

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (REVISED) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS**(CLEAN)**

(Effective as of TBD)

[CONTENTS PAGE TO BE INSERTED]**Introduction****Scope of this ISQC**

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) include requirements for engagement partners and other personnel regarding quality management at the engagement level. ISQC 2,¹ for example, deals with the responsibilities of the engagement quality control reviewer in performing an engagement quality control review and ISA 220 (Revised)² deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. Law, regulation or relevant ethical requirements may also establish responsibilities for the firm's management of quality beyond those described in this ISQC. (Ref: Para. A1)
- 2A. This ISQC applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, regardless of the size or complexity of the firm (i.e., if the firm performs any of these engagements, this ISQC applies). However, this ISQC requires the firm to exercise professional judgment in designing, implementing and operating the system of quality management, taking into consideration the nature and circumstances of the firm and the engagements it performs, including the types of entities for which such engagements are undertaken (referred throughout this ISQC as the nature and circumstances of the firm and its engagements). These factors may change over time, and this ISQC includes requirements for the firm when such changes occur. (Ref: Para. A1A–A1B)

The Firm's System of Quality Management

3. Audits or reviews of financial statements, or other assurance or related services engagements are performed in the public interest. Accordingly, the purpose of a system of quality management is to support the consistent performance of quality engagements, through providing the firm with reasonable assurance that the objectives of the system, described in paragraphs 19(a) and (b), are achieved. This involves planning and performing engagements and reporting on them in compliance

¹ Proposed ISQC 2, Engagement Quality Control Reviews

² Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Control for an Audit of Financial Statements*

with professional standards and applicable legal and regulatory requirements, including applying professional judgment and exercising professional skepticism in achieving the objectives of those standards and legal and regulatory requirements. (Ref: Para. A2)

6. For the purposes of this ISQC, the system of quality management is organized into the following eight components:
 - (a) Governance and leadership;
 - (b) The firm's risk assessment process;
 - (c) Relevant ethical requirements;
 - (d) Acceptance and continuance of client relationships and specific engagements;
 - (e) Resources;
 - (f) Engagement performance;
 - (g) Information and communication; and
 - (h) The monitoring and remediation process.

The system of quality management is dynamic, iterative and highly integrated and does not operate in a linear manner. A further description of each of the eight components and their interrelationship is included in Appendix 1. (Ref: Para. A3)

7. The environment in which the other components of the system of quality management operate is established through the firm's governance and leadership because this component addresses the firm's culture, decision-making process, actions, the assignment of responsibility and how the firm obtains and allocates resources.
8. This ISQC requires the firm to adopt a risk-based approach to the management of quality, using the firm's risk assessment process. The firm's risk assessment process consists of:
 - (a) Establishing quality objectives. The quality objectives established by the firm consist of individual objectives that, taken together, facilitate the firm's achievement of the objective of the standard. The quality objectives that the firm is required to establish are included in this ISQC and are organized by component. However, the firm may determine that additional quality objectives are necessary for the achievement of the objective of the standard given the nature and circumstances of the firm and its engagements.
 - (b) Identifying and assessing quality risks to the achievement of the firm's quality objectives. The firm is required to identify and assess its quality risks based on the nature and circumstances of the firm and its engagements.
 - (c) Designing and implementing responses to address the firm's identified and assessed quality risks. The firm is required to design and implement responses to address quality risks. This ISQC includes certain required responses organized by component that are applicable to all firms because they would be expected in every system of quality management. However, the responses required by this ISQC alone are not sufficient to address the firm's quality risks because:

- (i) The design, implementation and operation of these responses alone will not result in the achievement of the quality objectives required by this ISQC or the achievement of the objective of the system of quality management; and
 - (ii) The nature, timing and extent of the responses that are required to appropriately address a firm's quality risks will vary based on the nature and extent of the quality risks and the reasons given to their assessments.
9. This ISQC requires the firm to evaluate the design, implementation and operation of the system of quality management through the monitoring and remediation process, which involves designing and performing monitoring activities and determining whether the findings from those activities, or other information, indicate a deficiency in the system of quality management. The monitoring and remediation process also includes the appropriate remediation of identified deficiencies.
- 9A. This ISQC includes components for resources and information and communication, which are necessary to support the operation of the other components of the system of quality management. It also includes components that address subject matter specific topics relevant to the firm's system of quality management.

Networks

10. In some circumstances, the firm may belong to a network. The network may establish requirements for the firm, or provide other services, that support the firm in designing, implementing and operating a system of quality management (hereinafter referred to as 'network requirements or services'), the purpose of which is to drive consistency in the performance of quality engagements across the firms in the network. Although the network may establish requirements or provide support, the individual firm is responsible for its system of quality management, which is required to reflect the nature and circumstances of the firm and its engagements. This ISQC includes requirements for the firm in circumstances when the firm belongs to a network and the firm includes network requirements or services in its system of quality management. (Ref: Para. A3A)

Authority of the ISQCs

13. This ISQC contains the objective of the firm in following the ISQC, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 16, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
14. The objective of this ISQC provides the context in which the requirements of the ISQC are set, and establishes the desired outcome of the ISQC to assist the firm in:
 - Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
 - Determining whether more needs to be done to achieve the objective in the particular circumstances of the firm.
15. The requirements of this ISQC are expressed using "shall."
16. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover; and
- Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.

17. This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* published by IFAC includes the terms defined in this ISQC. (Ref: Para. A4)

Effective Date

18. Systems of quality management in compliance with this ISQC are required to be established by TBD.

Objective

19. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Definitions

20. In this ISQC, the following terms have the meanings attributed below:
- (a) Deficiency in the firm’s system of quality management (referred to as ‘deficiency’ in this ISQC) – This exists when:
 - (i) A quality objective is absent or not appropriately specific given the nature and circumstances of the firm and its engagements;
 - (ii) A quality risk is not identified or appropriately specific given the nature and circumstances of the firm and its engagements;
 - (iii) A response is not:
 - a. Designed in a manner that effectively addresses a related quality risk;

- b. Implemented appropriately;
 - c. Operating as designed; or
- (iv) A response necessary to address a quality risk is absent.
- (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
 - (c) Engagement partner³ – The partner or other individual designated by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (d) Engagement quality control review – [Refer **Agenda Item 6–A**]
 - (e) Engagement quality control reviewer – [Refer **Agenda Item 6–A**]
 - (f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm, and also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁴
 - (g) External inspections – Inspections, investigations or other reviews undertaken by an external oversight authority of the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A5)
 - (h) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A6)
 - (i) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
 - (j) Network firm – A firm or entity that belongs to a network.
 - (k) Network⁵ – A larger structure: (Ref: Para. A7)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

³ “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

⁴ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

⁵ As defined in the Independent Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (Including the International Independence Standards)* (Code)

- (l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (m) Personnel – Partners and staff.
- (n) Professional judgment (in the context of ISQC 1) – The application of relevant knowledge and experience, within the context of the quality control standards, in making informed decisions about the design, implementation and operation of the firm’s system of quality management.
- (o) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*, and relevant ethical requirements.
- (p) Reasonable assurance – In the context of the ISQCs, a high, but not absolute, level of assurance.
- (q) Relevant ethical requirements (in relation to the ISQCs) – Principles of professional ethics and ethical requirements to which the firm and its personnel are subject in undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements, given the nature and circumstances of the firm and its engagements. Relevant ethical requirements ordinarily comprise the provisions of the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (Including International Independence Standards)* (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. A55)
- (r) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk: (Ref: Para. A8–A9)
 - (i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
- (s) Staff – Professionals, other than partners, including any experts the firm employs.
- (t) System of quality management – A system designed, implemented and operated by a firm that consists of the following eight interrelated components:
 - (i) Governance and leadership;
 - (ii) The firm’s risk assessment process;
 - (iii) Relevant ethical requirements;
 - (iv) Acceptance and continuance of client relationships and specific engagements;
 - (v) Resources;
 - (vi) Engagement performance;
 - (vii) Information and communication; and
 - (viii) The monitoring and remediation process.

Requirements

Applying, and Complying with, Relevant Requirements

21. 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 ISQC relevant to their responsibilities, including the application and other explanatory material, to understand the objective of this ISQC and to apply its requirements properly. (Ref: Para. A10)
22. The firm shall comply with each requirement of this ISQC unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A11)
23. The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements in this ISQC is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm determines that the application of the requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm shall take further actions. Such actions shall include consideration of whether additional quality objectives than those required by this ISQC are necessary to support the achievement of the objective of this ISQC.

System of Quality Management

24. The firm shall design, implement and operate a system of quality management, in accordance with the requirements of this ISQC.
25. The firm shall exercise professional judgment, taking into consideration the nature and circumstances of the firm and its engagements, in designing, implementing and operating a system of quality management. (Ref: Para. A12)

Governance and Leadership

26. 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, organization 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 firm personnel for quality in conducting engagements or performing duties within the system of quality management. (Ref: Para A14–A16)
 - (b) The firm has leadership who are responsible and accountable for quality.
 - (c) The firm's strategic decisions and actions, including financial and operational priorities, reflect the firm's commitment to quality and do not undermine the firm's role in consistently performing quality engagements in the public interest. (Ref: Para A17–A18)
 - (d) The firm has organizational structures with appropriate designation of authority and responsibility that support the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management. (Ref: Para A19–A20)
 - (e) The firm has appropriate resource planning, including anticipation of resource needs, and obtains and allocates resources in a manner that supports the firm's commitment to quality and

the design, implementation and operation of the firm's system of quality management. (Ref: Para A21–A22)

- (f) The firm complies with the requirements of law, regulation, and professional standards that relate to the governance and leadership of the firm, if applicable. (Ref: Para A13)
27. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to governance and leadership:
- (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) assuming such responsibility and accountability shall: (Ref: Para. A23)
 - (i) Have the appropriate experience and knowledge to assume their assigned responsibility.
 - (ii) Demonstrate a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes, and establishing the expected behavior of personnel in conducting engagements and performing duties within the system of quality management. (Ref: Para A14–A16)
 - (iii) Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the following matters to personnel that fulfill the requirements in paragraph 28: (Ref: Para A25–A26)
 - a. The system of quality management as a whole; and
 - 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.
 - (b) Establishing policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the matters set out in paragraph 27(a)(iii) to hold individuals accountable for the responsibilities assigned to them. (Ref: Para. A28–A31)
 - (c) Establishing policies or procedures for 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) within the firm without fear of reprisal and enabling the investigation of such concerns. (Ref: Para. A32–A35)
28. The individual(s) assigned operational responsibility for the matters set out in paragraph 27(a)(iii) shall have: (Ref: Para. A27)
- (a) The appropriate experience and knowledge and sufficient time to assume their assigned responsibility;
 - (b) A direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management; and
 - (c) An understanding of their operational responsibilities for the firm's system of quality management or specific aspects of the system of quality management.

