

**Basis for Conclusions:
ISA 220 (Redrafted), Quality Control
for an Audit of Financial Statements
and
ISQC 1 (Redrafted), Quality Control
for Firms that Perform Audits and
Reviews of Financial Statements,
and Other Assurance and Related
Services Engagements**

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

BASIS FOR CONCLUSIONS:
ISA 220 (REDRAFTED), QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS
AND
ISQC 1 (REDRAFTED), QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements” and ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,” which were approved by the IAASB in September 2008.¹

Background

1. In September 2006, the IAASB agreed the conventions to be used in drafting future International Standards on Auditing (ISAs). These conventions are commonly referred to as the IAASB’s Clarity conventions.²
2. The IAASB has undertaken to redraft all of its ISAs in accordance with the Clarity conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. ISA 220 is in the latter category.
3. The IAASB decided to clarify International Standard on Quality Control (ISQC) 1 at the same time as ISA 220, as together they deal with important and interrelated quality control considerations at both the firm level and the engagement level. The conventions used by the IAASB in redrafting ISAs were used in redrafting ISQC 1. However, they were adapted as necessary in light of the scope of ISQC 1.
4. In July 2007, the IAASB approved the issue of an exposure draft of proposed ISA 220 (Redrafted) (ED-ISA 220) and ISQC 1 (Redrafted) (ED-ISQC 1). The comment period for the exposure draft closed on December 31, 2007. The IAASB received forty-eight comment letters from a variety of respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms, preparers

¹ See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4426>.

² The IAASB’s Clarity conventions, and the authority and obligation attaching to them, are established in ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

and users of financial statements, and professional and public sector organizations. Input was also received from IFAC's Small and Medium Practices (SMP) Committee.

5. The IAASB made changes to ED-ISA 220 and ED-ISQC 1 as a result of the comments received. In addition, the IAASB discussed significant issues in the development of ED-ISA 220 and ED-ISQC 1, and the finalization of ISA 220 (Redrafted) and ISQC 1 (Redrafted), with its Consultative Advisory Group (CAG).
6. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 220 and ED-ISQC 1, and how the IAASB has addressed them. It addresses first those issues that are applicable to both ED-ISA 220 and ED-ISQC 1, followed by issues relevant only to ED-ISA 220 or ED-ISQC 1 individually. In addition, certain new guidance material concerning the use of staff with expertise in a specialized area of accounting or auditing was introduced to ISA 220 (Redrafted) (specifically, paragraph A20 of ISA 220 (Redrafted) as a result of comments received on exposure of proposed ISA 620, (Revised and Redrafted), "Using the Work of an Auditor's Expert;" these are dealt with in the Basis for Conclusions of ISA 620 (Revised and Redrafted).³

Objectives

7. Paragraph 11 of ED-ISQC 1 stated the following objective:

The objective of the firm in establishing a system of quality control is to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

8. Paragraph 5 of ED-ISA 220 stated the following objective:

The objective of the auditor is to obtain reasonable assurance that the audit complies with professional standards and regulatory and legal requirements, through the implementation of appropriate quality control procedures at the engagement level.

9. The majority of respondents to ED-ISA 220 and ED-ISQC 1 indicated support for the proposed objectives. However, several respondents variously expressed some significant concerns. Firstly, it was questioned whether it is appropriate to use the term "reasonable assurance" in the objectives. It was suggested that the term may not be suitable for describing the quality control obligations of the firm and the engagement partner. Further, it could potentially be confused with the objective of an auditor to obtain reasonable assurance as it relates to an audit. Similar views were expressed by some members of the IAASB CAG.

³ The Basis for Conclusions of ISA 620 (Revised and Redrafted) is available on the IAASB website at http://web.ifac.org/download/Basis_for_Conclusions_ISA_620_Revised_and_Redrafted.pdf.

10. Secondly, many of these respondents did not feel the objectives reflected fully, or were consistent with, the scope of the extant standards.
11. Finally, it was noted that the objectives were not sufficiently aligned with one another, notwithstanding the interrelationship of these standards.

