

Quality Management (QM)-related Conforming Amendments

Summary of Significant Comments on Exposure and Task Force Proposals

I. Background of the Project

1. The project's objective is to develop conforming amendments to the Code so that the Code is aligned and interoperable with ISQM 1¹ and ISQM 2.² The Exposure Draft (ED) was strictly limited to conforming amendments that the IESBA determined would be necessary to resolve actual or perceived inconsistencies between the Code and the changes made by the International Auditing and Assurance Standards Board (IAASB) in finalizing ISQM 1 and ISQM 2.

II. Analysis of Responses

2. Twenty-two responses were received from stakeholders across various categories and different jurisdictions ([Appendix 1](#) is a list of the respondents).

Responses by Stakeholder Category

Regulators and audit oversight authorities	3
Independent National standard setters (NSS)	2
Professional Accountancy Organizations (PAOs), Including NSS	10
Firms	7
Total responses	22

Responses by Geographical Area

AP-Asia Pacific; EU-Europe; MEA-Middle East and Africa; NA-North America; SA-South America



¹ [International Standard on Quality Management \(ISQM\) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement](#)

² [ISQM 2, Engagement Quality Reviews](#)

Presentation of Respondents' Comments

3. Summaries of the respondents' significant comments in this agenda Item are used as a basis for supporting the Task Force's recommendations regarding the proposed conforming amendments. These summaries do not include all the matters raised by respondents. However, in arriving at its conclusions, the Task Force considered all respondents' comments.

Indicators of the Level of Support for the ED

4. With respect to the responses to question no. 1 (*Do you agree with the proposed conforming amendments in this ED?*), there was strong support for the proposed conforming amendments:

- Fourteen respondents with full support for the amendments with no further comments.
- Seven respondents (1 Regulator, 2 NSS, and 4 Firms) with support subject further amendments.

One respondent (NSS) did not support the proposed amendments.

5. Question no. 2 raised a specific matter:

In addition to the proposed conforming amendments, the IESBA also considered the matter raised concerning decisions about accepting or providing services to a client in paragraph 300.7 A5. Do you agree with the IESBA's view on this matter? If not, please explain why.

In summary, fifteen respondents agreed with the IESBA's view not to propose any amendments to paragraph 300.7 A5 in response to feedback raised by IAASB staff. In addition, three respondents agreed with IESBA's views with supplementary recommendations. A total of four respondents (3 NSS and 1 Firm) disagreed with the IESBA's views.

6. Question no. 3 asked the following:

Do you agree with the proposed effective date? If not, please explain your reasoning.

Almost all the respondents (21) supported the proposed effective date. One respondent, a PAO, did not agree with the proposed effective date.

7. Significant matters raised in response to the ED are discussed in **Section III** below.
8. The Task Force is grateful for the drafting suggestions made by respondents and has considered these carefully. The Task Force is proposing some changes for the IESBA's consideration. These are reflected in the proposed amendments in the marked-up version of the ED included in **Agenda Item 3-B**.

III. Significant Matters and Task Force Proposals

A. Proposed Conforming Amendments in the ED (ED Question 1)

Background

6. The proposed revisions set out in the ED, among other matters, consist of:
- Proposed amendments to align with terminology used in ISQM 1 and ISQM 2. An example is the reference to a firm being required to "design, implement and operate" a QM system in accordance with ISQM 1.
 - Proposed amendments to reflect revisions to certain concepts and principles in ISQM 1 and ISQM 2. An example is the removal of the concept of the firm obtaining reasonable assurance at the individual policies or procedures level. Under ISQM 1, reasonable assurance is derived from the QM system as a whole. This was one of the key changes noted in ISQM 1.

Summary of ED Responses

7. A substantial proportion of respondents (14)³ supported the proposed conforming amendments with no further comments.
8. Seven respondents⁴ were supportive of the amendments subject to further changes, and one respondent⁵ disagreed with the proposed amendments.