The Firm's Risk Assessment Process

29. The firm shall establish the quality objectives required by this ISQC to facilitate the achievement of the objective of this ISQC. (Ref: Para. A36–A39)
30. The firm shall understand the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, taking into consideration the nature and circumstances of the firm and its engagements. (Ref: Para. A36–A37, A40)
31. Based on the understanding obtained in paragraph 30, the firm shall identify quality risks, before consideration of any responses, that: (Ref: Para. A36–A37, A41–A42)
 - (a) Have a reasonable possibility of occurring; and
 - (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). (Ref: Para. A44)
32. The firm shall assess the identified quality risks to provide a basis for the design and implementation of the related responses. (Ref: Para. A36–A37, A45)
33. The firm shall design and implement responses to address the assessed quality risks that are based on and responsive to the reasons for the assessment given to the quality risks. (Ref: Para. A36–A37, A46–A51)
34. In designing and implementing responses in accordance with paragraph 33, the firm shall include the responses required by this ISQC. In doing so, the firm shall determine that the required responses are appropriately designed and implemented in the context of the nature of the quality risks identified by the firm and the likelihood of the quality risks occurring. (Ref: Para. A36–A37, A52)
35. When changes in the nature and circumstances of the firm or its engagements occur, the firm shall determine whether the quality objectives, quality risks and responses remain appropriate and if not, modify them through applying the requirements in paragraphs 29–34. (Ref: Para. A36–A37, A53–A54)

Relevant Ethical Requirements

36. The firm shall establish the following quality objectives that address the fulfillment of relevant ethical requirements, which as defined include the principles of professional ethics: (Ref: Para. A55)
 - (a) The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including the independence requirements.
 - (b) The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements, including the independence requirements.
 - (c) The firm, its personnel and others subject to relevant ethical requirements identify and appropriately respond to breaches of the relevant ethical requirements, including the independence requirements, in a timely manner.
37. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to relevant ethical requirements: (Ref: Para. A55A, A56 and A61)

- (a) Identifying:
 - (i) The relevant ethical requirements applicable to the firm and its personnel because of the nature and circumstances of the firm and its engagements; and
 - (ii) The personnel and others that are required to comply with the relevant ethical requirements, which includes, as applicable, the network, other network firms or personnel in the network or other network firms.
- (b) Establishing policies or procedures that enable the firm and its personnel to identify and evaluate threats to compliance with the relevant ethical requirements and address them appropriately. (Ref: Para. A57–A58)
- (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. (Ref: Para. A59–A60)
- (d) Obtaining, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent.

Acceptance and Continuance of Client Relationships and Specific Engagements

38. 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: (Ref: Para. A62)
- (a) The firm obtains sufficient appropriate information and makes appropriate judgments 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. (Ref: Para. A63–A66)
 - (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, including that the firm has: (Ref: Para. A67)
 - (i) Appropriate resources to perform the engagement; and
 - (ii) Access to information, or the persons from whom the firm determines it is necessary to obtain information, necessary to be able to perform the engagement.
 - (c) Financial and operational priorities do not inappropriately influence the firm's decision to accept and continue client relationships and specific engagements. (Ref: Para. A68)
 - (d) The firm responds appropriately in circumstances when the firm becomes aware of information subsequent to client or engagement acceptance that: (Ref: Para. A70)
 - (i) Would have caused it to decline an engagement had that information been available prior to accepting or continuing a client relationship or specific engagement; or
 - (ii) Affects the firm's decision to continue a client relationship or specific engagement.
39. In designing and implementing responses to address the quality risks identified by the firm, the firm shall establish 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. (Ref: Para. A71–A72)

Resources

40. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining and allocating resources, including financial resources, human resources, technological resources, and intellectual resources, in a timely manner to support the design, implementation and operation of the system of quality management: (Ref: Para. A73–A76)
- (a) The firm attracts, develops and retains personnel, including engagement partners, who have the competence and capabilities to: (Ref: Para. A77–A79)
 - (i) Consistently perform quality engagements, including knowledge or experience regarding professional standards and applicable law or regulation for the engagements the firm performs; or
 - (ii) Perform duties in relation to the operation of the firm's system of quality management.
 - (b) The firm assigns an engagement partner and other human resources to each engagement that have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A80–A81)
 - (c) The firm assigns human resources to perform duties within the system of quality management that have appropriate competence and capabilities to perform such duties.
 - (d) Personnel demonstrate a commitment to quality and the development and maintenance of the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A82–A84)
 - (e) The firm obtains or develops, implements and maintains technological resources to appropriately support the operation of the firm's system of quality management and the consistent performance of quality engagements. (Ref: Para. A85–A89)
 - (f) The firm obtains or develops, implements and maintains, intellectual resources to appropriately support the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A90–A91)
 - (g) Personnel are able to appropriately apply or use the firm's technological and intellectual resources.

Engagement Performance

42. The firm shall establish the following quality objectives that address the performance of quality engagements in accordance with professional standards and legal and regulatory requirements:
- (a) Personnel understand and fulfill their responsibilities in connection with the engagement, including, as applicable: (Ref: Para. A92–A93)
 - (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
 - (ii) The appropriate direction and supervision of the engagement team and review of the work performed.

- (b) Engagement teams make appropriate judgments and reach appropriate conclusions in accordance with professional standards and applicable legal and regulatory requirements, and exercise professional skepticism in performing engagements. (Ref: Para: A95)
 - (c) The engagement documentation is appropriately assembled and retained.
43. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to engagement performance:
- (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 the direction and supervision of the engagement team by more experienced engagement team members and the review by more experienced engagement team members of the work performed by less experienced team members. (Ref: Para. A92–A93)
 - (b) Communicating the engagement team’s responsibility for:
 - (i) Implementing the firm’s responses that are applicable at the engagement level; and
 - (ii) Planning and performing the engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - (c) Establishing policies or procedures addressing consultation, including the engagement team’s responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented. (Ref: Para. A96–A97)
 - (d) Establishing policies or procedures addressing differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality control reviewer or personnel performing duties within the firm’s system of quality management, including those who provide consultation. (Ref: Para. A98)
 - (e) [Refer to **Agenda Item 6–B**]
 - (f) Establishing policies or procedures addressing assembly and retention of documentation that require:
 - (i) The engagement files to be assembled within an appropriate period of time after the engagement reports have been finalized; and (Ref: Para. A110)
 - (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. (Ref: Para. A111–A114)

Information and Communication

44. The firm shall establish the following quality objectives that address obtaining, generating or using relevant information and communicating relevant information internally and externally on a timely basis to support the design, implementation and operation of the system of quality management: (Ref: Para. A115)
- (a) The firm has an information system that identifies, captures, processes and maintains relevant and reliable information, whether from internal or external sources, to support the design, implementation and operation of the components of the system of quality management. (Ref: Para. A116–A118)

- (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 for the performance of engagements and duties within the system of quality management. (Ref: Para. A119)
 - (c) The firm's culture promotes and emphasizes the responsibility of personnel for the exchange of information with the firm and among its personnel. (Ref: Para. A119)
 - (d) Personnel communicate relevant and reliable information when performing engagements and performing duties within the system of quality management. (Ref: Para. A119)
 - (e) The firm communicates information about the system of quality management to external parties when: (Ref: Para. A122–A125)
 - (i) Required by law, regulation or relevant ethical requirements; or
 - (ii) Otherwise as appropriate, unless prohibited by law or regulation.
45. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to information and communication:
- (a) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated, including: (Ref: Para. A119–A120)
 - (i) Changes in the system of quality management.
 - (ii) The information that the engagement team is required to provide the firm to support the design, implementation and operation of the firm's system of quality management, including information that is required to be communicated in accordance with professional standards, law or regulation.
 - (iii) In circumstances when the firm is part of a network, matters to be communicated by the firm to the network. (Ref: Para. A121)
 - (b) Establishing policies or procedures addressing the communication of information about the firm's system of quality management to parties external to the firm, including identifying external parties with whom communication is necessary, if any, and the nature, timing and extent of such communication. Such policies and procedures shall take into consideration: (Ref: Para A122–A123, A126–A129)
 - (i) The communication requirements set out in law, regulation or professional standards, where relevant; (Ref: Para A125)
 - (ii) The firm's relevant stakeholders, including the extent to which they use information about the firm's system of quality management to support their understanding of the quality of the engagements performed by the firm; and
 - (iii) The nature of the engagements the firm performs and the types of entities for which such engagements are performed, including whether, and the extent to which the firm performs engagements for entities that have a significant public interest. (Ref: Para A130)

Monitoring and Remediation Process

46. The firm shall establish the following quality objectives that address the firm's monitoring and remediation process that support the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved: (Ref: Para. A131)
- (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.
 - (b) The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are effectively remediated on a timely basis.
 - (c) The firm's monitoring and remediation process provides information to the individual(s) assigned ultimate responsibility and accountability for the system of quality management sufficient to support their evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).
47. The firm shall design and implement responses for the monitoring and remediation process in accordance with paragraphs 48–59

Designing and Performing Monitoring Activities

48. In designing and implementing monitoring activities, the firm shall determine the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities, taking into consideration: (Ref: Para. A132–A136)
- (a) For a response, the design of the response and the identified and assessed quality risks, including the nature of engagements where quality risks have been assessed as more likely to occur; (Ref: Para. A138–A139)
 - (b) For monitoring activities over the firm's risk assessment process, the design of the process;
 - (c) Changes in factors that have affected the firm's system of quality management; (Ref: Para. A140)
 - (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 (Ref: Para. A141)
 - (e) Other relevant information that may suggest deficiencies exist in the firm's system of quality management, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A141–A143)
49. The firm shall design and implement monitoring activities to determine whether the responses that are required to be implemented at the engagement level have been implemented. Such monitoring activities shall include inspection of engagements based on criteria established by the firm that takes into consideration the factors in paragraph 48 and which include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm. (Ref: Para. A144–A146)

50. The firm shall establish policies or procedures that:
- (a) Require those performing the monitoring activities to have sufficient time and the competence, experience and knowledge 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 control reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A147)

Identifying and Evaluating the Deficiencies

51. The firm shall establish policies or procedures addressing:
- (a) The evaluation of the findings arising from the monitoring activities, the results of external inspections and any other relevant information to determine whether one or more deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A148–A151)
 - (b) The investigation of the root cause(s) of the deficiencies, including that the nature, timing and extent of the procedures to be performed take into consideration the nature of the deficiencies and their possible severity. (Ref: Para. A152–A156)
 - (c) The evaluation of the severity and pervasiveness of the deficiencies, including the effect of the deficiencies on the system of quality management as a whole. (Ref: Para. A157)

Responding to Identified Deficiencies

52. The firm shall design and implement remedial actions to address the deficiencies that are responsive to the results of the root cause analysis, including determining whether the quality objectives, quality risks and responses remain appropriate. (Ref: Para. A158)
53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management, or the individual assigned operational responsibility for the system of quality management, shall evaluate whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s) and determine whether they have been implemented.

Findings in Relation to a Particular Engagement

54. In circumstances when a finding relates to an engagement and there is an indication that the report may be inappropriate or that procedures required were omitted during the performance of the engagement, the firm shall: (Ref: Para. A159)
- (a) Determine what further action is necessary to comply with relevant professional standards and applicable legal and regulatory requirements; and
 - (b) Consider whether to obtain legal advice.