IAASB Decision

12. The IAASB concluded that the objectives should be refined in two principal respects to better reflect the scope, aim and coverage of the extant standards. Firstly, it agreed that the objectives should focus on the primary obligation imposed by the standards on the firm and the auditor, respectively, rather than on the obtaining of reasonable assurance. In the context of ISQC 1 (Redrafted), the obligation is for the firm to establish and maintain a system of quality control; in the context of ISA 220 (Redrafted), it is for the auditor to implement quality control procedures at the engagement level. In both cases, reasonable assurance defines the objective of these obligations rather than forming the objective of the firm and the auditor in relation to quality control. This change in emphasis establishes objectives that are more consistent with the focus of the extant standards.
13. The IAASB did not agree, however, with the suggestion by some respondents to eliminate reference to reasonable assurance in the objectives. The IAASB concluded that it is appropriate to retain the concept as it underpins the aim of many of the requirements in the extant standards. Further, it clarifies that a system of quality control and quality control procedures at the engagement level do not, and cannot be designed to, provide absolute assurance. The IAASB also concluded that it would not be appropriate to use a different term for reasonable assurance (which it is generally understood must be read in context of the subject matter to which it relates), even though a new term could retain the same definition, as suggested by a few respondents. To do so may suggest there is a change in substance, which there is not.
14. Secondly, the IAASB agreed to amend the objective in ED-ISA 220 to make clear that the obligation of the auditor includes implementing quality control procedures at the engagement level to provide the auditor with reasonable assurance that that auditor's report issued is appropriate in the circumstances. This enhances the consistency of the objective with the scope of extant ISA 220, and aligns it better with the objective stated in ISQC 1 (Redrafted).
15. The revised objectives are shown in paragraphs 11 of ISQC 1 (Redrafted) and paragraph 6 of ISA 220 (Redrafted).

Engagement Quality Control Review

16. ED-ISQC 1 and ED-ISA 220 included a number of proposed clarifications relating to engagement quality control reviews. Firstly, the IAASB included the phrase "none of whom is part of the engagement team" in the definition of "engagement quality control reviewer" in paragraph 6(c) of ED-ISA 220 and paragraph 12(d) of ED-ISQC. Several respondents were of the view that inclusion of this phrase may create practical difficulties

for some firms, especially sole practitioners, that are unable to employ or engage individuals that meet this criteria.

17. Secondly, the IAASB changed the phrase “issuance of the [engagement] report” to “date of [engagement] report” in all cases where the phrase is used in the extant standards. This change aligned ED-ISA 220 with ISA 700,⁴ and removed a phrase that is undefined in the *Handbook of International Auditing, Assurance, and Ethics Pronouncements*. While most respondents agreed in principle with this clarification, several respondents were of the view that the implication to the date of completion of an engagement quality control review may create significant practical difficulties; in many cases, it may not be possible to complete all aspects of an engagement quality control review by the date of the engagement report.
18. Thirdly, the IAASB specified as requirements in paragraph 22 of ED-ISA 220 and paragraph 45 of ED-ISQC 1 certain of the considerations listed in extant ISA 220 and ISQC 1 (paragraphs 20 and 65, respectively) for an engagement quality control review for audits of listed entities. This reflected IAASB’s view that these specific considerations are relevant in virtually all cases for such reviews. A few respondents were of the view that the proposed requirements are unnecessary as it is the engagement quality control reviewer who defines the scope of the review based on the circumstances of the engagement. Other respondents suggested that the requirements should apply to all engagements that are subject to an engagement quality control review, and that engagement quality control reviews should be required for audits of all public interest entities.

IAASB Decision

19. With respect to the definition of engagement quality control reviewer, the IAASB reaffirmed its view that it is appropriate to include in the definition the phrase “none of whom is part of the engagement team.” The extant standards require that the engagement quality control review include an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the engagement report; the engagement quality control reviewer cannot be part of the engagement team if the review is to be, and is to be seen to be, objective. The proposal in ED-ISA 220 and ED-ISQC 1 clarifies, but does not change, the extant standards. See paragraph 7(c) of ISA 220 (Redrafted) and paragraph 12(e) of ISQC 1 (Redrafted).
20. With respect to the date of completion of the engagement quality control review, the IAASB concluded that it is appropriate to require that the engagement quality control review be completed on or before the date of the engagement report. ISA 700 (Redrafted)⁵ requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion. In cases of an audit of financial statements of listed entities, or when an engagement meets the criteria for an engagement quality control review, completion of the review assists the auditor in determining whether sufficient appropriate evidence has been obtained. The IAASB did not believe that the possibility of practical difficulties that might be

⁴ ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements.”