Task Force's Responses

9. Please refer to **Agenda Item 3-C** for detailed Task Force responses to the substantive matters or suggestions raised by respondents.
10. Below is a table which summarizes the Task Force's key proposals and the reasons for the amendments. The proposed changes are shown as marked up against the exposure draft.

Proposed Changes	Reason for Changes	Comment # in Agenda Item 3-C
120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a system of quality management system	Amendment proposed as the original wording might be read to suggest that the mere existence of a SOQM is an example of "conditions, policies and procedures." Instead, it is the actual design, implementation and operation of the SOQM that represent the "conditions, policies and	Question 1: Comment no.1

³ AICPA, BAOA, BDO, BICA, GTIL, HKICPA, JICPA, ICAS, ISCA, KICPA, NZAuASB-XRB, RSM, SAICA, UKFRC

⁴ APESB, CPAC, DTTL, EY, IRBA, KPMG, PwC

⁵ IDW

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Proposed Changes	Reason for Changes	Comment # in Agenda Item 3-C
designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.	procedures.”	
<p>320.3 A4 Factors that are relevant in evaluating the level of such a threat include:</p> <ul style="list-style-type: none"> • An appropriate understanding of: <ul style="list-style-type: none"> o The nature of the client’s business; o The complexity of its operations; o The requirements of the engagement; and o The purpose, nature and scope of the work to be performed. • Knowledge of relevant industries or subject matter. • Experience with relevant regulatory or reporting requirements. • Whether the firm has implemented policies or <u>and</u> procedures, as part of a system of quality management in accordance with <u>quality management standards such as</u> ISQM 1, that respond to quality risks relating to the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. 	<p>(1) The change back to the extant wording “policies and procedures” is to avoid inconsistency with the rest of the Code which refers in various places to "policies and procedures". Based on discussion with IAASB staff, the wording in ISQM 1 was changed to "policies or procedures" to allow for greater scalability on the ground that many small and medium practices (SMPs) may have procedures but not necessarily policies.</p> <p>(2) The second change is to recognize that there may be acceptable alternative quality management standards besides ISQM 1 (which is also recognized in paragraph 3(a) of ISQM 1).</p>	<p>Question 1: Comment nos.10 and 11</p>
<p>330.4 A2 Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The nature of the engagement. • The range of possible fee amounts. • The basis for determining the fee. • Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration. 	<p>The fifth bullet point in paragraph 330.4 A2 of the extant Code refers generally to ‘Quality control policies and procedures’ as a factor relevant in evaluating threats created by contingent fees. The proposed amendment inadvertently restricted this provision to policies or procedures under ISQM 1 relating to addressing</p>	<p>Question 1: Comment no.11</p>

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<ul style="list-style-type: none"> Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that address threats to compliance with the fundamental principles. <u>Quality management policies and procedures.</u> 	<p>threats to the fundamental principles. In addition, the amendment tied this provision to ISQM 1 whereas Section 330 also covers engagements that are not within the scope of ISQM 1. Accordingly, the extant wording has been reinstated but referring to quality management instead of quality control.</p> <p>The difference between this bullet point and the last bullet point of paragraph 320.3 A4 reflects the difference between these two bullet points in the extant Code. Extant paragraph 320.3 A4 refers to “quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently,” i.e., it is focused more narrowly on the fundamental principle of professional competence and due care. In contrast, as noted above, extant paragraph 330.4 A2 refers much more broadly to “quality control policies and procedures” in context of contingent fees.</p>	
<p>400.4 ISQM 1 requires a firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those</p>	<p>The phrase in brackets referring to service providers is deleted because the term “service provider” is not yet defined in the Code. The Engagement Team – Group Audits Independence project is</p>	<p>Question 1: Comment no.12</p>