Ongoing Communication Related to Monitoring and Remediation

55. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management:

- (a) A description of the monitoring activities performed;
 - (b) The deficiencies identified by the firm, including the severity and pervasiveness of such deficiencies; and
 - (c) The remedial actions to address the deficiencies, including the planned communication to personnel and parties that are external to the firm, as necessary.
56. The firm shall communicate the matters described in paragraph 55 to personnel to the extent that it is relevant to their responsibilities and to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. (Ref: Para. A160)
57. The firm shall communicate information in relation to the results of the firm's monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 45(b).

Evaluating the Effectiveness of the System of Quality Management

58. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b), taking into consideration: (Ref: Para. A161)
- (a) The severity and pervasiveness of the deficiencies;
 - (b) The evaluation in paragraph 53 regarding whether the remedial actions are appropriately designed to address the deficiencies and their related root cause(s), and have been implemented; and
 - (c) Whether there has been appropriate communication of matters related to monitoring and remediation internally and with external parties.
- 58A. The evaluation shall be performed at least annually or when the effect of the deficiencies is of a severity and pervasiveness that indicates that the system may not be providing the firm with such reasonable assurance.
59. If the evaluation indicates that the firm does not have reasonable assurance, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall take prompt and appropriate action in accordance with their responsibilities, including communicating this fact to personnel to the extent that it is relevant to their responsibilities. (Ref: Para. A162–A163)

Network Requirements or Services

60. When the firm operates as part of a network, the firm shall understand the requirements established by the network in relation to the firm's system of quality management and identify any other services offered by the network that the firm intends to use in its system of quality management. Notwithstanding the firm's use of network requirements or services, the firm remains responsible for its system of quality management, including the firm's risk assessment process. (Ref: Para. A164)

The Firm's Risk Assessment Process

61. For the network requirements or services, in addition to complying with the requirements in paragraphs 29–34, the firm shall: (Ref: Para. A165–A166)

- (a) As part of the establishment of quality objectives, determine whether quality objectives identified by the network, if any, are appropriate for use in the firm's system of quality management;
- (b) As part of the identification and assessment of quality risks, determine whether quality risks identified by the network, if any, are appropriate for use in the firm's system of quality management; and
- (c) As part of the design and implementation of responses, determine whether responses designed by the network, if any, are appropriate for use in the firm's system of quality management. (Ref: Para. A167)

Resources

- 61A. For the network requirements or services, the firm's responses for resources in paragraph 45 shall include determining the firm's responsibilities in implementing the resources provided by the network, if applicable, including any related actions by the firm.

Information and Communication

62. For the network requirements or services, the firm's responses for information and communication in paragraph 45 shall include determining the expected form, timing and content of communications between the firm and the network. (Ref: Para. A168)

Monitoring and Remediation Process

63. If the network performs monitoring activities, the firm shall: (Ref: Para. A169–A173)
- (a) As part of designing and implementing monitoring activities in paragraph 48:
 - (i) Determine whether the monitoring activities performed by the network are appropriate for use in the firm's system of quality management;
 - (ii) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
 - (iii) Obtain, at least annually, information about the overall scope, extent and results of the monitoring activities across the network firms' systems of quality management to determine whether it suggests deficiencies in the firm's system of quality management;
 - (b) As part of identifying and evaluating deficiencies in paragraph 51, obtain the results of the monitoring activities of the firm's system of quality management from the network in a timely manner; and
 - (c) Obtain information about the deficiencies identified in other network firms' systems of quality management, if relevant to the firm, so that the firm can take prompt and appropriate action, unless prohibited by law or regulation.
64. As part of identifying and evaluating deficiencies in paragraph 51, if the firm identifies deficiencies in the network requirements and services, the firm shall communicate to the network relevant information about the identified deficiencies. (Ref: Para. A172)
65. As part of designing and implementing remedial actions in paragraph 52, for deficiencies related to the network requirements or services the firm shall: (Ref: Para. A173)

- (a) Understand the planned remedial actions by the network;
- (b) Understand whether the network's remedial actions are designed and implemented to address the deficiencies and their related root cause(s); and
- (c) Determine the supplementary remedial actions needed by the firm, if any.

Service Providers

66. When the firm intends to obtain or use resources provided by a service provider in performing engagements or designing, implementing and operating its system of quality management, the firm's responses for resources shall include:

- (a) Establishing the nature and scope of the services, including the firm's responsibilities in using the resources, and determining the ability of the firm to fulfill relevant ethical requirements in relation to their use, if applicable; (Ref: Para. A174–A177)
- (b) Obtaining an understanding of the service provider and determining the expected form, timing and content of communications between the firm and the service provider; (Ref: Para. A178)
- (c) Determining that the reputation or competence and capabilities of the service provider are appropriate in the context of the service provided; and
- (d) Determining whether the resource is appropriate for use in the system of quality management, including where periodic changes are made to the resources provided. (Ref: Para. A179)

Notwithstanding the firm's use of a service provider(s), the firm remains responsible for its system of quality management.

67. As part of identifying and evaluating deficiencies in paragraph 51, if the firm identifies deficiencies in the resources provided by the service provider, the firm shall communicate to the service provider information about the identified deficiencies. The firm shall also:

- (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 deficiencies relevant to the firm and their related root cause(s);
- (b) Determine the supplementary remedial actions needed by the firm, if any; and
- (c) Consider whether to continue using the services provided by the service provider.

Documentation

68. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A180–A182)

- (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;
- (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.

69. The documentation shall include: (Ref: Para. A183)

- (a) The firm's quality objectives and quality risks;
 - (b) A description of the responses and how the firm's responses address the quality risks;
 - (c) In relation to the monitoring and remediation process:
 - (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 deficiencies and their related root cause(s);
 - (iii) Remedial actions to address deficiencies and the evaluation of the design and implementation of such remedial actions;
 - (v) Communications about monitoring and remediation;
 - (vi) The basis for the evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).
70. When network requirements or services or resources provided by service providers are used in the firm's system of quality management, the documentation shall include:
- (a) The matters in paragraph 69 as they relate to network requirements or services or resources from service providers that are used by the firm in its system of quality management; and
 - (b) The firm's basis for determining that it is appropriate to use the network requirements or services or the resources from a service provider in its system of quality management.
71. The firm shall establish a period of time for the retention of documentation for the system of quality 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.

Application and Other Explanatory Material

Scope of this ISQC (Ref: Para. 2–2A)

- A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)⁶ and ISAE 3000 (Revised),⁷ also establish requirements for the engagement team for the management of quality at the engagement level.
- A1A. The nature and circumstances of the engagements performed by the firm may affect the system of quality management. For example, a firm that performs varying types of engagements for a wide variety of entities will likely have a more complex system of quality management than a firm that performs only reviews of financial statements or compilation engagements for non-complex entities that are not listed or do not have significant public interest.

⁶ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁷ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

A1B. Professional judgment is necessary for the design, implementation and operation of the entire system of quality management, including decisions about:

- The appropriate structures, reporting lines or authority and responsibility that support the firm's commitment to quality.
- The granularity of the quality objectives that the firm establishes and whether additional quality objectives are necessary to achieve the overall objective of the standard.
- The identification and assessment of the quality risks.
- The appropriate nature, timing and extent of the responses to address the quality risks.
- The resources and information and communication that are appropriate to support the design, implementation and operation of the components of the system of quality management.
- The evaluation of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19 (a) and (b), taking into consideration the evaluation of the results of the monitoring activities, external inspections and other relevant information.
- The determination of whether a network requirement or service or resource provided by a service provider is appropriate for use in the firm's system of quality management and the further actions that need to be taken by the firm in using the network requirement or service, or the resource provided by a service provider.

The Firm's System of Quality Management (Ref: Para. 3–7)

- A2. Reasonable assurance is a high, but not absolute, level of assurance and is obtained when the firm's system of quality management reduces to an acceptably low level the risk that the objectives set out in paragraph 19(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a firm's system of quality management. Such limitations include the reality that human judgment in decision-making can be faulty and that breakdowns in the firm's system of quality management may occur because of human error or behavior.
- A3. Given the integration of the components, the application material of this ISQC describes examples of relationships between the components.

Networks (Ref: Para. 10)

- A3A. Although a network may impose requirements on the network firms to promote consistency across the network, differences ordinarily arise across firms within the network because of the effect of jurisdictional circumstances.

Authority of the ISQCs (Ref: Para. 17)

- A4. The Glossary of Terms may also include descriptions of other terms found in the ISQCs to assist in common and consistent interpretation and translation.

Definitions

External Inspections (Ref: Para. 16(g))

- A5. Other reviews undertaken by an external oversight authority may include, for example, informal reviews undertaken by an external oversight authority to assess a firm's preparation for the implementation of a new professional standard, or reviews of specific areas of focus that contribute to the improvement of engagement quality.

Firm (Ref: Para. 16(h))

- A6. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ISQC.

Network (Ref: Para. 16(k))

- A7. Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The network may establish requirements in relation to the firm's system of quality management (referred to as "network requirements" in this ISQC), and the network may provide other services for the firm to use in its system of quality management (referred to as "network services" in this ISQC). In some instances, other firms or organizations within the network may also provide services that are used by the firm in its system of quality management. These are also considered "network services" for the purposes of this ISQC.

Response (Ref: Para. 20(r))

- A8. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies, or through their restraint from taking actions that would conflict with such policies.
- A9. Procedures may be mandated, through formal documentation or other communication, or may result from behaviors that are not mandated but are rather conditioned by the firm's culture. Procedures may be enabled through the application of information technology.

Applying, and Complying with, Relevant Requirements (Ref: Para. 21–23)

- A10. In some instances the individual(s) assigned ultimate responsibility and accountability for the system of quality management may also assume operational responsibility for the system of quality management. For example, this may be the case in smaller firms.
- A11. Examples of when a requirement of this ISQC may not be relevant include circumstances when the firm is a sole practitioner or when the firm only performs engagements that are related services engagements.

System of Quality Management (Ref: Para. 25)

- A12. Firms may have a variety of internal and external factors that affect the manner in which they operate. Factors that may affect the firm's decisions about matters related to the firm's system of quality management include:
- The nature and circumstances of the firm, for example, its size and operating characteristics and the firm's strategic decisions and actions, including those about financial and operational matters, the geographical dispersion and the extent to which the firm concentrates or centralizes its processes or activities. The nature and circumstances of the firm may also be affected by external factors, for example, law or regulation, economic stability and social

factors. Furthermore, when the firm is within a network, the firm's decisions may be affected by the nature of the network, how the network is organized, the nature of what is performed at the network level and the extent to which the firm intends to use the network requirements or services in the system of quality management.

- The nature of the engagements performed by the firm, for example, whether the firm performs only compilation engagements or performs a variety of engagements, including audits of financial statements. These may also be affected by external factors, such as relevant professional standards and law or regulation. The nature of the engagements is also affected by the types of the entities for which such engagements are undertaken, for example, the industries in which the entities operate and whether the entities are owner-managed, listed or have significant public interest. An engagement may have significant public interest because it has a large number and wide range of stakeholders and considering the nature and size of the business.

Governance and Leadership (Ref: Para. 26–28)

A13. Law, regulation or other professional standards may prescribe additional matters related to the governance of the firm, for example, the firm may be required to follow an audit firm governance code that may incorporate specific governance principles and require adherence to specific provisions.