⁵ ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements.”

encountered, for example in coordinating timely engagement quality control reviews and resolving matters identified by the engagement quality control review, should dictate the appropriate standard in the circumstances.

21. Nevertheless, the IAASB agreed to introduce additional guidance in the standards to help auditors understand and deal with practical considerations relevant to the completion of an engagement quality control review, in particular to make clear that it is not necessary for all administrative aspects of the engagement quality control review to be completed by the date of the engagement report. See paragraphs A23-A25 of ISA 220 (Redrafted) and A42-A44 of ISQC 1 (Redrafted).
22. With respect to the proposed requirements dealing with considerations in an engagement quality control review, the IAASB reaffirmed its view that it is appropriate to specify them as requirements to ensure engagement quality control reviews are undertaken consistently in practice, and that each specified consideration is applicable to virtually all cases and is essential to the quality of an engagement quality control review. The IAASB did not believe it appropriate to expand the applicability of the requirements to engagements beyond those covered by the extant standards. To do so would substantively change the extant standards, which is beyond the scope of the Clarity project. See paragraph 21 of ISA 220 (Redrafted) and paragraph 38 of ISQC 1 (Redrafted).

Definitions

23. ED-ISA 220 and ED-ISQC 1 retained the definition of “firm” as per the extant standards,⁶ notwithstanding the fact the International Ethics Standards Board for Accountants’ (IESBA) *Code of Ethics for Professional Accountants* (IFAC Code) that is effective for assurance reports dated on or after December 15, 2008 uses a different definition of “firm.”⁷ A respondent noted the importance of ensuring that there is consistency between the IFAC Code and ISA 220 (Redrafted) and ISQC 1 (Redrafted) in key definitions. The respondent also suggested that the definitions of “network” and “network firm” in ED-ISA 220 and ED-ISQC 1 should be expanded to include the guidance in the IFAC Code relating to the determination of whether a firm is part of a network.
24. In addition, ED-ISA 220 and ED-ISQC 1 retained the definition of “relevant ethical requirements” as per the extant standards, which includes reference to the IFAC Code. A respondent was of the view that the reference to the IFAC Code should be removed, as the IFAC Code is not the only possible benchmark and the standards should remain neutral in relation to reference to ethics and independence rules.

⁶ Extant ISA 220 and ISQC 1 define the firm as “a sole practitioner, partnership or corporation or other entity of professional accountants.”

⁷ The IFAC Code defines the firm as “(i) A sole practitioner, partnership or corporation of professional accountants; (ii) An entity that controls such parties through ownership, management or other means; and (iii) An entity controlled by such parties through ownership, management, or other means.

IAASB Decision

25. The IAASB concluded that it is appropriate to retain the definition of “firm” that is in extant ISA 220 and ISQC 1. That definition was designed having specific regard to the quality control provisions of ISA 220 and ISQC 1, whereas the definition used in the IFAC Code is designed specifically for purposes of compliance with ethical requirements, in particular independence. To amend the definition might imply that there is intent to expand the scope of the quality control standards, which there is not. See paragraph 7(e) of ISA 220 (Redrafted) and paragraph 12(g) of ISQC 1 (Redrafted).
26. Notwithstanding the decision to retain the definition of “firm” in the extant standards, the IAASB concluded that the firm and the auditor need to be aware of the difference in definitions in relation to complying with relevant ethical requirements. Accordingly, the IAASB introduced additional guidance ISA 220 (Redrafted) and ISQC 1 (Redrafted) that draws attention to the definition of “firm” in the IFAC Code. Further, the IAASB agreed that it would be appropriate to indicate that the IFAC Code provides guidance in relation to the terms “network” and “network firm.” See paragraph A5 of ISA 220 (Redrafted) and paragraph A10 of ISQC 1 (Redrafted).
27. With respect to the definition of “relevant ethical requirements,” the IAASB is of the view that the reference to the IFAC Code (“Ethical requirements...which ordinarily comprise Parts A and B of the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (IFAC Code) together with national requirements that are more restrictive”) is appropriate in the context of its international standards. Accordingly, the IAASB agreed that no change to the definition in this regard is necessary. See paragraph 7(n) of ISA 220 (Redrafted) and paragraph 12(q) of ISQC 1 (Redrafted).

