system of quality management is a matter of professional judgment and may be influenced by matters such as:</p> <ul style="list-style-type: none"> • The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken. • The nature and circumstances of the firm. • 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. • The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated).
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<p>to communicate with external parties about the firm's system of quality management; and (Ref: Para. A129)</p> <p>(iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A130–A131)</p> <p>...</p>	<ul style="list-style-type: none"> • 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. • Jurisdictional trends. • The information that is already available to external parties. • 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. • The <u>public interest benefits</u>cost of external communication (monetary or otherwise) and whether it would reasonably be expected to outweigh the <u>costs (monetary or otherwise)</u> public interest benefits of such communication. <p>The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.</p> <p><u>Nature, Timing and Extent and Appropriate Form of Communication with External Parties</u></p> <p>A130. The firm may consider the following attributes in preparing information that is communicated to external parties:</p> <ul style="list-style-type: none"> • The information is specific to the circumstances of the firm. 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, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that 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
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	<p>such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm’s website).</p> <p>A131. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Examples of form of communication to external parties</i></p> <ul style="list-style-type: none"> • A webpage, videos or interviews. • A publication such as a transparency report or audit quality report. • Targeted <u>written</u> communication to specific stakeholders (e.g., information about the results of the firm’s monitoring and remediation process). • Direct conversations and interactions with the external party, including through social media (e.g., discussions between the engagement team and those charged with governance). </div> <p>Public Sector Considerations (Ref: Para. 34(e)(i))</p> <p>A132. [Moved to paragraph A128A]</p> <p>...</p>
<p>Monitoring and Remediation Process</p>	<p>Monitoring and Remediation Process (Ref: Para. 35–47)</p>
<p>...</p>	<p>A138. In addition to enabling the 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. For example:</p> <ul style="list-style-type: none"> • Given the inherent limitations of a system of quality management, the <u>firm’s</u> identification of deficiencies is not unusual and it is an important aspect of the system of quality management,

	<p>because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continual improvement.</p> <ul style="list-style-type: none"> The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.
<p><i>Designing and Performing Monitoring Activities</i> ...</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 36–39)</p>
<p>37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)</p> <ul style="list-style-type: none"> (a) The reasons for the assessments given to the quality risks; (b) The design of the responses; (c) The design of the firm’s risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144) (d) Changes in the system of quality management; (Ref: Para. A145) (e) The results of previous monitoring activities, whether previous monitoring activities continue to be 	<p>...</p> <p>A140. 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 <u>they are in the process of being performed</u> that 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 a quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).</p> <p>...</p> <p>The Design of the Firm’s Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))</p> <p>...</p> <p>A144. <u>The firm monitors the monitoring and remediation activities to obtain information about whether they are appropriately designed, implemented and operating to achieve their intended purpose described in paragraph 35.</u> The monitoring activities that are undertaken to obtain information about the monitoring and remediation process may be affected by <u>how</u> the design of the other monitoring</p>

<p>relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)</p> <p>(f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures <u>established in accordance with this ISQM</u>, information from external inspections and information from service providers. (Ref: Para. A148–A150)</p>	<p><u>activities are designed (i.e., their nature, timing and extent), and how the remediation process is designed., and the</u>They may also be affected by the nature and circumstances of the firm.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Scalability example to demonstrate the monitoring activities for the monitoring and remediation process</i></p> <ul style="list-style-type: none"> • In a less complex firm, the monitoring activities <u>may be simple, since information about for the monitoring and remediation process may be readily available in the form of</u>emprise a leadership's knowledge<u>consideration by leadership</u>, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results. • In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies. </div> <p>...</p>
<p>...</p>	<p><i>Engagement Inspections</i> (Ref: Para. 38)</p> <p>...</p> <p>A153. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Examples of how at the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner</i></p> </div>