Culture (Ref: Para. 26(a) and 27(a)(i))

A14. The firm's culture is an important factor in influencing the behavior of personnel, while at the same time accomplishing the firm's strategic goals. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ISQC. Professional values and attitudes may include, for example:

- Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability;
- A commitment to teamwork;
- Maintaining an open mind to new ideas or different perspectives in the professional environment.
- Pursuit of excellence;
- A commitment to continual improvement (e.g., beyond the minimum requirements for continuing professional development); and
- Social responsibility.

A15. A culture that promotes the conduct of quality engagements is likely to involve clear, consistent, frequent and effective actions, including communication, at all levels within the firm that emphasize the firm's commitment to quality. The tone at the top and the attitude towards quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes, are set by the individual(s) assigned ultimate responsibility and accountability for the system of quality management through their personal conduct, communication and actions. This is further shaped and reinforced by other personnel who are expected to embed or demonstrate the behaviors that confirm the firm's commitment to quality.

A16. The nature and extent of the actions of the individual(s) assigned ultimate responsibility and accountability for the system of quality management in establishing a culture may depend on factors such as the size, structure, geographical dispersion and complexity of the firm. For example, a smaller firm may be able to influence the desired culture through the direct interaction of firm leadership with other personnel. For a larger firm in which personnel are dispersed across many geographical locations, more formal communication (as part of the firm's information and communication) may be necessary. Other actions that may be taken to establish the expected behavior of personnel include establishing a code of conduct for personnel as part of the firm's intellectual resources.

Strategic Decisions and Actions (Ref: Para. 26(c))

A17. It is important that the firm's strategic decision-making process, which may include establishing a business strategy, takes into consideration how its decisions about the firm's own interests affect the consistent performance of quality engagements.

Public Sector Considerations

A18. In the public sector, although the firm's strategic decisions and actions may be less affected by matters such as profit or market share, they are nevertheless affected by financial and operational priorities, for example, the allocation of financial resources.

Organizational Structures (Ref: Para. 26(d) and 27(a)(iii))

A19. The organizational structure of the firm may also include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, for example, engagement teams may include human resources from service delivery centers who perform specific tasks that are repetitive or specialized in nature.. Service delivery centers may be established at the firm level, network level, or by another firm or group of firms within the same network.

A20. How the firm assigns roles, responsibilities and authority within the firm may vary. For example, the leadership structure of a smaller firm may comprise a single managing partner with sole responsibility for the oversight of the firm. Larger firms may have multiple levels of leadership, such as a chief executive officer (or equivalent) and managing board of partners (or equivalent), and further levels that reflect the organizational structure of the firm. Some firms may also have an independent governing body that has non-executive oversight of the firm. At a jurisdictional level, law or regulation may prescribe the leadership and management structure of the firm.

Resources (Ref: Para. 26(e))

A21. The individuals(s) assigned ultimate responsibility and accountability, or operational responsibility, for the system of quality management may be able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how the resources are allocated, including the timing of when they are used. Resources include those set out in paragraph A81.

A22. Resource needs may change over time as a result of changes in the nature and circumstances of the firm (e.g., the emergence of new or advanced technology or evolution in the firm's business model) and the engagements performed by the firm. The resources themselves may also change, for example, the firm may experience a period of high staff turnover that affects how the firm allocates

its human resources to engagements. Accordingly, it is necessary for the firm to anticipate its future resource needs, to the extent practicable, as well as to determine those currently required and to have processes in place to deal with resource needs that cannot be anticipated.

Firm Leadership Responsibility and Accountability (Ref: Para. 26(b) and 27(a))

A23. Paragraph A26 explains the various leadership structures that may exist in a firm. Ordinarily the person with ultimate responsibility and accountability for the system of quality management is the chief executive officer (or equivalent), or the firm's managing partner (e.g., in the case of a smaller firm). However, for some firm management structures it may be appropriate for there to be shared responsibility and accountability amongst the firm's managing board of partners (or equivalent).

Operational Responsibility (Ref: Para. 27(a)(iii))

A25. The individual(s) assigned ultimate responsibility and accountability for the system of quality management is responsible and accountable for the firm achieving the objective in accordance with paragraph 19. The individual(s) assigned operational responsibility for the system of quality management as a whole is responsible and accountable for the design, implementation and operation of the firm's system of quality management. In some instances, operational responsibility for all of the matters in paragraph 22(a)(iii) may be assigned to one individual, particularly in the case of a smaller firm. These responsibilities may also be assumed by the individual(s) assigned ultimate responsibility and accountability for the system of quality management in some cases.

A26. In some instances, the individual assigned operational responsibility for the system of quality management may further assign specific roles, procedures, tasks or actions to other individuals within the firm. For example, in addition to assigning responsibility for compliance with independence requirements and the monitoring and remediation process, the individual may assign responsibility for technological resources.

A27. In some circumstances, the firm may establish additional criteria for the eligibility of the individual(s) assigned operational responsibility for the matters set out in paragraph 22(a)(iii). For example, a larger firm may assign operational responsibility for compliance with independence requirements to an individual who is autonomous from the service lines within the firm, in order that decisions about independence are undertaken in an impartial manner.

Performance Evaluations (Ref: Para. 27(b))

A28. Periodic performance evaluations of individual(s) within the firm are a required response to promote the accountability of such individual(s) for the responsibilities assigned to them. In considering the performance of individuals, the firm may take into consideration:

- The results of the firm's monitoring activities (monitoring and remediation) in relation to aspects of the system of quality management that relate to the responsibility of the individual, for example, the results of the firm's monitoring activities in relation to the aspects of the system of quality management that relate to the responsibility may be evaluated against targets.
- The actions taken by the individual(s) in response to deficiencies identified that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.

A29. The results of the performance evaluations may be positive, i.e., they may indicate that the individual(s) has fulfilled their responsibilities. A positive outcome may be rewarded through

compensation, promotion and other incentives that promote a commitment to quality, and reinforce accountability. On the other hand, when the results of the performance evaluations are negative, corrective actions may be taken by the firm to address performance issues that may affect the firm's achievement of its quality objectives.

- A30. Given the unique position of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the performance evaluations may be undertaken by an independent non-executive member of the firm's governing body, a special committee overseen by the firm's governing body or the firm may appoint an external service provider to perform the evaluation. In the case of smaller firms, it may not be practicable to perform performance evaluations, however in such cases, the results of the firm's monitoring activities (monitoring and remediation) may provide an indication of the performance of the individual(s).

Public Sector Considerations

- A31. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the outcome of the performance evaluation, given the nature of the individual's appointment.

Complaints and Allegations (Ref: Para. 27(c))

- A32. Establishing policies or procedures for complaints and allegations supports the firm's commitment to quality. Complaints and allegations may originate from within or outside the firm and they may be made by personnel or external parties, such as clients or others within the firm's network. Complaints and allegations may relate to the failure of the work performed by the firm to comply with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures. A complaint or allegation may indicate that there is a deficiency in the system of quality management that would be other information considered by the firm as part of its monitoring and remediation, as described in paragraph 48.
- A33. Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances where complaints or allegations arise, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm. For example, sections 260 and 360 of the IESBA Code addresses the approach to be taken by the firm or its personnel in responding to non-compliance or suspected non-compliance with laws or regulations. Communications external to the firm would be managed through the firm's information and communication component.
- A34. In identifying an appropriate individual(s) (human resource) to whom complaints and allegations are communicated, the firm may take into consideration factors such as whether the individual(s) has:
- The experience, knowledge, time and appropriate authority within the firm needed to assume the role; and
 - A direct reporting line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.
- A35. The firm may also identify an individual(s) (human resource) responsible for supervising the investigation of the complaint and may take into consideration:
- The factors described in paragraph A34; and

- Whether the individual(s) is otherwise not involved in the engagement or has sufficient objectivity from the area or personnel subject to the investigation.

The individual(s) supervising the investigation may involve legal counsel as necessary. In the case of a smaller firm, it may not be practicable to identify an individual to supervise the investigation that is not involved in the engagement or other subject matter of the investigation. As a result, such firms may use an external service provider to carry out the investigation into complaints and allegations, for example, legal counsel or a consultant.

The Firm's Risk Assessment Process (Ref: Para. 29–35)

- A36. The approach that the firm takes to the risk assessment process may vary according to how the firm is structured and organized. In some circumstances the firm's risk assessment process may be centralized, with the firm cascading the quality objectives, quality risks and responses to its various business units and service lines. In other circumstances the process may be decentralized and undertaken at a business unit or service line level, with the outputs combined at the firm level. Although this ISQC is organized by components, the firm's risk assessment process may be undertaken for all of the components together because of the interrelationship of the components.
- A37. When the firm belongs to a network, in order to promote consistency in the performance of quality engagements across firms in the network, the network may provide quality objectives, quality risks or responses for the firm to incorporate in the firm's risk assessment process. Paragraph 61 sets out the responsibilities of the firm in such circumstances. Although the firm may include such quality objectives, quality risks or responses in its risk assessment process, the firm still has a responsibility to fulfill the requirements in paragraphs 29–35 in establishing quality objectives, identifying and assessing quality risks and designing and implementing responses that reflect the nature and circumstances of the firm and its engagements.

Establish Quality Objectives (Ref: Para. 29)

- A38. The quality objectives that the firm is required to establish are set out in paragraphs 26, 36, 38, 40, 42, 44 and 46. The firm may decide that more granular quality objectives than those set out in this ISQC are appropriate given the nature and circumstances of the firm and its engagements. Furthermore, paragraph 23 addresses circumstances when the firm determines that additional quality objectives need to be established to support the achievement of the objective of this ISQC. The firm applies professional judgment in determining whether additional or more granular quality objectives are necessary in the circumstances.
- A39. Although the quality objectives set out in this ISQC are organized by component, an objective in one component may overlap, be related to, support or be supported by a quality objective in another component. For example, the quality objective in information and communication addressing the communication of relevant and reliable information in a timely manner to firm personnel supports the quality objective in the relevant ethical requirements component addressing the understanding of

relevant ethical requirements by the firm, its personnel and others subject to relevant ethical requirements.

Conditions, Events, Circumstances, Actions or Inactions that may Affect the Achievement of the Quality Objectives (Ref: Para. 30)

A40. In understanding the conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, the firm may consider what could go wrong in relation to the factors described in paragraph A12 that could affect the achievement of the quality objectives. Such consideration may also assist with the identification of the quality risks.

Identify and Assess Quality Risks (Ref: Para. 31–32)

A41. The firm applies professional judgment in identifying and assessing the quality risks. The process for identifying and assessing the quality risks may involve a combination of ongoing and periodic risk identification and assessment procedures.

A42. Under this ISQC, not every risk to the achievement of the quality objectives needs to be identified and further assessed. The firm identifies the quality risks based on a preliminary consideration of the possibility of the quality risks occurring and the effect on the achievement of the quality objectives. Only those quality risks that have a reasonable possibility of occurring and, if they were to occur, a significant effect on the achievement of the quality objective(s) need to be identified and further assessed. There is a reasonable possibility of a risk occurring when the likelihood of its occurrence is more than remote. The further assessment of the quality risks involves a more precise consideration of the degree of the likelihood of the quality risks occurring and degree of the effect of the quality risks on the achievement of the quality objectives.

A44. The significance of the effect of the quality risk on the achievement of a quality objective(s) is judged in the context of the underlying conditions and events that gave rise to the quality risk, as well as the nature and circumstances of the firm and its engagements, which are further described in paragraph A12. There may be several quality risks for a quality objective and each quality risk may have a different degree of effect on the quality objective if it were to occur.

A45. The assessment of the quality risks need not comprise formal ratings or scores, and may involve taking into consideration:

- The expected frequency of the quality risk occurring.
- The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk.
- The duration of time of the effect of the quality risk after it has occurred.

Design and Implement Responses to Quality Risks (Ref: Para. 33–34)

A46. The firm applies professional judgment in designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the quality risks, which includes:

- The likelihood of the quality risk occurring. For example, the higher the likelihood of the quality risk occurring, the more robust the response needs to be.

- The significance of the effect on the achievement of the quality objectives. For example, the more significant the effect of the quality risk on the achievement of the quality objectives, the more robust the response may need to be.
 - The conditions, events, circumstances, actions or inactions that give rise to the quality risks. For example, if the quality risk relates specifically to engagements performed for a category of clients (e.g., audits of financial statements of listed entities), the responses may require specific actions for clients in that category, rather than all engagements performed by the firm.
- A48. The nature and circumstances of the firm and its engagements affect the reasons for the assessment given to the quality risks, and the nature, timing and extent of the responses designed and implemented to address the quality risks. For example, in demonstrating a commitment to quality as required by paragraph 27(a)(ii) (i.e., a response), leadership of a smaller firm may engage in direct and frequent interactions with personnel throughout the firm. However, in the case of a larger firm, frequent and direct interactions with personnel may not be practicable and therefore the demonstration of a commitment to quality may involve multiple actions, such as establishing firm values in a code of conduct (an intellectual resource) and formal communications that emphasize the importance of quality (i.e., an information and communication response).
- A49. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities at the firm and engagement level in order for a response to operate as designed. For example, the firm may appoint suitably qualified and experienced personnel to provide technical advice to engagement teams, and in doing so may prescribe specific matters that need to be consulted on by the engagement team. The engagement team may have a responsibility to identify when such matters occur and to initiate such consultation as required by the firm's policies or procedures. Communicating to engagement teams their responsibilities for the implementation and operation of the responses is therefore important for the functioning of the system of quality management, and is a response required by this ISQC in paragraph 43(b).
- A50. Detailed documentation of the responses may not be necessary in all circumstances. However, a lack of documentation of the responses may increase the likelihood that personnel are not aware of such responses or they might not be followed. The need for formal policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.
- A51. In some cases, the response designed and implemented by the firm may address multiple quality risks across multiple components. Furthermore, the responses designed and implemented to address a quality risk in one component may affect the quality risks and responses of another component. For example, the implementation of a new IT application for the performance of engagements (i.e., a technological resource) may create new quality risks within the engagement performance component for which a response is necessary, such as increased direction, supervision and review at the engagement level.
- A52. The responses required by this ISQC are set out in paragraphs 27, 28, 37, 39, 41, 43, 45 and 47 and are applicable to all firms because they represent responses that all firms would be expected to implement in a system of quality management. However, the responses required by this ISQC alone are not sufficient to address the firm's quality risks. Accordingly the firm is required to design and implement responses in addition to those required by this ISQC. For example, in addition to

establishing policies or procedures for engagement quality control reviews, the firm may establish policies or procedures that require specific reviews for certain engagements of the engagement team's procedures by individuals separate from the engagement team (e.g., reviews of the engagement team's procedures relating to significant risks).

Determining Whether the Quality Objectives, Quality Risks and Responses Remain Appropriate (Ref: Para. 35)

A53. In some circumstances, changes in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management. For example, an entity for whom the firm performs engagements may commence business in a new industry and this may have an effect on the firm's quality risks or responses.

A54. Quality objectives, quality risks or responses may also need to be modified as a result of:

- Changes that affect specific components of the system of quality management, for example, changes in the firm's resources.
- Information from the firm's monitoring and remediation, including deficiencies identified from monitoring activities, external inspections or other relevant information.

Revisions to the quality objectives, risks or responses in one component may affect other components because of their interrelationship.

Relevant Ethical Requirements (Ref: Para. 20(q) and 36–37)

A55. The IESBA Code establishes the fundamental principles that govern the conduct of a professional accountant, which include:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The IESBA Code also establishes the approach that a professional accountant is required to apply to assist in complying with the fundamental principles, addresses specific topics relevant to complying with the fundamental principles and includes requirements for independence. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.

A55A. To further demonstrate the firm's commitment to quality, having regard to the nature and circumstances of the firm and its engagements, the firm may determine that it is appropriate to design and implement responses that result in more restrictive requirements for the firm and its personnel than those in the relevant ethical requirements. For example, a firm may adopt more restrictive policies than called for under the IESBA Code, such as:

- A prohibition on accepting gifts and hospitality from a client when there is no intent to improperly influence the behavior of the recipient, even if the value is trivial and inconsequential.

- With respect to independence, extending the prohibition on the provision of certain non-assurance services to public interest entity audit clients to all clients for whom the firm performs audits of financial statements.

A56. Since other components such as information and communication and resources have quality objectives that support the design, implementation and operation of the system of quality management, such components include responses that 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 quality risks for relevant ethical requirements:

- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
- Providing training for personnel on relevant ethical requirements.
- 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.
- Establishing human resources to manage and monitor compliance with relevant ethical requirements, including independence, or to provide consultation on matters related to relevant ethical requirements.
- Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as:
 - Communicating information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - Communicating circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - Prompt communication of any breaches of the relevant ethical requirements, including the independence requirements.
- 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.

Furthermore, paragraph 27(a)(iii) requires the firm to assign operational responsibility for independence to an appropriate individual in the firm. This individual is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures that address communication of breaches of the independence requirements and ensuring that appropriate actions have been taken to address the causes and consequences of the breach.

A57. 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 that is applied in order to identify, evaluate and address threats to compliance with the fundamental principles, which comprises:

- The identification of threats to compliance with the fundamental principles, including independence requirements;
- The evaluation of whether the identified threats are at an acceptable level; and
- In circumstances when the identified threats are not at an acceptable level, addressing the threats by:
 - Eliminating the circumstances, including interests or relationships, that are creating the threats;
 - Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
 - Declining or ending the engagement.

A58. In identifying, evaluating and addressing a threat to compliance with the relevant ethical requirements, the firm may consider whether a reasonable and informed third party, who weighs all the relevant facts and circumstances that the firm knows, or could reasonably be expected to know, at the time the conclusion is made, would likely reach the same conclusions as the firm.

A59. The policies or procedures addressing breaches of the relevant ethical requirements, including the independence requirements, may address matters such as:

- The communication internally of breaches of the relevant ethical requirements to appropriate individual(s) within the firm (part of the information and communication component);
- The evaluation of the significance of a breach and its effect on the fulfillment of the relevant ethical requirements;
- Taking whatever actions might be available, as soon as practicable, to address the consequences of a breach satisfactorily;
- Determining whether to report a breach to relevant parties (part of the information and communication component); and
- Determining the appropriate action for the individual(s) responsible for the breach (part of the resources component).

A60. Relevant ethical requirements may include specific requirements regarding how the firm is required to respond to a breach of the relevant ethical requirements. For example, the IESBA Code sets out requirements for the firm in the event of a breach of the provisions of the Code and includes specific requirements addressing breaches of the International Independence Standards, which includes communication with those charged with governance of the client. Such communication would form part of the information and communication component.

Public Sector Considerations

A61. Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in designing the responses to the quality risks for independence, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

Acceptance and Continuance of Client Relationships and Specific Engagements (Ref: Para. 38–39)

A62. Other components include quality objectives that support the design, implementation and operation of the system of quality management, and responses that affect or relate to the acceptance and continuance of client relationships and specific engagements. For example, the information necessary to support the firm's decisions about the acceptance and continuance of client relationships and specific engagements is identified, captured, processed and maintained through the information and communication component, and may include intellectual resources such as databases of client information or access to external information databases. The firm may also use IT applications (i.e., technological resources) to facilitate the approval of client relationships or specific engagements at appropriate levels within the firm. In addition, governance and leadership addresses the responsibility of the firm with respect to appropriate resource planning and obtaining and allocating resources.

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: Para. 38(a))

A63. The information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements about the nature and circumstances of the engagement may include:

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and
- The applicable criteria to be applied to the subject matter information (e.g., the applicable financial reporting framework in the case of an audit of financial statements).

A63A. In some circumstances (e.g., a larger firm), the firm may establish policies or procedures that specify, or prohibit, the types of engagements that may be performed by the firm, for example, the firm may prohibit the performance of assurance engagements over a certain subject matter. The policies or procedures may also prohibit the performance of engagements for certain types of entities, for example, the firm may prohibit the performance of engagements in certain industries.

A64. The information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance. The extent of information obtained may depend on factors such as:

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.

- Indications of a limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

A65. The firm may obtain the information from a variety of internal and external sources, for example:

- In the case of an existing client, consideration of matters that have arisen during the current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, inquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use an external service provider to perform the background search.

A65A. Information that is obtained during the firm's acceptance and continuance process about the nature and circumstances of the engagement and the integrity and ethical values of the client's management, and, when appropriate, those charged with governance is ordinarily relevant to the engagement team when planning and performing the engagement and the firm may need to communicate such information to the engagement team. Professional standards may also specifically require the engagement team to obtain or consider such information. For example, ISA 220 (Revised) requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and addressing the requirements of ISA 220 (Revised).

A66. Professional standards may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300⁸ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code requires the firm to make inquiries of an existing or predecessor firm when accepting an engagement that is an audit or review of financial statements and requires the predecessor auditor, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. The IESBA Code also includes requirements that address consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement.

The Firm's Ability to Perform the Engagement (Ref: Para. 38(b))

A67. The consideration of whether the firm is able to perform the engagement may involve reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and considering whether:

⁸ Paragraph 13(b) of ISA 300, *Planning an Audit of Financial Statements*

- The firm has appropriate resources to undertake the engagement. This includes having personnel available to direct and supervise the engagement and take overall responsibility.
- The personnel have the appropriate competence and capabilities, including sufficient time, to effectively perform a quality engagement. This includes knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements.
- The firm is able to fulfill relevant ethical requirements.
- Experts are available, if needed.
- Individuals meeting the eligibility requirements to perform engagement quality control review are available, where applicable.
- The firm is able to complete the engagement within the reporting deadline.
- The firm has appropriate technological resources to support the performance of the engagement, for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The firm has appropriate intellectual resources to support the performance of the engagement, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

Financial and Operational Priorities (Ref: Para. 38(c))

A68. The information obtained to support the firm's judgment about the acceptance or continuance of client relationships and specific engagements may also provide the basis on which fees for the services being provided are determined. However, fees for an engagement may also impact the firm's ability to perform services in accordance with professional standards and applicable legal and regulatory requirements. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an engagement is so low that it might be difficult to perform the engagement in accordance with professional standards. Conversely, there may be circumstances when the fee quoted for an engagement is appropriate given the nature and circumstances of the engagement and the resources required, but it is not appropriate for the firm to accept or continue the engagement or client relationship for various other reasons, for example, the client lacks appropriate integrity and ethical values, or the firm's access to information is significantly restricted.

Withdrawal from an Engagement (Ref: Para. 38(d))

A70. The firm's response to address circumstances when information becomes available to the firm that may have affected the firm's decision to accept or continue a client relationship or specific engagement may include establishing policies or procedures that set out the actions to be taken when such information becomes available, such as:

- Undertaking appropriate consultation within the firm or with legal counsel.
- Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.

- Discussing with the appropriate level of the client's management and with those charged with governance the appropriate action that the firm might take based on the relevant facts and circumstances, and when it is determined that withdrawal is an appropriate action, informing them of this decision and the reasons for the withdrawal.
- If the firm withdraws from the engagement, considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Circumstances when the Firm is Obligated to Accept or Continue a Client Relationship or Specific Engagement (Ref: Para. 39)

- A71. There may be circumstances when the firm is obligated to accept or continue a client relationship or specific engagement despite there being information that would have caused the firm to decline the engagement. For example, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions. In such circumstances the firm may design and implement additional responses to address quality risk(s) arising from the performance of such engagements. For example, the firm may assign more experienced personnel to the engagement (resources component) or may require that an engagement quality control review be performed in respect of the engagement (engagement performance component). There may also be actions at the engagement level to manage quality when performing such engagements, for example, increasing the extent and frequency of the engagement partner's direction and supervision of engagement team members and review of their work.
- A72. In some circumstances, a threat to the firm's integrity may arise as a result of being associated with the subject matter of the engagement. Relevant ethical requirements may include requirements addressing circumstances when the firm becomes associated with information that is false or misleading, which would be addressed as part of the relevant ethical requirements component. For example, the IESBA Code contains requirements addressing circumstances when the professional accountant becomes associated with information that contains a materially false or misleading statement, contains statements that have been provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.

Resources (Ref: Para. 40)

A73. Resources at the firm level include:

- Financial resources that are available to the firm.
- Human resources who have appropriate competence and capabilities.
- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, methodology or guides.

Resources may be categorized into greater levels of granularity, or combined (e.g., intellectual resources may be combined with technological resources). Resources are pervasive to all components of the system of quality management and therefore the firm's responses for resources will address quality risks specific to resources, as well as quality risks for other components. Such

responses may be designed and implemented individually for each component, or they may be designed and implemented for all components holistically.

- A74. Resources may be internal to the firm, or may be obtained externally from a network or a service provider. In such circumstances, in addition to complying with the requirements for resources set out in this component, the firm is also required to comply with paragraphs 60–65 addressing the use of network requirements or services or paragraphs 66–67 addressing the use of resources from a service provider.
- A75. Financial resources are necessary for obtaining, developing and maintaining the human resources, technological resources and intellectual resources that are needed to support the functioning of the firm's system of quality management and the performance of engagements. The governance and leadership component addresses appropriate resource planning, including anticipation of resource needs, and obtaining and allocating resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management.
- A76. Other components, such as information and communication, include quality objectives that support the design, implementation and operation of the system of quality management, and responses that affect or relate to resources. For example, the information necessary to ensure the appropriate assignment of personnel or to evaluate personnel is identified, captured, processed and maintained through the information and communication component.

Human Resources (Ref: Para. 40(a)–40(d))

- A77. Competence is the ability of the individual to perform a role to a defined standard and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.
- A78. Professional standards, law or regulation may establish requirements addressing competence and capabilities. For example, law or regulation of a jurisdiction may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.
- A79. The firm's responses that relate to the attraction, development and retention of personnel may include:
- Recruitment strategies that focus on selecting individuals who have the ability to develop the competence necessary to consistently perform quality engagements or duties in relation to the operation of the system of quality management.
 - Training programs, which may form part of the firm's intellectual resources, to develop personnel's competence to enable them to perform their roles and responsibilities.
 - Policies addressing the continuing professional development of personnel, including personnel's responsibility to maintain an appropriate level of continuing professional development, and training resources and other assistance provided by the firm.
 - Evaluation mechanisms that establish competency areas and other performance measures,

and facilitate the evaluation of personnel at appropriate intervals.

- Compensation, promotion and other incentives, appropriate to the nature and circumstances of the firm.
- A80. Human resources assigned to engagements or other roles may include personnel in a service delivery center, or human resources engaged by the firm (i.e., a service provider) or the network. The firm's responses to address the competence and capabilities of personnel in a service delivery center or human resources engaged by the firm or the network may differ from the firm's responses to address the competence and capabilities of personnel.
- A81. Given the importance of the role of the engagement partner, it may be appropriate for the firm to communicate the identity and role of the engagement partner to key members of client management and those charged with governance.
- A82. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, particularly in the case of smaller firms with fewer personnel.
- A83. The evaluations may be used by the firm in determining the compensation, promotion, or other incentives of personnel. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.
- A84. Actions may be taken for personnel who fail to demonstrate a commitment to quality, maintain and develop the competence and capabilities to perform their role or implement the firm's responses as designed (e.g., an individual breaches the firm's policies or procedures for independence). The actions taken may depend on the severity of the failure and the frequency of occurrence and may include:
- Training or other professional development;
 - Considering whether the matter should affect the evaluation, compensation, promotion or other incentives of the individual(s); and
 - Taking disciplinary action against the individual(s), if appropriate, depending on the severity of the failure and the frequency of occurrence.

Technological Resources (Ref: Para. 40(e))

- A85. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure, as well as the IT processes and individuals (human resources) involved in those processes, that the firm uses in the operation of its system of quality management or in the performance of engagements:
- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
 - The IT infrastructure is comprised of the network, operating systems, and databases and their related hardware and software.
 - The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

- A86. The firm's information system relevant to the system of quality management, which is required to be established in the information and communication component, may include the use of automated elements, and records in the form of digital information. The firm may also use certain IT applications to support the operation of various aspects of its system of quality management, for example, those explained in paragraphs A56, A62, A67, A91, A111 and A118. Other IT applications may be implemented by the firm for use by engagements teams in performing engagements, for example, IT applications that support the documentation of work performed and IT applications to perform data analyses of the client's information. In some cases, the IT applications may be purchased from a service provider or the firm may use service providers to manage certain aspects of the IT processes.
- A87. The IT environment for a larger firm may be comprised of highly-customized or highly-integrated IT applications, with dedicated human resources to manage the IT infrastructure and IT processes. However, the IT environment for smaller and less complex firms may comprise IT applications that are commercial software, and the IT processes may involve authorizing access to the IT applications and processing updates to the IT applications.
- A88. The use of IT applications or other aspects in the IT environment may give rise to quality risks, for example:

- Inappropriate reliance on IT applications that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that may result in breaches in confidentiality of information contained in the data, destruction of data or improper changes to data.
- Potential loss of data or inability to access data or IT applications as required.
- Unauthorized changes to IT applications or other aspects of the IT environment.
- Failure to make necessary changes to IT applications or other aspects of the IT environment.

The nature and significance of these quality risks may vary based on whether, and the extent to which, the firm relies on IT, including automated controls, to support the system of quality management and the performance of engagements. General IT controls may be part of the responses designed and implemented by the firm to address such quality risks.

- A88A. When implementing an IT application, it is necessary for the firm to determine that the IT application operates appropriately. The determination may involve consideration of whether:

- The data inputs are appropriate and confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- It is clear how users are required to interact with and use the IT application and users have appropriate support.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.

- A89. Engagement teams may need to be trained on how to use the technological resources appropriately. Furthermore, for certain IT applications, specialized skills may be needed to utilize the IT application effectively and the firm may need to specify procedures that set out how the engagement team should

operate the IT application. For example, in some instances the firm's IT application for the documentation of engagements may require that the engagement team complete certain information about the client and the circumstances of the engagement in order to generate an appropriate engagement file for the circumstances of the engagement.

Intellectual Resources (Ref: Para. 40(f))

A90. Intellectual resources comprise the information the firm uses to promote consistency in the performance of engagements, for example, written policies or procedures, a methodology, industry or subject matter-specific guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

A91. The intellectual resources may be made available through IT applications (i.e., a technological resource), for example, the firm's methodology may be included in the IT application for the documentation of the engagement (e.g., an audit methodology embedded in an audit IT application). The firm may also need human resources to develop, implement and maintain the intellectual resources, for example, a technical department may be established. Intellectual resources may also be dependent on relevant and reliable information that is identified, captured, processed and maintained through the firm's information and communication component.

Engagement Performance (Ref: Para. 42–43)

Direction, Supervision and Review (Ref: Para. 42(a) and 43(a))

A92. Examples of responsibilities for engagement supervision include the following:

- Tracking the progress of the engagement;
- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

A93. Examples of considerations for a review include whether:

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate judgments and consultations have been made and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and

- The objectives of the engagement procedures have been achieved.

Judgments and Conclusions (Ref: Para. 42(b))

A95. The system of quality management creates an environment that supports engagement teams in making informed decisions about the courses of action that are appropriate given the nature and circumstances of the engagement. Professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team. For example, the responses designed and implemented by the firm to establish a culture that promotes a commitment to quality or the responses addressing the attraction, development, retention and assignment of personnel with the competence and capabilities to perform engagements are important in supporting the appropriate application of professional judgment by the engagement team. Furthermore, the firm's policies or procedures for consultation and differences of opinion and the performance of engagement quality control reviews for selected engagements further support the engagement team in making appropriate judgments.

Consultation (Ref: Para. 43(c))

A96. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. While the firm establishes policies or procedures regarding the matters on which consultation is required, the engagement team may identify other matters that require consultation, for example, difficult or contentious matters specific to the nature and circumstances of the engagement.

A97. In considering its resource needs, the firm may take into consideration the resources needed to support consultation, for example, appropriate access to intellectual resources to support research and personnel (i.e., human resources) with the competence and capabilities to provide consultations. In some instances, such as a smaller firm, human resources to support consultation may only be available externally, for example, other firms, professional and regulatory bodies, or commercial organizations that provide such services. In such cases, paragraphs 66–67 apply.

Differences of Opinion (Ref: Para. 43(d))

A98. The policies or procedures addressing differences of opinion may be established in a manner that encourages identification of differences of opinion at an early stage. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Quality Control Reviews (Ref: Para: 43(e))

A99–A109. [Refer to **Agenda Item 6–B**]

Engagement Documentation (Ref: Para. 43(f))

A110. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements is to be completed. Where no such time limits are prescribed in law or regulation, the firm ordinarily establishes an appropriate time limit. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.