Considerations Specific to SMPs

28. Some respondents and the SMP Committee, in particular, expressed strong concern about the applicability of ED-ISA 220 and ED-ISQC 1 in the context of SMPs. There was general concern about the number of requirements in the standards, with the view that the requirements place an unreasonable burden on sole practitioners and other SMPs that is likely to be out of proportion to the benefit to be obtained. It was suggested that greater flexibility be provided through a provision for departure from compliance with the requirements. The respondents also urged the IAASB to provide additional guidance on the application of the requirements of the standards in the context of SMPs, and to provide implementation guidance in respect of ED-ISQC 1 to facilitate cost-effective implementation of that standard.

IAASB Decision

29. The IAASB reaffirmed its view that the requirements of ED-ISQC 1 and ED-ISA 220 that are relevant in the circumstances should be applied by all firms and to all engagements regardless of their size. The IAASB did not, therefore, support the notion that some form of provision for departure from the requirements of these standards for smaller firms, or in the context of audits of smaller entities, should be established. Further, the IAASB did not believe that the standards should be amended to add implementation guidance as

implementation considerations are beyond the scope of the Clarity project and the standards themselves.

30. The IAASB accepted the view, however, that every opportunity should be taken to ensure that the standards are, and are seen to be, appropriate for SMPs. In this regard, the IAASB identified aspects of the standards that, through their further clarification, would contribute to a better understanding of the scope and application of the requirements in an SMP context, as follows.
31. Firstly, the IAASB agreed that it would be appropriate to emphasize that ISQC 1 (Redrafted) does not call for compliance with requirements that are not relevant in the circumstances, for example, in the circumstance of a sole practitioner with no staff. ISQC 1 (Redrafted) elaborates on this point by indicating that requirements such as those for policies and procedures for the assignment of appropriate personnel to the engagement team, for review responsibilities, and for the annual communication of the results of monitoring to engagement partners within the firm are not relevant in the absence of staff. The IAASB also agreed that while ISQC 1 (Redrafted) applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements, it should be explained that various factors such as the size and operating characteristics of the firm affect both the nature *and extent* of the policies and procedures developed by individual firms to comply with ISQC 1 (Redrafted). See paragraphs 4 and A1 of ISQC 1 (Redrafted).
32. Secondly, the IAASB agreed to establish additional guidance, or amplify extant guidance, addressing considerations specific to smaller practices at relevant places in ISQC 1 (Redrafted), for example in relation to documentation and communication of policies and procedures. See paragraphs A3, A72 and A75 of ISQC 1 (Redrafted).
33. Thirdly, the IAASB concluded that additional clarification about when an engagement quality control review is required should be provided, as many respondents seemed to imply that auditors believe that engagement quality control reviews are applicable to all engagements. Accordingly, the IAASB agreed to emphasize, both in the definition of engagement quality control review and in the related requirements, that the engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review. Further, ISA 220 (Redrafted) now makes clear that, in some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review. See paragraph 12(d) of ISQC 1 (Redrafted) and paragraphs 7(b), 19 and A29 of ISA 220 (Redrafted).
34. Finally, the IAASB concluded that some of the proposed requirements of ED-ISA 220 and ED-ISQC 1 derived from material stated in the present tense in the extant standards contribute to an unnecessary degree of complexity. The IAASB agreed therefore to position those proposed requirements that appear to be overly prescriptive and that are more in nature of guidance to other requirements as application and other explanatory material. For example, some of the proposed requirements included in paragraphs 17 and

23 of ED-ISA 220 and paragraphs 17, 18, 19 and 64 of ED-ISQC 1 were restated as application and other explanatory material.

