

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

[Note: This is an extract of the latest draft of proposed ISQM 1 to be discussed at the March 2020 IAASB meeting. The changes shown in mark-up are changes from the December 2019 draft text of proposed ISQM 1 as considered by IESBA reps]

Definitions	Definitions
<p>19. In this ISQM, the following terms have the meanings attributed below:</p>	
<p>(s) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A15–A16<del>A</del>, A67)</p>	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 19(s), 33(a))</p> <p>A15. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.</p> <p>A16. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.</p> <p><del>A16A70</del>. [Moved from paragraph A70] Various provisions of the relevant ethical requirements may apply only to personnel <u>in the context of performing engagements</u></p>

and not the firm itself. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements.

Examples of relevant ethical requirements that are applicable only to personnel and not the firm, and which relate to the performance of engagements

~~For example,~~ Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner. Part 2 of the IESBA Code addresses:

- Pressure to breach the fundamental principles, and includes requirements that an individual shall not:
  - Allow pressure from others to result in a breach of compliance with the fundamental principles; or
  - Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

In the context of performing engagements, pressure to breach the fundamental principles may arise when an engagement partner or another senior member of the engagement team pressures an engagement team member or the engagement quality reviewer to breach the fundamental principles.

- Preparation and presentation of information, and includes requirements for professional accountants when preparing and presenting information for clients or their firms and therefore applies to personnel performing a compilation engagement.~~The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the IESBA~~

		<p><del>Code (e.g., policies or procedures addressing section 260 of the IESBA Code regarding non-compliance with laws and regulations).</del></p>
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Relevant Ethical Requirements	Relevant Ethical Requirements (Ref: Para. 32- <del>33</del> )
<p>32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, <u>including those related to independence</u><del>which, as defined, include the principles of professional ethics</del>: (Ref: Para. A67-<del>A68, A75</del>)</p> <p>(a) The firm, its personnel and others subject to relevant ethical requirements, <u>including, as applicable, the network, network firms, personnel in the network or network firms, or service providers</u>:</p> <p style="padding-left: 20px;">(i) <del>U</del>nderstand the relevant ethical requirements <u>to which the firm and the firm's engagements are subject, including those related to independence</u>. (Ref: Para. A15, A16A, A71)</p> <p style="padding-left: 20px;">(i<b>j</b>) <del>The firm, its personnel and others subject to relevant ethical requirements</del> <del>¶</del>ulfill their responsibilities in relation to the relevant ethical requirements <u>to which the firm and the firm's engagements are subject</u>, including:</p>	<p>A67. The IESBA Code sets out the fundamental principles of ethics that establish the standard of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the International Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence <u>(e.g., for example,</u> privacy laws affecting the confidentiality of information).</p> <p>A68. In some cases, the <u>matters addressed by the firm in its system of quality management</u><del>may determine that it is appropriate to design and implement responses that are</del> <u>may be</u> more specific than, <u>or additional to</u>, the provisions of relevant ethical requirements.</p>

Relevant Ethical Requirements	Relevant Ethical Requirements (Ref: Para. 32-33)
<p><del>(Ref: Para. A72-A74) those related to independence.</del></p> <p><del>a. Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and</del></p> <p><del>b.(c) The firm, its personnel and others subject to relevant ethical requirements—[identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches of the relevant ethical requirements, including those related to independence, in a timely manner.</del></p>	<p><del>For e</del><u>Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements, having regard to the nature and circumstances of the firm and its engagements, a firm may:</u></p> <ul style="list-style-type: none"> <li>• <del>The firm p</del><u>rohibits</u> the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.</li> <li>• <del>The firm s</del><u>ets</u> rotation periods <u>in addition to those specified in relevant ethical requirements, which apply to all</u>for the engagement partners<u> and other senior personnel for all engagements performed by the firm, including those performing other assurance or related services engagements, and all senior engagement team members.</u></li> </ul> <p><del>A69.—[Deleted – moved to implementation guidance] Other components include responses that may affect or relate to the relevant ethical requirements component. For example, the following are examples of responses for information and communication and resources that may address assessed quality risks for relevant ethical requirements:</del></p> <p><del>Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.</del></p> <p><del>Providing training for personnel on relevant ethical requirements.</del></p> <p><del>Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.</del></p> <p><del>Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.</del></p> <p><del>Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner related to:</del></p>

Relevant Ethical Requirements	Relevant Ethical Requirements (Ref: Para. 32- <del>33</del> )
	<p><del>Personal or firm situations that may create threats to independence, for example, financial interests, loans, employment relationships or personal appointments.</del></p> <p><del>Client engagements, including non-assurance engagements. For example, this may include the scope of services, fees or information about long association.</del></p> <p><del>Business relationships.</del></p> <p><del>Any breaches of the relevant ethical requirements, including those related to independence.</del></p> <ul style="list-style-type: none"> <li><del>• Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.</del></li> </ul> <p><i>[Remainder of paragraph moved to paragraph A153B]</i></p> <p>A70. <i>[Moved to paragraph A16A]</i></p> <p>A71. The applicability of the relevant ethical requirements to others (<u>e.g.i.e.</u>, the network, network firms, personnel in the network or network firms, or service providers) depends on <u>the provisions of the relevant ethical requirements and whether those requirements contain specific provisions addressing others, and</u> how the firm uses others in its system of quality management, <u>including in the performance of engagements.</u></p>

Relevant Ethical Requirements	Relevant Ethical Requirements (Ref: Para. 32– <del>33</del> )
	<p data-bbox="978 289 1780 321"><del>For e</del><u>Examples of relevant ethical requirements that apply to others:</u></p> <ul data-bbox="978 342 1940 850" style="list-style-type: none"> <li data-bbox="978 342 1940 483">• Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, <u>for example, the IESBA Code includes independence requirements that apply to a network firm.</u></li> <li data-bbox="978 505 1940 721">• The definition of engagement team under relevant ethical requirements may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.</li> <li data-bbox="978 742 1940 850">• The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.</li> </ul> <p data-bbox="905 889 1955 1068">A72. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p> <p data-bbox="905 1089 1955 1198">A73. <del>The policies or procedures addressing</del> <u>Matters that may need to be addressed by the firm relating to</u> breaches of the relevant ethical requirements, <del>including those related to independence, may address matters such as:</del></p> <ul data-bbox="978 1219 1955 1377" style="list-style-type: none"> <li data-bbox="978 1219 1955 1289">• The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;</li> <li data-bbox="978 1310 1955 1377">• The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;</li> </ul>

Relevant Ethical Requirements	Relevant Ethical Requirements (Ref: Para. 32- <del>33</del> )
	<ul style="list-style-type: none"> <li>• The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;</li> <li>• Determining whether to report a breach to external parties, <u>such as those charged with governance of the entity to which the breach relates or an external oversight authority</u>; and</li> <li>• Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.</li> </ul> <p>A74. Relevant ethical requirements may specify how the firm is required to respond to a breach. <u>For example, t</u>he IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.</p> <p><i>Public Sector Considerations</i></p> <p>A75. <del>Statutory measures may provide safeguards for the independence of public sector auditors. In achieving the quality objectives in this ISQM related to independence, public sector auditors may have regard to the public sector mandate and statutory measures, and address independence in that context. However, threats to independence may still exist regardless of any statutory measures designed to protect the firm's independence that will require an appropriate response by the organization</del></p>