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<p>related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject (including the network, network firms, individuals in the network or network firms, or service providers). ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.</p>	<p>instead proposing to introduce the term in the Code in the context of developing independence provisions for a group audit, aligned to proposed ISA 600 (Revised).</p> <p>The same amendment applies to paragraph 900.3.</p>	
<p>R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;</p> <p>(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:</p> <p style="padding-left: 40px;">(i) Comply with those requirements; and</p> <p style="padding-left: 40px;">(ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;</p> <p>(c) Promptly communicate the breach in accordance with its policies and procedures to:</p> <p style="padding-left: 40px;">(i) The engagement partner;</p>	<p>To align with wording in ISQM 1, paragraph 20(c)(i).</p> <p>Subparagraph (c)(ii) indicates the individual(s) to whom the communication of the breach is to be made. It does not set any requirement or expectation as to how that individual(s) discharges their responsibilities. This is addressed by ISQM 1 as part of the firm’s system of quality management. Any breach communicated will be dealt with in the context of how the system of quality management has been set up, including the processes and assignees that this individual(s) has</p>	<p>Question 1: Comment no.5</p>

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<p>(ii) These <u>individuals(s)</u> with <u>operational</u> responsibility for <u>compliance with</u> independence <u>requirements</u>;</p> <p>(iii) Other relevant personnel in the firm and, where appropriate, the network; and</p> <p>(iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;</p>	designated to assist them in fulfilling their responsibility.	
<p>400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address and maintain independence <u>requirements</u>. It might be necessary to end the audit engagement because of the breach.</p>	<p>To accept a respondent's observation that the statement that the system of quality management is responsible for "maintaining" independence does not appear consistent with ISQM 1 or the Code.</p> <p>Paragraph 6 of ISQM1 states that a system of quality management "addresses" eight components including "relevant ethical requirements." It is the firm and its personnel that apply the conceptual framework to "maintain independence" when performing audit engagements (paragraphs 400.6 and 900.5 of the Code)</p>	Question 1: Comment no.14

11. Regarding the one respondent who disagreed with the proposed amendments, the respondent essentially questioned whether the IAASB, IESBA and their stakeholders have undertaken sufficient due diligence regarding the implications of expanding the definition of "engagement team" for engagements performed in accordance with ISAE 3000 (Revised)⁶ and ISAE 3410⁷ – specifically where those engagements include information from supply chains outside of corporate groups. The respondent argued that for certain kinds of integrated reports, sustainability reports and greenhouse gas statements, information included in

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

⁷ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

the reports may be from outside the group from the upstream and downstream supply chains. In that situation, the respondent is concerned that in most cases there would be a low likelihood of practitioners being able to gain access to, and direct, supervise and review the work of, other practitioners outside of the boundary of the group.

12. The Task Force is of the view that this is a substantive matter that is for the IAASB to address in the first instance and that it is outside the scope of this Conforming Amendments project. The Task Force has shared the respondent's comment letter with IAASB staff, who noted that it was considered as part of the IAASB's September 2021 discussion on QM conforming amendments to the IAASB's other standards. IAASB Staff noted the following response in the agenda material for that IAASB session:

Staff agrees that an assurance engagement covering upstream and downstream supply chain activities will present challenges to assurance practitioners if the engagement is scoped to include such activities. Staff recommends that the issue be explored further to determine (a) how such engagements are scoped in different jurisdictions and how practitioners are currently dealing with these engagements and (b) how any identified issues can be appropriately addressed.

13. The Task Force has also shared the respondent's comments with the Engagement Team – Group Audits Independence Task Force for consideration as part of that project.
14. Other substantive matters raised by respondents that go beyond strict conforming amendments are outside the scope of this project as they might call for reconsideration of concepts and principles in the Code. However, such matters might be considered part of the IESBA's development of its future strategy and work plan.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force's views as presented above and in **Agenda Item 3-C**?