ISA 220 (Redrafted): Linkage to ISQC 1 (Redrafted)

35. Paragraph 2 of ED-ISA 220 referred to the obligation of a firm under ISQC 1 to establish a system of quality control. Paragraph 3 of ED-ISA 220 indicated that engagement teams implement quality control procedures that are applicable to the audit engagement, provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence, and are entitled to rely on the firm's systems unless information provided by the firm or other parties suggests otherwise. These paragraphs were consistent with those of extant ISA 220.
36. A few respondents were of the view that reference to ISQC 1 in ED-ISA 220 should be removed. It was suggested that not all jurisdictions that adopt ISAs will also adopt ISQC 1 (Redrafted), and such references may therefore create a barrier to adoption of the ISAs. In contrast, a few respondents suggest that a strong, or stronger, link between ISA 220 (Redrafted) and ISQC 1 (Redrafted) is appropriate, particularly in light of the expectation in ISA 220 (Redrafted) that engagement teams will rely on the firm's system of quality control. These respondents emphasized that any such reliance needs to be premised on the condition that the firm has developed and installed an effective quality control system and that appropriate information is provided to the engagement partner. Similarly diverse views were expressed by various members of the IAASB CAG.

IAASB Decision

37. The IAASB concluded that a strong link between ISA 220 (Redrafted) and ISQC 1 (Redrafted) is essential, for several reasons. Firstly, there is a strong public interest to have a firm's system of quality control work effectively with ISA 220 (Redrafted). ISQC 1 (Redrafted) is fully compatible with ISA 220 (Redrafted). The compatibility of quality control systems at the firm and engagement levels, however, may not exist were the firm to follow a different system of quality control.
38. Secondly, there is a strong public interest to encourage firms to establish a robust system of quality control, thereby reinforcing the need for quality control and an appropriate "tone at the top" supporting what the auditor needs to do at the engagement level. This is particularly important when engagement teams are entitled to rely on that system. The linkage in ISA 220 (Redrafted) to ISQC 1 (Redrafted) supports this aim.
39. Thirdly, if there is no link to ISQC 1, there is a potential for firms to adopt systems of quality control that are not as robust as that required under ISQC 1.
40. Finally, the extant ISA 220 was written, and its effectiveness premised, on the basis that firms have established a quality control system in accordance with ISQC 1. ISA 220 and ISQC 1 were intended to co-exist, and ISA 220 was never intended to be read on a stand-alone basis. There is a potential risk, therefore, that removing the link to ISQC 1 (Redrafted) would weaken the relevant requirements of ISA 220 (Redrafted) as the

auditor's quality control responsibilities in an audit of financial statements are specifically based on the quality control framework established by ISQC 1.

41. Nevertheless, the IAASB agreed that, subject to appropriate conditions, it is not in the public interest to create unnecessary barriers to the adoption of ISAs by restricting jurisdictions to the adoption of ISQC 1, or limiting possible development of ISQC 1, for example where a jurisdiction believes additional requirements are appropriate in the circumstances. Accordingly, the IAASB concluded that some limited flexibility is appropriate to allow for a system that meets the aims of all the requirements of ISQC 1 (Redrafted), while not undermining the notion that the system needs to be effective and that the requirements of ISQC 1 (Redrafted) provide that which is necessary for that purpose.
42. The IAASB therefore agreed to retain reference to ISQC 1 (Redrafted) in ISA 220 (Redrafted), but to do so in a more flexible manner that indicates that the ISA is premised on the basis that the firm is subject to ISQC 1 (Redrafted) or to national requirements that are at least as demanding. ISA 220 (Redrafted) explains that national requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 (Redrafted) when they address all the elements of a quality control system referred to in ISQC 1 (Redrafted) and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Redrafted). See paragraphs 2-4 and A1 of ISA 220 (Redrafted). In taking this view, the IAASB acknowledged that most of the requirements of ISQC 1 are for the establishment of policies and procedures that are designed to achieve certain aims.

ISA 220 (Redrafted): Compliance with Relevant Ethical Requirements

43. Paragraph 8 of extant ISA 220 required that the engagement partner consider whether members of the engagement team have complied with relevant ethical requirements. Paragraph 8 of ED-ISA 220 stated the following requirement, based on IAASB's review of the material stated in the present tense in the extant ISA:

The engagement partner shall evaluate whether members of the engagement team have complied with relevant ethical requirements:

- (a) Through inquiry and observation regarding ethical matters among the engagement team as necessary throughout the audit engagement; and
 - (b) By remaining alert for evidence of non-compliance with those requirements.
44. Several respondents expressed various concerns about the proposed redrafted requirement. Some respondents were of the view that it is too prescriptive and that the evaluation of compliance by members of the engagement team with relevant ethical requirements is a firm-level responsibility. While acknowledging the drawbacks of using the phrase "shall consider," other respondents nevertheless felt that the term "evaluate" is too definitive.