	<p>The firm may establish policies or procedures <u>addressing the inspection of completed engagements</u> that:</p> <ul style="list-style-type: none"> • <u>Set forth the standard period of the inspection cycle, such as</u>require the inspection of a completed engagement for each engagement partner performing audits of financial statements once every three years, and for all other engagement partners, once every five years;The firm may include in the policies or procedures: • <u>Set out</u> the the criteria for selecting completed engagements, <u>including that for an engagement partner performing audits of financial statements, the engagement(s) selected include an audit engagement</u>; • <u>Address</u> The selection of engagement partners in a manner that is unpredictable; and • <u>Address</u> when it is necessary or appropriate to selection of engagement partners more, or less, frequently than the standard period set out in the policy, <u>for example</u>.For example, the firm's policies or procedures may: <ul style="list-style-type: none"> ○ <u>The firm may select</u> Address the selection of eengagement partners more frequently than the standard period set out in the <u>firm's</u> policy <u>when if certain conditions or circumstances exist, such as when</u>: <ul style="list-style-type: none"> • Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners. • The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgment. • 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.
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	<ul style="list-style-type: none"> • The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction. ○ Allow the firm to defer the selection of an engagement partner to be <u>The firm may selection of an engagement partner to be deferred the selection of the engagement partner</u> (e.g., for a year <u>within an inspection cycle</u>) if certain conditions or circumstances exist, such as when: <ul style="list-style-type: none"> • Engagements performed by the engagement partner have been subject to other monitoring activities in the last three years; 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 further information about the engagement partner. <p>...</p>
<p>...</p>	<p>...</p>
<p>...</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i> (Ref: Para. 16(a), 40–41)</p> <p>A157. The firm accumulates findings from the performance of monitoring activities, external inspections and other relevant sources.</p> <p>A157A. The i <u>information accumulated by the firm</u> from the monitoring activities, external inspections and other relevant sources may reveal other observations about the firm’s system of quality management, such as:</p> <ul style="list-style-type: none"> • 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 • Similar circumstances where no findings were noted (e.g., engagements, where no findings were noted, and the engagements have a similar nature to the engagements where findings were noted). <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 firm can support or apply more</p>

	<p>extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.</p> <p>A158. The firm exercises professional judgment in determining whether findings, individually or in combination with other findings give rise to a deficiency in the system of quality management. In making the judgment, is made by the firm <u>may need to</u>, taking into account <u>consideration</u> the relative importance of the findings in the context of the quality objectives, quality risks, responses or other aspects of the system of quality management to which they relate. The firm's judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.</p> <p>A159. <i>Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency</i></p> <p><i>Quality risks and responses</i></p> <ul style="list-style-type: none">• If the findings relate to a response:<ul style="list-style-type: none">○ How the response is designed, for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates.○ The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed.○ Whether there are other responses that address the same quality risk and whether there are findings for those responses. <p><i>Nature of the findings and their pervasiveness</i></p> <ul style="list-style-type: none">• The nature of the findings. For example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole.
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	<ul style="list-style-type: none"> • Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue. <p><i>Extent of monitoring activity and extent of findings</i>error rates and population size</p> <ul style="list-style-type: none"> • The design of the monitoring activity from which the findings 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. • The extent of the monitoring activity from which the findings arose, including the number or size of the selections relative to the size of the entire population. • The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the expected deviationtolerable error rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviationtolerable error rate set by the firm. <p>...</p>
<p>...</p>	<p>...</p>
<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>46. 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</p>	<p>...</p>

<p>responsibility for the system of quality management <u>overall</u>: (Ref: Para. A173)</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>...</p>	
<p>Network Requirements or Network Services</p>	<p>Network Requirements or Network Services (Ref: Para. 48)</p>
<p>...</p>	<p>...</p>
<p>...</p>	<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i> (Ref: Para. 52)</p> <p>A184. 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.</p> <div data-bbox="737 1214 1881 1352" style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Example of when a network requirement or network service is monitored by both the network and the firm</i></p> </div>

	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>A network may undertake monitoring activities at a network level for a common methodology. The firm may also monitor the <u>application of the methodology by engagement team members</u> through performing engagement inspections.</p> </div> <p>A185. In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may:</p> <ul style="list-style-type: none"> • Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and • Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root cause(s), such as when: <ul style="list-style-type: none"> ○ The network has not taken appropriate remedial actions; or ○ The network’s remedial actions will take time to effectively address the identified deficiency.
<p>Evaluating the System of Quality Management</p>	<p>Evaluating the System of Quality Management (Ref: Para. 53)</p>
<p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, <u>on behalf of the firm</u>, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A186–A188)</p>	<p>A186. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may assign aspects of the evaluation to other individuals to assist in performing <u>aspects of</u> the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible and accountable for performing the evaluation.</p> <p>A187. 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.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>A188. <i>Scalability examples to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained</i></p> </div>