B. Client Acceptance – Engagement Partner Authority to Accept or Provide Services

Background

15. In developing the proposed conforming amendments, the IESBA considered a matter raised by IAASB Staff concerning the reference in paragraph 300.7 A5 to an engagement partner's authority for decisions about accepting or providing services to a client. IAASB staff suggested that the Board consider deleting the phrase "including decisions about accepting or providing services to a client" from paragraph 300.7 A5 on the ground that this provision implies that it is the engagement partner who decides to accept or provide services to a client.
16. The Task Force noted that paragraph 30 of ISQM 1 addresses judgments by the firm about whether to accept or continue a client relationship or specific engagement. The Task Force also observed that paragraph 22 of ISA 220 (Revised)⁸ requires the engagement partner to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate.
17. In deliberating this matter, the Task Force proposed that the Board consider that authority and accountability rest with individual professional accountants in public practice (PAPPs) even though

⁸ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

decisions about accepting or providing services to a client are those of the firm. Additionally, in some jurisdictions, engagements are required to be under the names of engagement partners for licensing, regulatory or other reasons.

18. The IESBA, therefore, did not propose any amendment to this provision but agreed to seek stakeholders' views on the matter.

Summary of ED Responses

19. Fifteen⁹ respondents agreed with the IESBA's view not to propose any amendments to paragraph 300.7 A5 in response to the feedback from IAASB staff.
20. In addition, three¹⁰ respondents agreed with the IESBA's views with supplementary recommendations. A total of four¹¹ respondents did not agree with the IESBA's views.
21. Respondents who disagreed with the IESBA's views noted that they agreed with the IAASB staff in that ISA 220 is written based on the firm being responsible for client acceptance decisions. It was noted that in practice, many firms have established the procedure whereby the partner in charge makes an initial decision upon accepting to provide a service to a client, and the firm makes the final decision. Accordingly, in that sense, final decision-making authority concerning acceptance is not, in effect, granted to individual partners. Accordingly, these respondents concluded that the phrase "including decisions about accepting or providing services to a client" in paragraph 300.7 A5 should be deleted to avoid any misunderstanding.
22. One respondent¹² noted that given that it is likely that there will be cases that do not conform to these circumstances in some jurisdictions or in some firms, it would also be possible not to delete the phrase in question but to add "if applicable" to qualify the phrase.

Task Force Response

23. The Task Force notes that Section 300 applies to all types of engagements PAPPs may perform, including engagements not covered by ISQM 1 or other IAASB standards. Accordingly, it would not be appropriate to anchor paragraph 300.7 A5 to the requirements of ISQM 1 or the ISAs. Additionally, as noted in the ED, in some jurisdictions, engagements must be under the names of engagement partners for licensing, regulatory or other reasons; hence, the responsibility about engagement acceptance might not rest solely with the firms. For these reasons, the Task Force does not believe it would be appropriate to delete the phrase from paragraph 300.7 A5.
24. However, to better recognize that there might be circumstances where the authority and accountability for engagement acceptance rest with individual professional accountants within a firm, the Task Force proposes that the word "any" be added to the provision as follows:

⁹ AICPA, APESB, BAOA, BDO, BICA, CPAC, DTTL, EY, HKICPA, KPMG, ICAS, NZAuASB-XRB, PwC, SAICA, UKFRC

¹⁰ IRBA, JICPA, RSM

¹¹ IDW, ISCA, GTIL, KICPA

¹² JICPA

The Firm and its Operating Environment

300.7 A5 *A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:*

...

- *The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.*

Matter for IESBA Consideration

2. Do IESBA members agree with the Task Force's views and proposal above?

C. Effective Date

Background

25. Subject to PIOB approval of the final conforming amendments, the IESBA proposed that the effective date of those changes to the Code be aligned with the effective date of ISQM 1 and ISQM 2 as appropriate, i.e.:

- For conforming amendments aligned to ISQM 1, effective as of December 15, 2022.
- For conforming amendments aligned to ISQM 2, effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022; and effective for other assurance and related services engagements beginning on or after December 15, 2022.