IAASB Decision

45. The IAASB concluded the requirement should be sufficiently specific to direct the engagement partner to implement the appropriate quality control procedures at the

engagement level, while not imposing an obligation that is unattainable. The IAASB therefore agreed that the substantive aim of the requirement should be for the engagement partner, throughout the audit engagement, to remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. The IAASB redrafted the paragraph accordingly. See paragraph 9 of ISA 220 (Redrafted).

ISQC 1 (Redrafted): Obligation to Comply with Relevant Requirements

46. Paragraphs 4-9 and 13-15 of ED-ISQC 1 established the authority attaching to the ISQC, the conventions used in its drafting, and the obligations of the firms that follow the standard. In particular, paragraph 14 stated that the firm shall comply with the requirements of the ISQC where, in the circumstances of the firm, such requirements are relevant in providing services in respect of audits and reviews of financial statements, and other assurance and related services engagements. No provision was proposed to allow for departure from a relevant requirement. This is consistent with the current Preface, which makes no provision for this in respect of the ISQCs. The IAASB reconfirmed this position in developing ED-ISQC 1 since the generally principled nature of the requirements are not expected to give rise to circumstances in which departure would be appropriate.
47. Some respondents expressed concern with the fact that the standard permits no departure from a requirement, thereby making compliance with relevant requirements an absolute obligation. Further, it was noted that the obligation does not give appropriate recognition to the fact that the firm's system of quality control is self-monitoring and self-correcting, and that compliance within such a quality control system is therefore different from compliance within the context of auditing standards. That is, while it is possible to say that a firm has policies and procedures designed to comply with ISQC 1 (Redrafted), it may not be possible to assert that the firm has performed all the procedures as set out in the requirements in all relevant cases.

IAASB Decision

48. The IAASB agreed in principle with the arguments of the respondents. It concurred with the view that a firm's quality control system involves ongoing assessments and self-correcting actions to achieve a sound basis for quality control. In a quality control system, there are likely to be inadvertent breaches or deficiencies, or policies and procedures that need to be strengthened. The effectiveness of the system depends on the deficiencies being identified on a timely basis and ensuring that the appropriate people within the firm are informed so that they can take appropriate action to address them. Compensating actions can be taken to address a particular deficiency and mitigate its effect, enabling the firm to meet the objective of the firm's system of quality control. The IAASB also noted the statement in the extant standard that a deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and regulatory and legal requirements, or that the auditor's report was not appropriate.

49. The IAASB did not believe it necessary or appropriate to amend its decision that no provision should be made for departure from a relevant requirement. Rather, it concluded that the issue raised would be addressed more effectively by ensuring that any requirements in ISQC 1 (Redrafted) that direct that firm to perform specific procedures are, in all such cases, necessarily stated in that manner. Where this is not the case, the requirements should be redrafted so as to require to firm to establish relevant policies and procedures.
50. Accordingly, after careful review, the IAASB determined that only the requirements in paragraphs 24, 30, 48-51, 53 and 56 of ISQC 1 (Redrafted) are appropriately expressed in terms of the specific procedures required of the firm, and that expressing them in terms of policies and procedures would not be appropriate having regard to the nature of the requirements. The IAASB also determined that requirements in paragraphs 19, 27-28, 36-38 and 52 of ISQC 1 (Redrafted) are more appropriately expressed in terms of requiring to firm to establish the relevant policies and procedures.

ISQC 1 (Redrafted): Application and Other Explanatory Material

51. A few respondents expressed concern that replacing the phrase “the firm considers” in the extant grey text with “may” or “may consider” in the application and other explanatory material of ED-ISQC 1 has weakened the standard by making all the firm actions in these paragraphs entirely optional.

IAASB Decision

52. The IAASB concluded that the actions specified in the application and other explanatory material do not represent requirements of the firm, and that to elevate these paragraphs would render the standard too prescriptive. However, while such guidance does not in itself impose a requirement, the IAASB is of the view that it is relevant to the proper application of the requirements. Where the guidance in ISQC 1 (Redrafted) explains more precisely what a requirement means or is intended to cover, the IAASB agreed to redraft some of them to remove qualifiers such as “may,” thereby strengthening their tone while not changing their substance as application and other explanatory material to the requirements to which they relate.