- A111. The retention and maintenance of engagement documentation includes ensuring the safe custody, integrity, accessibility or retrievability of the underlying data. The retention and maintenance of engagement documentation may involve the use of IT applications (i.e., technological resources).
- A112. Relevant ethical requirements generally establish an obligation for personnel to observe at all times the confidentiality of client information, unless specific client authority has been given to disclose information, there are responsibilities under law, regulation or relevant ethical requirements to do so, or there is a right to do so. Specific law or regulation may impose additional obligations on personnel to maintain client confidentiality, particularly where data of a personal nature is concerned. Accordingly, the firm's responses for relevant ethical requirements may include responses for the retention and maintenance of engagement documentation. The firm's responses to address the confidentiality of client information may need to address all possible locations of client information, including engagement documentation, emails, firm servers or hard copy.
- A113. Law or regulation may prescribe the retention period for engagement documentation, or there may be generally accepted retention periods. If the retention periods are not prescribed in law or regulation, the firm ordinarily establishes an appropriate retention period, and in determining the period, may take into consideration the nature of the engagements performed by the firm and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.
- A114. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Information and Communication (Ref: Para. 44–45)

- A115. Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management and therefore the firm's responses for information and communication address quality risks specific to information and communication, as well as quality risks for the other components. Such responses may be designed and implemented individually for each component, or they may be designed and implemented for all components holistically. Paragraphs A39, A56, A63 and A76 explain and provide examples of how the information and communication component supports the design, implementation and operation of the other components of the system of quality management.
- A116. Relevant and reliable information includes information that is accurate, complete, timely and valid to support the proper functioning of the firm's system of quality management.
- A117. The information system in smaller and less complex firms is likely to be less sophisticated than in larger firms and involve a less complex IT environment, but the role of the information system is just as important.
- A118. The information system may include the use of manual and automated elements (i.e., technological resources), which affect the manner in which information is identified, captured, processed,

maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications and in some cases may be embedded within the firm's responses for other components, for example, the firm's monitoring activities provide information that is used for various purposes. In addition, records in the form of digital information may replace or supplement records in the form of paper documents.

A119. Communication is the means through which the firm and its personnel share relevant information to support the proper functioning of the firm's system of quality management and the management of quality at the engagement level. For example:

- The firm communicates information to engagement teams, such as information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate information to the firm, such as information obtained about the client during the performance of the engagement that may affect the firm's decision to continue a client relationship or specific engagement. Personnel performing duties within the firm's system of quality management communicate information to all firm personnel, for example, the individual(s) assigned operational responsibility for independence may communicate changes in independence requirements and how the firm's policies or procedures have been changed in response to such changes.

Two-way communication may also be among the various parties, for example, engagement teams may communicate information directly to the personnel performing duties within the firm's system of quality management.

A120. Matters to be communicated include information that is required to be communicated by this ISQC, for example, the responses required in paragraphs 43(b), 55 and 56. The information described in paragraphs A128–A129 may also be relevant information that is communicated internally to personnel.

A121. In circumstances when the firm belongs to a network, frequent and direct communication with the network supports the network in establishing requirements and providing services that promote the consistent performance of quality engagements.

Communication with External Parties (Ref: Para. 44(e) and 45(b))

A122. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way communication between the firm and its stakeholders. For example, stakeholders' perception of the quality of engagements performed by the firm may be improved when the firm is more transparent about the activities that it has undertaken to address quality, and the effectiveness of those activities.

A123. Parties that are external to the firm may include the network, network firms, external oversight authorities, management or those charged with governance of the firm's clients, other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) or external service organizations. External parties may also include users of the clients' reports, such as current or future shareholders and credit providers of the entities for whom the firm performs engagements. The firm uses professional judgment when determining external parties that are relevant to the firm, and may take into account the nature of the engagements performed by the firm and the nature of the entities for whom the engagements are performed when making that determination. For example,

in the case of a firm that performs audits of financial statements of listed entities or entities that have a significant public interest, external parties may include shareholders and credit providers of such entities, as well as management and those charged with governance. On the other hand, external parties for a firm that only performs compilations of financial statements of non-listed entities or entities that do not have a significant public interest may be more limited to client management and credit providers.

A124. The firm may also obtain information from external parties about the system of quality management, for example, external inspection results from the firm's regulatory or oversight body or network. Engagement teams or personnel performing duties within the system of quality management may also exchange information with external parties, such as management or those charged with governance of the firm's clients.

A125. In some jurisdictions, law or regulation may specify the nature, timing and extent of external communication by the firm. However, in some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally. For example, certain information may be subject to privacy or secrecy laws or regulations or the firm may be precluded from communicating certain information because of the duty of confidentiality under law, regulation or relevant ethical requirements.

A126. The nature of the communication to external parties may comprise a webpage, a publication such as a transparency report or audit quality report or direct communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).

A127. Information that has the following attributes contributes to an enhanced understanding of the quality of the engagements performed by the firm:

- The information is specific to the circumstances of the firm and is prepared and presented in a timely manner. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information become overly standardized and less useful over time.
- The information is presented in a clear and understandable manner that is neither misleading nor would inappropriately influence the users of the communication.
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may take into consideration matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources, for example, information located on the firm's website.

A128. The information communicated may depend on a variety of factors, including the nature of the communication, the nature and circumstances of the firm and the external parties with whom the communication is being undertaken. For example, the communication may contain information about:

- The nature and circumstances of the firm, such as the organizational structure and operating environment and whether it is part of a network.

- The firm's governance and leadership, such as its culture and commitment to quality and information about the individuals responsible for the leadership of the firm.
- The results of the firm's monitoring activities and external inspections, and how the firm has remediated deficiencies or is otherwise responding to them.
- The evaluation undertaken in accordance with paragraph 57 of this ISQC of whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b), including the basis for the judgments made in undertaking the evaluation.
- How the firm has responded to emerging developments and changes in its circumstances, including how the system of quality management has been adapted to respond to such changes.

A129. In circumstances when the firm is part of a network, it may be useful to provide transparency about the relationship between the firm and the network in certain external communication. Such information may include:

- The nature of the relationship between the firm and the network, the overall structure of the network, and the network requirements that the firm is expected to use in its system of quality management.
- The network requirements or services that are used by the firm in its system of quality management.
- If the network monitors the use of its requirements and services across the network, information about the overall scope, extent and results of the monitoring activities across the network firms that the network has provided to the firm in accordance with paragraph 63(a)(iii).

A130. Entities that have a significant public interest may include listed entities or other entities that have a large number and wide range of stakeholders or are significant due to their nature and size of the business (e.g., financial institutions such as banks, insurance companies, and pension funds).

Monitoring and Remediation Process (Ref: Para. 46–59)

A131. In addition to supporting the firm's evaluation of the system of quality management, the monitoring and remediation process facilitates the improvement of engagement quality and the system of quality management. Professional judgment is applied for various decisions within the monitoring and remediation process, including decisions about:

- The nature, timing and extent of the monitoring activities, including the scope of inspection of engagements.
- The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information.
- How to appropriately respond to the findings from the monitoring activities, results of external inspections and other relevant information.
- Whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

Designing and Performing Monitoring Activities (Ref: Para. 48–50)

A132. The purpose of a monitoring activity, which is a response in and of itself, is to monitor the other responses in the system of quality management. The other responses in the system of quality management may include responses that are designed to detect errors in the system of quality management so that they can prevent a quality risk from occurring. For example, in some circumstances, an in-process review of engagement documentation may be designed as a detective response to address quality risks in the other components, but in other circumstances may be designed as a monitoring activity (inspection of engagement) over other responses. Determining the purpose of the in-process review is likely to be important to determining its design.

A133. The firm's monitoring activities may comprise ongoing monitoring activities, periodic monitoring activities or a combination of both. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions, for example, an IT application (i.e., a technological resource) that continually monitors engagement file retention procedures or engagement-level reviews that are undertaken during the course of the engagement on specific aspects of completed work. Periodic monitoring activities are conducted at certain intervals by the firm, for example, inspection of completed engagements. Ongoing monitoring activities may identify deficiencies in the system of quality management in a timelier manner.

A134. The firm considers the various types of monitoring activities that it plans to perform in determining the nature, timing and extent of those activities. For example, if the firm plans to perform monitoring activities that comprise inspections of engagements while in progress, it may affect the criteria used to select completed engagements for inspection or it may affect the nature of matters considered by the firm in performing the inspection of completed engagements.

A135. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed. For example, the firm may identify findings that indicate the need for more extensive monitoring activities in a particular area.

A136. The nature, scope and frequency of the monitoring activities may be affected by factors such as:

- The size, structure and organization of the firm.
- The involvement of the network in monitoring activities.
- The resources that the firm intends to use to support monitoring activities, for example, the use of IT applications (i.e., technological resources) or human resources.
- The design of the response. For example, the firm's response may comprise in-process reviews of engagement documentation of selected engagements by personnel who are not members of the engagement team. The extent of the review of the engagement documentation, the nature of the matters considered in the review, and how the results of the review are collated may affect the nature, scope and frequency of the monitoring activities over the in-process review.

A138. Examples of categories of engagements where quality risks may be more likely to occur include:

- Engagements where the firm or engagement partner are inexperienced, for example, a new industry, a new service offering or new engagement partner.
- Engagements performed in respect of certain entities (e.g., a listed entity or entity that has a significant public interest).

- Engagements that have been subject to external inspection and which have negative findings, or engagements where the findings of previous monitoring activities identified deficiencies.
- Engagements where there has been a material restatement of comparative information in the financial statements or the firm's report required reissuance.
- Engagements where the firm's engagement acceptance and continuance procedures indicated that matters may exist that may increase the engagement risk.

A139. The nature, scope and frequency of the firm's monitoring activities may be more extensive for areas of the system of quality management where the quality risks are greater and the related responses are more extensive or rigorous. For example, the firm may perform more extensive monitoring activities over audits of financial statements of listed entities that have a significant public interest because the effect of the quality risks on the achievement of the quality objective(s) may be greater. However, considering other areas of the system of quality management that are less susceptible to risk is also necessary to ensure that the conclusions reached about the system of quality management are appropriate. For example, although the firm performs more extensive monitoring activities over engagements that are susceptible to greater risk, some monitoring activities over other engagements or types of entities may enable the firm to form appropriate conclusions on the population as a whole.

A140. The firm's system of quality management may change as a result of, for example:

- Changes in the nature and circumstances of the firm and its engagements (e.g., a new service offered by the firm or changes in the firm's environment).
- Changes to address an identified deficiency in the firm's system of quality management.
- Other factors, such as the firm amends the responses to quality risks because these become obsolete over time or more effective responses are designed and implemented, such as the use of IT applications (i.e., technological resources) to replace manual processes.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and therefore the firm's monitoring activities may include monitoring areas of change. Previous monitoring activities undertaken by the firm may also no longer provide the firm with information to support the evaluation of areas that have not changed, for example, because of the time that has elapsed since the monitoring activities were undertaken.

A141. The findings from the firm's previous monitoring activities, results of external inspections or other relevant information may indicate:

- Areas where previous monitoring activities should continue to be focused, for example, monitoring may need to continue to be undertaken in certain areas where there is a history of deficiencies. Furthermore, the monitoring activities may need to evaluate the effectiveness of remedial actions implemented to address deficiencies previously identified.
- Findings or deficiencies in previous monitoring activities undertaken by the firm, which may affect the firm's consideration of whether the nature, scope and frequency of previous monitoring activities were appropriate.

A142. The results of external inspections cannot be used by the firm as a substitute for undertaking internal monitoring activities. Nevertheless, the information from the results of external inspections may indicate areas of the system of quality management where monitoring activities should be performed.

A143. Examples of sources of other relevant information may include:

- Information communicated by the network in accordance with paragraph 63 of this ISQC about the firm's system of quality management, including the network requirements or services that the firm uses.
- Information communicated by a service provider about the resources the firm uses in its system of quality management.
- Concerns about the commitment to quality of the firm or its personnel, communicated in accordance with paragraph 27(c) of this ISQC.
- A material restatement of financial statements, an engagement report that required reissuance or litigation against the firm.