Summary of ED Responses

26. A total of twenty-one respondents supported the proposed effective date.

27. One¹³ respondent did not agree with the proposed effective date. The respondent argued that the different effective dates for related amendments to the Code (i.e., December 15 specifically versus engagements for financial statements for periods beginning on or after December 15) may be confusing to stakeholders. The respondent argued that December 15, 2022 should be the effective date because the majority of the changes are being proposed to conform with both ISQM 1 and ISQM 2 rather than ISQM 2 alone.

Task Force Response

28. On reflection, the Task Force agrees with the sole respondent who took a different view as virtually all the conforming amendments proposed are to align with ISQM 1. Accordingly, the Task Force recommends that December 15, 2022 be the effective date for the QM-related conforming amendments to the Code.

Matter for IESBA Consideration

3. Do IESBA members agree with the Task Force's proposal above?

¹³ CPAC

IV. Due Process Matters

Significant Matters Raised by Respondents

29. The Task Force has carefully considered all significant matters raised by the respondents to the ED. The Task Force's analysis of the significant matters raised by respondents to the ED and its proposals have been presented in the public agenda papers at this meeting for the Board's deliberation. In the Task Force's view, there are no significant matters raised by the respondents that have not been brought to the Board's attention.

Need for Further Consultation

30. As the scope of this project is limited to the QM-related conforming amendments to the Code, the Task Force does not believe there is a need for further consultation with stakeholders.

Consideration of the Need for Re-Exposure

31. The Task Force considers the changes reflected in the final proposed text post-exposure respond to the feedback received from respondents to the ED and do not fundamentally or substantively change the proposals in the ED. Accordingly, the Task Force is of the view that re-exposure is not warranted.

Matter for IESBA Consideration

4. Do IESBA members agree that the changes to the ED do not warrant re-exposure?

Appendix 1

List of Respondents to the QM-related Conforming Amendments ED

(Note: No members of the Monitoring Group responded to the ED and there were no responses from those charged with governance.)

#	Abbrev.	Respondent	Region
Regulators and Oversight Authorities (3)			
1	BAOA	Botswana Accountancy Oversight Authority	MEA
2	IRBA	Independent Regulatory Board for Auditors	MEA
3	UKFRC	United Kingdom Financial Reporting Council	EU
Independent National Standard Setters (NSS)¹⁴ (2)			
4	APESB	Accounting Professional & Ethical Standards Board (Australia)	AP
5	NZAuASB-XRB	New Zealand Auditing and Assurance Standards Board	AP
PAOs, Including National Standard Setters¹⁵ (10)			
6	AICPA	American Institute of Certified Public Accountants ^δ	NA
7	BICA	Botswana Institute of Chartered Accountants	MEA
8	CPAC	Chartered Professional Accountants Canada Public Trust Committee	NA
9	HKICPA	Hong Kong Institute of Certified Public Accountants ^δ	AP
10	ICAS	Institute of Chartered Accountants of Scotland ^δ	UK
11	IDW	Institut der Wirtschaftspruefer ^δ (Germany)	EU

¹⁴ NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as "Independent National Standard Setters."

The IESBA has a liaison relationship with a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, the UK, and the US.

¹⁵ For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a "δ".

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12	ISCA	Institute of Singapore Chartered Accountants ^δ	AP
13	JICPA	Japanese Institute of Certified Public Accountants ^δ	AP
14	KICPA	Korean Institute of Certified Public Accountants ^δ	AP
15	SAICA	South African Institute of Chartered Accountants ^δ	MEA
Firms (7)¹⁶			
16	BDO*	BDO International Limited	GLOBAL
17	DTTL*	Deloitte Touche Tohmatsu Limited	GLOBAL
18	EY*	Ernst & Young Global Limited	GLOBAL
19	GTIL*	Grant Thornton International Limited	GLOBAL
20	KPMG*	KPMG IFRG Limited	GLOBAL
21	PwC*	PricewaterhouseCoopers International Limited	GLOBAL
22	RSM*	RSM International	GLOBAL

¹⁶ Forum of Firms members are indicated with a *. The Forum of Firms is an independent association of international networks of accounting firms that perform transnational audits. Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics.