

ISQM 1:¹ Comparison of Requirements in the Exposure Draft of ISQM 1 (ED-ISQM 1) to the Final Proposed Requirements in Agenda Item 2-A

The below table compares the requirements in ED-ISQM 1 (column 1) to the final proposed requirements, as reflected in **Agenda Item 2-A**. Where additional requirements have been added since ED-ISQM 1 (i.e., in column 2), the corresponding column 1, will be empty.

Given the purpose of the table is to demonstrate what has changed since ED-ISQM 1, the requirements in column 2 are not in numerical order.

Additional notes have been added, where relevant and necessary to explain key changes.

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
Applying, and Complying with, Relevant Requirements	Applying, and Complying with, Relevant Requirements	
20. The individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm's system of quality management shall have an understanding of this ISQM relevant to their responsibilities, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.	<i>[ED Paragraph 20 was relocated after Paragraph 17]</i> 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 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.	
21. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the	17. 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.	

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

ISQM 1: Comparison of Requirements in ED-ISQM 1 to the Final Proposed Requirements in Agenda Item 2-A

IAASB Main Agenda (September 2020)

<p align="center">ED-ISQM 1 Requirements</p> <p align="center">Column 1</p>	<p align="center">Proposed ISQM 1 Requirements</p> <p align="center">Column 2</p>	<p align="center">Note</p>
<p>firm because of the nature and circumstances of the firm or its engagements.</p>		
<p>System of Quality Management</p>	<p>System of Quality Management</p>	
<p>22. The firm shall design, implement and operate a system of quality management that complies with the requirements of this ISQM. The requirements are designed to enable the firm to achieve the objective stated in this ISQM. The proper application of the requirements in this ISQM is expected to provide a sufficient basis for the achievement of the objective of this standard. In applying the requirements of this ISQM, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements, such that the objective of this ISQM is achieved.</p>	<p>19. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management.</p>	
	<p><i>Responsibilities</i></p> <p>20. <i>[Various pieces of ED paragraph 24(a) have been moved here. Refer below (in ED paragraph 24(a) and 24(a)(iii)) for a side-by-side comparison of wording]</i></p>	
	<p>21. <i>[ED paragraphs 24(a)(i), 25(a) and 25(c) were moved here. Refer below (in ED paragraph 24(a)) for a side-by-side comparison of wording]</i></p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	22. <i>[ED paragraph 25(b) was moved here. Refer below (in ED paragraph 25(b)) for a side-by-side comparison of wording]</i>	
	The Firm's Risk Assessment Process	
	23. 24. 25. 26. 27. <i>[The Firm's Risk Assessment Process section (ED paragraphs 26-31) was moved here. Refer below (in ED Paragraphs 26-31) for a side-by-side comparison of wording.]</i>	
Governance and Leadership	Governance and Leadership	
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 other components of the system of quality management, including the firm's culture, decision-making process, actions, organizational structure and leadership: (a) The firm's culture promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm and emphasizing the responsibility of all	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: (a) The firm demonstrates a commitment to quality through a culture that recognizes and reinforces: (i) The firm's role in serving the public interest by consistently performing quality engagements; (ii) The importance of professional ethics, values and attitudes; (iii) The responsibility of all personnel for quality relating to performing engagements or activities within the	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>personnel for quality relating to the performance of engagements or activities within the system of quality management.</p> <p>(b) The firm has leadership who is responsible and accountable for quality.</p> <p>(c) The firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements.</p> <p>(d) The firm has an organizational structure with appropriate assignment of roles, responsibilities and authority that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management.</p> <p>(e) The firm plans for its resource needs, including financial resources, and obtains, allocates or assigns resources in a manner that supports the firm's commitment to quality and enables the design, implementation and operation of the firm's system of quality management.</p>	<p>system of quality 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.</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors.</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.</p> <p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality.</p>	
<p>(f) The firm fulfills its responsibilities in accordance with law, regulation and professional standards that relate to the</p>	<p><i>[ED paragraph 23(f) (law, regulation and professional standards) is addressed in the paragraph 25(a)(i)(e)]</i></p>	<p><i>[See ED paragraph 27 for a side-by-side comparison of the</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