	<ul style="list-style-type: none"> • In a less complex 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 firm, the <u>individual(s) assigned ultimate responsibility and accountability for the system of quality management</u>firm may need to establish processes to collate, summarize and communicate the information needed to evaluate the system of quality management.
<p>54. Based on the evaluation, performed by the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the firm shall conclude, <u>on behalf of the firm</u>, one of the following: (Ref: Para. A189, A194)</p> <p>(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. A190)</p> <p>(b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of</p>	<p><i>Concluding on the System of Quality Management</i> (Ref: Para. 54)</p> <p>A189. 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 <u>evaluating and</u> concluding on the system of quality management, the <u>individual(s) assigned ultimate responsibility and accountability for the system of quality management</u>firm may use the results of the monitoring and remediation process to consider the following:</p> <ul style="list-style-type: none"> • The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management; • <u>Whether remedial</u>The actions <u>have been designed and implemented by the firm, and whether the remedial actions taken up to the time of the evaluation thus far by the firm to remediate the identified deficiencies, and whether these</u> are <u>effective</u>appropriate, and 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 45. <p>A190. There may be circumstances when identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the <u>individual(s) assigned ultimate responsibility and accountability for the system of quality management</u>firm may conclude</p>

<p>quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A191)</p> <p>(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A191–A193)</p>	<p>that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A191. An identified deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:</p> <ul style="list-style-type: none"> • The deficiency affects several components or aspects of the system of quality management. • The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management. • The deficiency affects several business units or geographical locations of the firm. • The deficiency is confined to a business unit or geographical location but the business unit or location affected is fundamental to the firm overall. • The deficiency affects a substantial portion of engagements that are of a certain type or nature. <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of an identified deficiency that may be considered severe but not pervasive</i></p> <p>The firm identifies a deficiency in a smaller regional office of the firm. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Not pervasive, because it is limited to the smaller regional office. </div> <p>A192. The <u>individual(s) assigned ultimate responsibility and accountability for the system of quality management</u>firm may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to</p>
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	<p>remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of an identified deficiency that may be considered severe and pervasive</i></p> <p>The firm identifies a deficiency in a regional office, which is the largest office of the firm and provides financial, operational and technical support for the entire region. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Pervasive, because the regional office is the largest office and provides support to many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices. </div> <p>A193. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the <u>individual(s) assigned ultimate responsibility and accountability for the system of quality management</u>firm may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A194. This ISQM does not require the firm to obtain an independent assurance report on its system of quality management, <u>or preclude the firm from doing so</u>.</p>
<p>55. If the firm <u>individual(s) assigned ultimate responsibility and accountability for the system of</u></p>	<p><i>Circumstances When Prompt and Appropriate Action is Taken and Further Communication</i> (Ref: Para. 55)</p>

<p><u>quality management reaches the conclusions described in either</u> paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A195)</p> <p>(a) Take prompt and appropriate action; and</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A196)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A197)</p>	<p>A195. In circumstances when the firm<u>individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusions described in either</u> paragraph 54(b) or 54(c), the prompt and appropriate action taken by the firm may include:</p> <ul style="list-style-type: none"> • Taking measures to support <u>the performance of</u> engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams. • Obtaining legal advice. <p>A196. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.</p> <p><i>A197. Examples of circumstances when it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management</i></p> <ul style="list-style-type: none"> • When the firm belongs to a network. • When other <u>network</u> firms in the network use the work performed by the firm, for example, in the case of a group audit. • 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. • When law or regulation requires the firm to communicate to an oversight authority or a regulatory body.
<p>56. 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)</p>	<p><i>Performance Evaluations</i> (Ref: Para. 56)</p> <p>A198. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take into account:</p> <ul style="list-style-type: none"> • The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set

<p>assigned operational responsibility for the system of quality management <u>overall</u>. In doing so, the firm shall take into account<u>consideration</u> the evaluation of the system of quality management. (Ref: Para. A198–A200)</p>	<p>targets for the individual and measure the results of the firm’s monitoring activities against those targets.</p> <ul style="list-style-type: none"> • The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions. <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Scalability examples to demonstrate how the firm may undertake the performance evaluations</i></p> <ul style="list-style-type: none"> • In a less complex 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. • In a more complex 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. </div> <p>A199. 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>A200. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) 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>Documentation</p>	<p>Documentation (Ref: Para. 57–59)</p>
<p>...</p>	<p>...</p>
<p>58. In preparing documentation, the firm shall include:</p>	<p>...</p>

<p>(a) 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>overall</u>;</p> <p>(b) The firm's quality objectives and quality risks; (Ref: Para. A204)</p> <p>(c) A description of the responses and how the firm's responses address the quality risks;</p> <p>(d) Regarding the monitoring and remediation process:</p> <p>(i) Evidence of the monitoring activities performed;</p> <p>(ii) The evaluation of findings, and identified deficiencies and their related root cause(s);</p> <p>(iii) Remedial actions to address identified deficiencies and the evaluation of the</p>	
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<p>design and implementation of such remedial actions; and</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(e) The basis for the conclusion <u>reached pursuant to</u> paragraph 54.</p>	
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