governance and leadership of the firm, if applicable.	<p>25. The firm shall identify and assess quality risks... In doing so, the firm shall:</p> <p>(a) Obtain an understanding of the conditions, events, circumstances, actions or inactions ...:</p> <p>(i) With respect to the nature and circumstances of the firm, those relating to:</p> <p>...</p> <p>e. Law, regulation, professional standards and the environment in which the firm operates; and</p> <p>...</p>	<i>other bullets in paragraph 25.]</i>
<p>24. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the governance and leadership quality objectives, the firm shall include the following responses:</p> <p>(a) Assigning ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). The individual(s) to whom such responsibility and accountability is assigned shall:</p>	<p>20. The firm shall assign:</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) ...</p> <p>(c) ...</p>	<i>[See ED paragraph 24(a)(iii) for a side-by-side comparison of wording of paragraph 20(b) and (c)]</i>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
(i) Have the appropriate experience and knowledge to fulfill the assigned responsibility.	21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (b) ...	<i>[See ED paragraph 25(c) for a side-by-side comparison of wording of paragraph 21(b)]</i>
(ii) Demonstrate a commitment to quality through their actions and behaviors, including recognizing and reinforcing the importance of professional ethics, values and attitudes, and establishing the expected behavior of personnel relating to the performance of engagements and activities within the system of quality management.	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: (a) The firm demonstrates a commitment to quality through a culture that recognizes and reinforces: (i) ... (ii) The importance of professional ethics, values and attitudes; (iii) The responsibility of all personnel for quality relating to performing engagements or activities within the system of quality management, and their expected behavior; and (iv) ... (c) Leadership demonstrates a commitment to quality through their actions and behaviors. ...	
(iii) Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning	20. The firm shall assign: ...	<i>[See ED paragraph 24(a) for a side-by-side comparison of</i>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>operational responsibility for the following matters to personnel who fulfill the requirements in paragraph 25:</p> <p>a. The system of quality management as a whole; and</p> <p>b. Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for compliance with independence requirements and the monitoring and remediation process.</p>	<p>(b) Operational responsibility for the system of quality management;</p> <p>(c) Operational responsibility for specific aspects of the system of quality management, including:</p> <p>(i) Compliance with independence requirements; and</p> <p>(ii) The monitoring and remediation process.</p>	<p><i>wording of paragraph 20(a)]</i></p>
<p>(b) Establishing policies or procedures for periodic performance evaluations of 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 matters set out in paragraph 24(a)(iii), in order to hold individuals accountable for the responsibilities assigned to them.</p>	<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) assigned operational responsibility for the system of quality management. In doing so, the firm shall take into consideration the evaluation of the system of quality management.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>(c) Establishing policies or procedures for dealing with complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the firm that enable reporting by personnel or external parties to appropriate individual(s) without fear of reprisal and enabling the investigation and resolution of the complaints and allegations.</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:</p> <p>...</p> <p>(c) The firm establishes policies or procedures for receiving, 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.</p>	<p><i>[See ED paragraphs 32(c), 33(b)-(d), 34(d), 35 and 41(c) a for a side-by-side comparison of wording of paragraph 34]</i></p>
<p>25. The personnel assigned operational responsibility for the matters set out in paragraph 24(a)(iii) shall have:</p> <p>(a) The appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility;</p> <p>(b) A direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management; and</p>	<p>21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s):</p> <p>(a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and</p> <p>(b) ...</p> <p>22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, 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><i>[See ED paragraph 25(c) for a side-by-side comparison of wording of paragraph 21(b)]</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
(c) An understanding of their assigned responsibilities and accountability for such responsibilities.	21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (a) ... (b) Understands their assigned roles and that they are accountable for fulfilling them.	<i>[See ED paragraph 24(a)(i) and 25(a) for a side-by-side comparison of wording of paragraph 21(a)]</i>
The Firm's Risk Assessment Process	<i>["The Firm's Risk Assessment Process" section was moved earlier (above) (23 to 27) in the standard; however is shown here for a side-by-side comparison]</i>	
	23. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.	
26. The firm shall establish the quality objectives required by this ISQM. The firm shall also establish additional quality objectives beyond those required by this ISQM, when those objectives are necessary to achieve the objective of this ISQM.	24. 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.	
27. The firm shall understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives, taking into account the nature and circumstances of the firm and its engagements, to provide the basis for the identification and assessment of quality risks.	25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall: (a) Obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including: (i) With respect to the nature and circumstances of the firm, those relating to:	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	<ul style="list-style-type: none"> a. The complexity and operating characteristics of the firm; b. The strategic and operational decisions and actions, business processes and business model of the firm; c. The characteristics and management style of leadership; d. The resources of the firm, including the resources provided by service providers; e. Law, regulation, professional standards and the environment in which the firm operates; and f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any. <p>(ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:</p> <ul style="list-style-type: none"> 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; <p>(b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>28. Based on the understanding obtained in paragraph 27, the firm shall identify those quality risks, before consideration of any responses, that:</p> <p>(a) Have a reasonable possibility of occurring; and</p> <p>(b) If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).</p>	<p><i>[Lead in to ED paragraph 28 was subsumed into paragraph 25 (lead in above)]</i></p> <p>25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. ...</p> <p><i>[Threshold of quality risks in ED paragraph 28(a) and (b) was relocated to definition of quality risks:</i></p> <p><i>Quality risk – A risk that has a reasonable possibility of:</i></p> <p>(i) <i>Occurring; and</i></p> <p>(ii) <i>Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.]</i></p>	
<p>29. The firm shall assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses.</p>	<p><i>[Requirement subsumed into paragraph 25 (lead in)]</i></p> <p>25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. ...</p>	
<p>30. The firm shall design and implement responses to address the assessed quality risks, including the responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks.</p>	<p>26. The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p><i>Changes in the Nature and Circumstances of the Firm or its Engagements</i></p> <p>31. The firm shall identify changes in the nature and circumstances of the firm or its engagements and modify the quality objectives, quality risks or responses, as appropriate, in response to such changes.</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:</p> <ul style="list-style-type: none"> (a) Establish, or modify, additional quality objectives; (b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or (c) Design and implement additional responses, or modify the responses. 	
<p>Relevant Ethical Requirements</p>	<p>Relevant Ethical Requirements</p>	
<p>32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics:</p> <ul style="list-style-type: none"> (a) The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence. (b) The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements, including those related to independence. 	<p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence:</p> <ul style="list-style-type: none"> (a) The firm and its personnel: <ul style="list-style-type: none"> (i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject. (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject. (b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are 	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
(c) The firm, its personnel and others subject to relevant ethical requirements identify and appropriately respond to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.	<p>subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:</p> <ul style="list-style-type: none"> (i) Understand the relevant ethical requirements that apply to them; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. 	
	<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:</p> <ul style="list-style-type: none"> (a) The firm establishes policies or procedures for: <ul style="list-style-type: none"> (i) ... (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. 	<p><i>[34(a)(ii) also addresses certain requirements in ED paragraph 33, see the ED paragraph 33(b) to 33(d) below.]</i></p>
<p>33. 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:</p> <ul style="list-style-type: none"> (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, 		<p>The requirement of ED paragraph 33(a) is implicitly addressed in the achievement of the quality objectives in paragraph 29.</p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>personnel in the network or network firms, or service providers.</p> <p>(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.</p> <p>(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.</p> <p>(d) Obtaining, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</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:</p> <p>(a) The firm establishes policies or procedures for:</p> <p>(i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and</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.</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>...</p>	<p><i>[See ED paragraphs 24(c), 32(c), 34(d), 35 and 41(c) for a side-by-side comparison of wording of paragraph 34.]</i></p>
<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>	
<p>34. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances:</p>	<p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>(a) The firm obtains sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) and based on such information makes appropriate judgments about whether to accept or continue a client relationship or specific engagement.</p> <p>(b) 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 when determining whether to accept or continue a client relationship or specific engagement, including that the firm has:</p> <p>(i) Resources to perform the engagement; and</p> <p>(ii) Access to information to perform the engagement, or to the persons who provide such information.</p> <p>(c) The firm's financial and operational priorities do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.</p>	<p>(a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and</p> <p>(ii) The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.</p> <p>(b) The 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.</p>	<p>The bullets in ED paragraph 34(b) were relocated to application material to address comments about prescriptiveness.</p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>(d) The firm responds appropriately in circumstances when 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.</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:</p> <p>...</p> <p>(d) The firm establishes policies or procedures to 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 accepting or continuing the client relationship or specific engagement; or</p> <p>(ii) ...</p> <p>...</p>	<p><i>[See ED paragraphs 24(c), 32(c), 33(b)-(d), 35 and 41(c) for a side-by-side comparison of wording of paragraph 34]</i></p>
<p>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 the client relationship or specific engagement, if applicable.</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:</p> <p>...</p> <p>(d) The firm establishes policies or procedures to address circumstances when:</p> <p>(i) ...</p> <p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement.</p> <p>...</p>	<p><i>[See ED paragraphs 24(c), 32(c), 33(b)-(d), 34(d) and 41(c) for a side-by-side comparison of wording of paragraph 34]</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
Engagement Performance	Engagement Performance	
<p>36. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>(a) Personnel understand and fulfill their responsibilities in connection with the engagement, including, as applicable:</p> <p>(i) The engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement; and</p> <p>(ii) The appropriate direction and supervision of the engagement team and review of the work performed.</p> <p>(b) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism, in planning and performing engagements such that conclusions reached are appropriate.</p> <p>(c) The engagement documentation is appropriately assembled and retained.</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.</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.</p> <p>(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.</p> <p>...</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.</p>	<p><i>[See ED paragraphs 37(a), 37(c), 37(d) and 37(f) for a side-by-side comparison of wording of the other bullets of paragraph 31.]</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>37. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the engagement performance quality objectives, the firm shall include the following responses:</p> <p>(a) Establishing policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.</p>	<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>...</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.</p> <p>...</p>	<p><i>[See ED paragraphs 36, 37(c), 37(d) and 37(f) for a side-by-side comparison of wording of the other bullets of paragraph 31.]</i></p>
<p>(b) Communicating to engagement teams their responsibility for planning and performing the engagement in accordance with professional standards and applicable legal and regulatory requirements.</p>		<p>The requirement of ED paragraph 37(b) is addressed by the quality objective in paragraph 33(c)(i). See ED paragraph 40(d).</p>
<p>(c) Establishing policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which</p>	<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>...</p>	<p><i>[See ED paragraphs 36, 37(a), 37(d) and 37(f) for a side-by-side comparison of wording</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
consultation is required and how the conclusions should be agreed and implemented.	(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. ...	<i>of the other bullets of paragraph 31.]</i>
(d) Establishing policies or procedures addressing differences of opinion that arise 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, including those who provide consultation.	31. The firm shall establish the following quality objectives that address the performance of quality engagements: ... (e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. ...	<i>[See ED paragraphs 36, 37(a), 37(c) and 37(f) for a side-by-side comparison of wording of the other bullets of paragraph 31.]</i>
(e) Establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2 ² , and that require an engagement quality review for: (i) Audits of financial statements of listed entities; (ii) Audits of financial statements of entities that the firm determines are of significant public interest; and (iii) Audits or other engagements for which:	<i>[ED paragraph 37(e) was relocated to paragraph 34(f)]</i>	<i>[Refer to Agenda Item 3G for the comparison and analysis of changes of this paragraph since ED.]</i>

² Proposed ISQM 2, *Engagement Quality Reviews*

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>a. An engagement quality review is required by law or regulation; or</p> <p>b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.</p> <p>(f) Establishing policies or procedures addressing assembly and retention of documentation that require:</p> <p>(i) The engagement files to be assembled within an appropriate period of time after the engagement reports have been finalized; and</p> <p>(ii) The engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards.</p>	<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>...</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.</p>	<p><i>[See ED paragraphs 36, 37(a), 37(c) and 37(d) for a side-by-side comparison of wording of the other bullets of paragraph 31.]</i></p>
Resources	Resources	
<p>38. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including human resources,</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</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>technological resources, and intellectual resources, in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p>(a) The firm hires, develops and retains personnel, including engagement partners, who have the competence and capabilities to:</p> <p>(i) Consistently perform quality engagements, including knowledge or experience regarding professional standards and applicable law or regulation 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>the design, implementation and operation of the system of quality management:</p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to:</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) <i>[ED paragraph 38(d) was moved here. Refer below (in ED paragraph 38(d)) for a side-by-side comparison of wording]</i></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.</p>	

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<p>(b) The firm assigns an engagement partner and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.</p> <p>(c) The firm assigns human resources to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.</p> <p>(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 through timely evaluations, compensation, promotion and other incentives.</p> <p>(e) The firm obtains or develops, implements and maintains appropriate technological resources to enable the operation of the firm's system of quality management and the performance of engagements.</p> <p>(f) The firm obtains or develops, implements and maintains appropriate intellectual resources to enable the consistent</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.</p> <p>(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.</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 through timely evaluations, compensation, promotion and other incentives.</p> <p>(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.</p> <p>(g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.</p> <p>(g) Personnel appropriately use the firm's technological and intellectual resources.</p>	<p>and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.</p> <p>(h) <i>[ED paragraph 64-65 dealing with service providers was simplified and moved here. Refer below (in ED paragraph 64-65) for a side-by-side comparison.</i></p>	
<p>39. The firm shall design and implement responses to address the quality risks identified and assessed by the firm relating to the resources quality objectives.</p>		
<p>Information and Communication</p>	<p>Information and Communication</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:</p> <p>(a) The firm has an 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.</p>	<p>33. 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:</p> <p>(a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>(b) The firm communicates relevant and reliable information to personnel, the nature, timing and extent of which is sufficient to enable personnel to understand and carry out their responsibilities relating to the performance of engagements or activities within the system of quality management.</p> <p>(c) The firm's culture promotes and emphasizes the responsibility of personnel to exchange information with the firm and with one another.</p> <p>(d) Personnel communicate relevant and reliable information to the firm when performing engagements or activities within the system of quality management.</p> <p>(e) The firm communicates relevant and reliable information to external parties regarding the firm's system of quality management, as the firm determines appropriate.</p>	<p>(c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including:</p> <p>(i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.</p> <p>(ii) ...</p> <p>(b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.</p> <p>(c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including:</p> <p>(i) ...</p> <p>(ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management, or engagements.</p> <p>(d) Relevant and reliable information is communicated to external parties, including:</p> <p>(i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements</p>	<p>[See ED paragraph 40(d) for a side-by-side comparison of wording of paragraph 33(c)(ii).]</p> <p>[See ED paragraph 40(b) for a side-by-side comparison of wording of paragraph 33(c)(i).]</p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	<p>or network services or resources provided by the service provider.</p> <p>(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management.</p>	
<p>41. 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:</p> <p>(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.</p> <p>(b) Communicating the responsibility for implementing the firm's responses to relevant personnel, including engagement teams.</p> <p>(c) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be</p>		<p>The requirement of ED paragraph 41(a) is implicitly addressed in the achievement of the quality objectives in paragraphs 33(b) and (c).</p>
		<p>The requirement of ED paragraph 41(b) is implicitly addressed in the achievement of the quality objectives in paragraphs 33(b) and (c).</p>
	<p>33. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information</p>	<p><i>[See ED paragraph 40 for a side-by-side comparison of the</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>communicated with external parties, including:</p> <ul style="list-style-type: none"> (i) Communication to external parties in accordance with law, regulation or professional standards. (ii) Communication with the network. (iii) Communication with service providers. (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: <ul style="list-style-type: none"> 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 b. The nature and circumstances of the firm, including the nature of the firm's operating environment. 	<p>within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management:</p> <p>...</p> <ul style="list-style-type: none"> (d) Relevant and reliable information is communicated to external parties, including: <ul style="list-style-type: none"> (i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by the service provider. (ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management. <p>...</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:</p> <p>...</p> <ul style="list-style-type: none"> (e) The firm establishes policies or procedures that: <ul style="list-style-type: none"> (i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of 	<p><i>other bullets of paragraph 33.]</i></p> <p><i>[See ED paragraphs 24(c), 32(c), 33(b)-(d), 34(d) and 35 for a side-by-side comparison of wording of the other bullets of 34]</i></p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	<p>quality management supports the consistent performance of quality engagements;</p> <p>(ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and</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.</p> <p>...</p>	
	<p>Specified Responses</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:</p> <p>(a) <i>[Refer to ED paragraphs 32(c), 33(b) and 33(c) for a side-by-side comparison against ED]</i></p> <p>(b) <i>[Refer to ED paragraph 33(d) for a side-by-side comparison against ED]</i></p> <p>(c) <i>[Refer to ED paragraph 24(c) for a side-by-side comparison against ED]</i></p> <p>(d) <i>[Refer to ED paragraphs 34(d) and 35 for a side-by-side comparison against ED]</i></p> <p>(e) <i>[Refer to ED paragraph 41(c) for a side-by-side comparison against ED]</i></p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	(f) <i>[Refer to Agenda Item 3G for a comparison and analysis of changes of this paragraph since ED]</i>	
Monitoring and Remediation Process	Monitoring and Remediation Process	
<p>42. The firm shall establish the following quality objectives that address the firm's monitoring and remediation process that enable the evaluation of the design, implementation and operation of the components of the system of quality management to determine whether the quality objectives have been achieved:</p> <p>(a) The firm's monitoring and remediation process provides relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management.</p> <p>(b) The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</p> <p>(c) The individual(s) assigned ultimate responsibility and accountability for the system of quality management evaluates whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.</p>	<p>35. The firm shall establish a monitoring and remediation process to:</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>ED paragraph 42(c) was duplicated in paragraph ED paragraph 55. See ED paragraph 55 for a comparison with the final requirements.</p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
43. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the monitoring and remediation quality objectives, the firm shall include the responses in paragraphs 44–57.		
<i>Designing and Performing Monitoring Activities</i>	<i>Designing and Performing Monitoring Activities</i>	
44. The firm shall determine the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. In designing and implementing the monitoring activities, the firm shall take into account: <ul style="list-style-type: none"> (a) For a response, the related assessed quality risk(s), the reasons for the assessments given to the quality risk(s) and the design of the response; (b) For monitoring activities over the firm’s risk assessment process, the design of that process; (c) Changes in factors that have affected the firm’s system of quality management or changes in the system of quality management; 	36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies. 37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: <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; (d) Changes in the system of quality management; 	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>(d) Previous monitoring activities and remedial actions, including whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management; and</p> <p>(e) Other relevant information, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections.</p>	<p>(e) 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</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, information from external inspections and information from service providers.</p>	
<p>45. The firm's monitoring activities shall include the inspection of engagements to determine whether the responses that are required to be implemented at the engagement level have been implemented. Engagement inspections may include the inspection of in-process or completed engagements. In determining the nature, timing and extent of the inspection of engagements, the firm shall:</p> <p>(a) Take into account the relevant factors in paragraph 44; and</p> <p>(b) Include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<p>38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall:</p> <p>(a) Take into account the matters in paragraph 37;</p> <p>(b) 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; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>46. The firm shall establish policies or procedures that:</p> <ul style="list-style-type: none"> (a) Require those performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. 	<p>39. The firm shall establish policies or procedures that:</p> <ul style="list-style-type: none"> (a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. 	
<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>47. The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process.</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process.</p>	
<p><i>Evaluating Identified Deficiencies</i></p> <p>48. The firm shall establish policies or procedures addressing:</p> <ul style="list-style-type: none"> (a) The investigation of the root cause(s) of the identified deficiencies, including that the nature, timing and extent of the procedures 	<p><i>Evaluating Identified Deficiencies</i></p> <p>41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by:</p> <ul style="list-style-type: none"> (a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall 	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity; and</p> <p>(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.</p>	<p>take into account the nature of the identified deficiencies and their possible severity.</p> <p>(b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.</p>	
<i>Responding to Identified Deficiencies</i>	<i>Responding to Identified Deficiencies</i>	
<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. In doing so, the firm shall determine whether the firm's quality objectives, assessed quality risks and responses remain appropriate and modify them, as appropriate.</p>	<p>42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis.</p>	
<p>50. The individual(s) assigned operational responsibility for monitoring and remediation shall evaluate whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s) and determine whether they have been implemented. The individual shall also evaluate whether the</p>	<p>43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:</p> <p>(a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and</p> <p>(b) Implemented to address previously identified deficiencies are effective.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
remedial actions implemented to address previously identified deficiencies are effective.		
	44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.	
<p>Findings About a Particular Engagement</p> <p>51. In circumstances when a finding relates to an in-process or completed engagement and there is an indication that procedures required were omitted during the performance of the engagement or the report issued may be inappropriate, the firm shall:</p> <p>(a) Take 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, consider the implications and take appropriate action, including considering whether to obtain legal advice.</p>	<p>Findings About a Particular Engagement</p> <p>45. 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:</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>	
<i>Ongoing Communication Related to Monitoring and Remediation</i>	<i>Ongoing Communication Related to Monitoring and Remediation</i>	
52. The individual(s) assigned operational responsibility for the monitoring and remediation	46. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>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:</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>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:</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 personnel to the extent that the information is relevant to their responsibilities to enable the personnel to take prompt and appropriate action in accordance with their responsibilities.</p>	<p>47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of quality management to enable them 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 41(c).</p>		<p>The requirement in ED paragraph 54 has become redundant as it is addressed by the requirements addressing external communication.</p>

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
	<p>Network Requirements or Network Services 48 to 52</p> <p><i>[The network requirements or network services section was moved here as a result of moving the section on evaluating the system of quality management later in the standard. Refer below (in ED paragraphs 58 to 63) for a side-by-side comparison of wording on network requirements or network services.]</i></p>	
<i>Evaluating the System of Quality Management</i>		
<p>55. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved. This evaluation shall take into account:</p> <ul style="list-style-type: none"> (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. <p>56. 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</p>	<p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually.</p> <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 one of the following:</p> <ul style="list-style-type: none"> (a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (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 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 	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
not be providing reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.	(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.	
<p>57. If the evaluation indicates that the system of quality management does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been 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</p> <p>(b) Communicate to:</p> <p>(i) Personnel to the extent that it is relevant to their responsibilities; and</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 41(c).</p>	<p>55. If the firm concludes either paragraph 54(b) or paragraph 54(c), the firm shall:</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</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e).</p>	
	56. <i>[ED paragraph 24(b) was moved here. Refer above (in ED paragraph 24(b)) for a side-by-side comparison of wording]</i>	
Network Requirements or Network Services		
<p>58. When the firm operates as part of a network, the firm shall understand, when applicable:</p> <p>(a) The requirements established by the network regarding the firm's system of quality management, including requirements for the</p>	<p>48. When the firm belongs to a network, the firm shall understand, when applicable:</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</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>firm to implement or use resources or services designed or otherwise provided by or 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.</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.</p>	<p>services designed or otherwise provided by or 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.</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.</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p><i>The Firm's Risk Assessment Process</i></p> <p>59. In complying with the requirements in paragraphs 26–30, the firm shall evaluate the effect of the network requirements or network services on the firm's system of quality management, including determining whether they need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management.</p>	<p>49. Based on the understanding obtained in paragraph 48, 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; and</p> <p>(b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management.</p>	
<p><i>Monitoring and Remediation Process</i></p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i></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;</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</p>	<p>50. 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 36–38;</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 40, obtain the results of the monitoring activities from the network in a timely manner</p>	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
results of the monitoring activities from the network in a timely manner.		
<p>61. The firm shall, at least annually, obtain information from the network, about the overall scope and results of the monitoring activities across the network firms' systems of quality management and:</p> <p>(a) Consider the effect of such information on the nature, timing and extent of the monitoring activities that need to be undertaken by the firm; and</p> <p>(b) Communicate the information to personnel to the extent that it is relevant to their responsibilities such that personnel take prompt and appropriate action in accordance with their responsibilities (including as it relates to the performance of engagements).</p>	<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>51. The firm shall:</p> <p>(a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;</p> <p>(b) At least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and:</p> <p>(i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and</p> <p>(ii) Consider the effect of the information on the firm's system of quality management.</p>	
62. As part of evaluating findings and identifying deficiencies in paragraph 47, if the firm identifies	<i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i>	[Refer to ED paragraph 63 for a

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deficiencies in the network requirements or network services, the firm shall communicate to the network relevant information about the identified deficiencies.	52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (a) Communicate to the network relevant information about the identified deficiency; and (b)	<i>side-by-side comparison of 52(b)]</i>
63. As part of designing and implementing remedial actions in paragraph 49, for identified deficiencies related to the network requirements or network services the firm shall: (a) Understand the planned remedial actions by the network; (b) Understand whether the network's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s); and (c) Determine the supplementary remedial actions needed by the firm, if any.	52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (a) ... (b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services	<i>[Refer to ED paragraph 62 for a side-by-side comparison of 52(a)]</i>
Service Providers		
64. 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: (a) Obtaining an understanding of the service provider, including determining that the reputation, competence and capabilities of	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. A113–A115) ...	The requirements for service providers were simplified and relocated into the resources component. Furthermore, the requirements dealing

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<p>the service provider are appropriate in the context of the intended use of the resource;</p> <p>(b) 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</p> <p>(c) 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.</p> <p>Notwithstanding the firm's use of a service provider(s), the firm remains responsible for its system of quality management.</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.</p> <p>...</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 performing engagements, taking into account the quality objectives in paragraph 32 (d), (e), (f) and (g).</p>	<p>with findings and deficiencies for service providers are implicit in the requirements for monitoring and remediation.</p>
<p>65. 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:</p> <p>(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</p>		

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<p>identified deficiencies and their related root cause(s);</p> <p>(b) Determine the supplementary remedial actions needed by the firm, if any; and</p> <p>(c) Consider whether to continue using the services provided by the service provider.</p>		
	Evaluating the System of Quality Management	
	<p>53. 54. 55. 56.</p> <p><i>[The Evaluating the System of Quality Management section (ED paragraphs 55-57) was moved here. Furthermore, ED paragraph 24(b), was moved into this section. Refer above (in ED paragraphs 55-57 and 24(b) for a side-by-side comparison of wording.]</i></p>	
Documentation	Documentation	
<p>66. The firm shall prepare documentation of its system of quality management that is sufficient to:</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>57. The firm shall prepare documentation of its system of quality management that is sufficient to:</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 system of quality management and performing engagements;</p> <p>(b) Support the consistent implementation and operation of the responses; and</p>	

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<ul style="list-style-type: none"> (b) Support the consistent implementation and operation of the responses; and (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management. 	<ul style="list-style-type: none"> (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. 	
<p>67. The firm shall prepare documentation that includes:</p> <ul style="list-style-type: none"> (a) The firm's quality objectives and assessed quality risks; (b) A description of the responses and how the firm's responses address the assessed quality risks; and (c) Regarding the monitoring and remediation process: <ul style="list-style-type: none"> (i) Evidence of the monitoring activities performed; (ii) The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information, including the identified 	<p>58. In preparing documentation, the firm shall include:</p> <ul style="list-style-type: none"> (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; (b) The firm's quality objectives and quality risks; (c) A description of the responses and how the firm's responses address the quality risks; (d) Regarding the monitoring and remediation process: <ul style="list-style-type: none"> (i) Evidence of the monitoring activities performed; (ii) The evaluation of findings, and identified deficiencies and their related root cause(s); (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and 	

ED-ISQM 1 Requirements Column 1	Proposed ISQM 1 Requirements Column 2	Note
<p>deficiencies and their related root cause(s);</p> <p>(iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions;</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(v) The basis for the evaluation of whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.</p>	<p>(iv) Communications about monitoring and remediation; and</p> <p>(e) The basis for the conclusion in paragraph 54.</p>	
<p>68. The firm shall document the matters in paragraph 67 as they relate to network requirements or network services or resources provided by service providers and:</p> <p>(a) The evaluation of the effect of the network requirements or network services in accordance with paragraph 59 and the conclusions reached.</p> <p>(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.</p>	<p>59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A215)</p>	<p>ED paragraph 68(b) was removed because service providers were moved to resources, which form part of the quality objectives, quality risks and responses described in paragraphs 58(b) and 58(c).</p>
<p>69. The firm shall establish a period of time for the retention of documentation for the system of quality</p>	<p>60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is</p>	

ISQM 1: Comparison of Requirements in ED-ISQM 1 to the Final Proposed Requirements in Agenda Item 2-A

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management that is sufficient to permit those performing monitoring procedures to evaluate the firm's system of quality management, or for a longer period if required by law or regulation.	sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation.	