Engagement Inspections (Ref: Para. 49)

A144. The extent and frequency of selection of engagements for inspection depends on many factors, including those described in paragraph A138. They may also be affected by the nature, timing and extent of other monitoring activities undertaken by the firm at the engagement level. The firm may establish different cyclical periods for engagement partners according to the categories of engagements they perform, for example, the firm may determine that the cyclical period for an engagement partner performing audits of financial statements may be three years and the period may be longer for engagement partners performing compilation engagements. The cycle of the inspection may be based on time (i.e., every three years as illustrated) or another factor, for example, every number of engagements performed.

A145. Other factors that may affect the firm's consideration of the nature and extent of selection of engagements for inspection include:

- The varying nature of the engagements performed by the firm.
- The size of the firm, including the number and geographic location of offices and the nature and complexity of the firm's practice and organization.

A146. The matters considered by the firm in the inspection of engagements ordinarily involve determining whether the responses designed by the firm that are required to be implemented at the engagement level have been implemented. It may also include performing substantive reviews of the quality of work performed, in particular in relation to significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.

Individuals Performing the Monitoring Activities (Ref: Para. 50)

A147. The need for those performing monitoring activities to be objective depends on the activity subject to monitoring. For example, a monitoring activity over a response or matter that involves the exercise of significant judgment may increase the need for objectivity by those performing the monitoring activities.

Identifying and Evaluating the Deficiencies (Ref: Para. 51)

A148. Findings represent the information accumulated from the performance of monitoring activities and may also include the results of external inspections and other relevant information about the firm's system of quality management. Findings may be positive or negative in nature:

- Positive findings may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements. They may also highlight opportunities for the firm to improve, or further enhance, the system of quality management. An absence of findings may be considered a positive finding, for example, an engagement with very few, if any findings.
- Negative findings are considered by the firm in accordance with paragraphs 47–49 in order to determine whether there are deficiencies in the system of quality management. Not all negative findings are a deficiency in the system of quality management.

A149. Factors that a firm may consider in determining whether a finding is a deficiency include:

- The nature of the finding, for example, a finding that reveals that personnel have not adhered to the firm's policies or procedures may be indicative of a deficiency in the culture of the firm.
- The design of the monitoring activity from which the finding arose, for example, whether it was designed to focus on areas of risk, or the whole population, and the tolerable error rate.
- The extent of the monitoring activity from which the finding arose, including the size of sample selected relative to the size of the entire population.
- The extent of the findings in relation to the sample of the population covered by the monitoring activity.
- If the finding relates to a response:
 - The nature of the quality risk the response relates to, and the extent to which the quality risk could result in a quality objective not being achieved.
 - Whether there are other responses that address the same quality risk, and whether there are findings for those responses.
- Whether the finding, in combination with all other findings, indicate a trend or systemic issue.

A150. A finding may affect multiple responses across different components. For example, a finding that suggests that the human resources allocated to an engagement were inappropriate or insufficient may indicate deficiencies in responses related to human resources as well as those related to engagement performance (i.e., appropriate direction, supervision and review).

A151. The effectiveness of the monitoring and remediation process may be evaluated through considering the findings arising from the monitoring activities, the results of external inspections and any other relevant information source (e.g., network monitoring activities or complaints and allegations). For example, external inspection findings may indicate deficiencies in the system of quality management that have not been identified by the firm's monitoring and remediation process, which highlight a deficiency in the firm's monitoring and remediation process.

Root Cause of the Deficiencies (Ref: Para. 51(b))

A152. The objective of investigating the root cause(s) of deficiencies is to understand the underlying circumstances that caused the deficiencies. An improved understanding of the underlying cause(s) of deficiencies may:

- Facilitate the implementation of more effective actions to address deficiencies, thereby improving quality.
- Directly contribute to the improvement of quality at the engagement level through the participation of engagement teams in the root cause analysis process.
- Enable those assigned ultimate responsibility and accountability or operational responsibility for the system of quality management to have an improved awareness, to enable them to proactively monitor actions taken to address deficiencies.
- Facilitate more effective communication to personnel by explaining the actual root cause(s) of deficiencies, rather than the deficiencies themselves.

A153. Performing a root cause analysis generally involves those performing the assessment applying professional judgment based on the evidence available. The firm's policies or procedures for investigating the root cause are required to take into consideration the nature of the deficiencies and their possible severity, for example, the procedures may be simple in circumstances when:

- The root cause(s) of a deficiency is apparent due to the nature of the deficiency; or
- The possible severity of the deficiency is not significant.

A154. There may be multiple root cause(s) of a deficiency or there may be a single root cause that relates to multiple deficiencies. Furthermore, the root cause of a deficiency may relate to more than one component, for example, in circumstances when the root cause relates to an aspect of the firm's risk assessment process, such root cause may affect multiple components.

A155. Factors that a firm may consider in determining the nature, timing and extent of procedures to investigate the root cause of a deficiency include:

- The nature and extent of the deficiency, for example:
 - A deficiency that results in an engagement report being inappropriate has greater severity than a deficiency that resulted in the firm's policies or procedures not being followed but the engagement report was still appropriate.
 - A deficiency that has obviously arisen from human error by an individual. In such cases the root cause may be more apparent or easily identified.
- Whether the deficiency, in combination with all other deficiencies, indicates a trend or systemic issue, for example, there are multiple engagement reports affected by the same deficiency or certain policies or procedures appear to have high rates of non-compliance.

A156. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating deficiencies and achieving the objective of this ISQC. For example, it may be identified that an engagement team did not exercise sufficient professional skepticism in complex areas of management judgment. However, the underlying root cause may relate to another matter, such as a

cultural environment that does not encourage engagement team members to challenge individuals with greater authority or there was insufficient direction, supervision and review on the engagement.

Evaluating the Severity and Pervasiveness of Deficiencies (Ref: Para. 51(c))

A157. Factors the firm may consider in evaluating the severity and pervasiveness of a deficiency include:

- The nature of the deficiency;
- The frequency with which the underlying finding occurred; and
- The magnitude of the deficiency, the rate at which it occurred and the duration of time that it existed.

Responding to Identified Deficiencies (Ref: Para. 52–54)

A158. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:

- The root cause(s), for example, whether it relates to an individual engagement, a certain category of engagements, or is more pervasive throughout the firm.
- The severity and pervasiveness of the deficiency and therefore the urgency in which it needs to be addressed.
- The effectiveness of the remedial actions in addressing the root cause(s), for example, the firm may need to implement more than one remedial action in order to effectively address the root cause(s), or may need to implement remedial actions as interim measures until such time as the firm is able to implement more effective remedial actions.

Findings in Relation to a Particular Engagement (Ref: Para. 54)

A159. In circumstances when the report issued is inappropriate or procedures were omitted, the further action taken by the firm to comply with relevant professional standards and applicable legal and regulatory requirements may include:

- Discussing the matter with management of the entity or those charged with governance.
- Taking steps to ensure that users of the firm's report are informed of the situation.
- Performing the omitted procedures and amending the report, as appropriate.

The actions taken to correct the work performed or the report issued for a specific engagement does not relieve the firm of the responsibility to investigate the root cause(s) of the deficiency related to the engagement.

Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. 55–57)

A160. In determining the information to be communicated to personnel, including the nature and extent of such communication, the firm may consider the type of information that is relevant to the particular recipients, including the information needs of the recipients, as a result of their defined roles and responsibilities. For example:

- Information communicated to engagement teams may be focused on deficiencies that have been identified at an engagement level and therefore are likely to be relevant.

- Information communicated to all personnel may relate to matters relevant to compliance with the firm's independence policies or procedures as such policies or procedures may apply to all personnel.

Communicating the root cause(s) of deficiencies may increase awareness and understanding of why deficiencies occurred, which may influence the behaviors of engagement teams and personnel. Communicating remedial actions may support the implementation of such actions in a more proactive manner.

Evaluating the Effectiveness of the System of Quality Management (Ref: Para. 58–59)

A161. The individual(s) assigned ultimate responsibility and accountability for the system of quality management uses the information obtained in accordance with paragraph 55 in evaluating the effectiveness of the system of quality management. However, it may be necessary to obtain additional information, which is identified, captured, processed and maintained through the firm's information system

A162. Prompt and appropriate action when the evaluation indicates that the firm does not have reasonable assurance may include:

- Obtaining legal advice.
- Taking steps to determine whether the reports already issued by the firm were appropriate.
- Determining appropriate measures to ensure that reports not yet issued by the firm are appropriate in the circumstances.

A163. Circumstances when it may be appropriate for the firm to communicate to external parties that the firm has not achieved reasonable assurance in relation to the objectives described in paragraph 19(a) and (b) include:

- When the firm belongs to a network and the information is relevant to the network or other firms within the network who use the work performed by the firm, for example, in the case of a group audit.
- When a report issued by the firm is determined to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.

In some circumstances, the firm may be required by law or regulation to communicate that the firm has not achieved reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

Network Requirements or Services (Ref: Para. 60–64)

A164. The requirements or services established by the network for the network firms may include:

- Providing common quality objectives or quality risks for inclusion in the firm's system of quality management.
- Providing common responses to be designed and implemented by the firm (network policies or procedures), such as:

- Specifying the organizational structure of the firm and how the firm should designate authority and responsibility within the firm.
- Intellectual resources or IT applications (i.e., technological resources) developed by the network.
- Being subject to the network's monitoring activities. These monitoring activities may monitor the network requirements (e.g., monitoring that the firm has implemented the network's methodology appropriately), or they may monitor the firm's system of quality management.

The quality objectives, quality risks and responses determined by the network will not be sufficient for the firm's system of quality management because the firm is required by this ISQC to take into consideration the nature and circumstances of the firm and its engagements in establishing quality objectives, identifying and assessing quality risks and designing and implementing responses.

A165. In determining whether the quality objectives, quality risks or responses provided by the network are appropriate for use in the firm's system of quality management, the firm ordinarily takes into consideration the nature and circumstances of the firm and its engagements, and how the quality objectives, quality risks or responses were developed by the network. In doing so, the firm may understand:

- The network's governance and leadership.
- The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or services.
- How the network identifies and responds to changes in factors that affect the network requirements or services or other information affecting the network requirements or services, for example, changes in the professional standards or information that indicates a deficiency in the network requirements or services;
- How the network monitors the appropriateness of the network requirements or services, which may include through the network firms' monitoring activities, and the network's processes for remediating deficiencies.

A166. The understanding of a network requirement or service may indicate that it is not appropriate for use by the firm in its system of quality management. In such cases, the firm may:

- Agree with the network how the circumstance may be remediated such that it is appropriate to use the network requirement or service in the firm's system of quality management;
- Supplement the network requirement or service at the firm level in order that the intended objective for which the network requirement or service is being used is achieved; or
- Be unable to use the network requirement or service in its system of quality management.

A167. When the network requirement or service relates to a response, the firm may have a responsibility to implement the network requirement or service. For example, in the case of implementing an IT application developed by the network (i.e., a technological resource), the firm may need to have the appropriate IT infrastructure and IT processes in place. The responsibilities may also include monitoring the network requirement or service at the firm level, for example, the inspection of engagements at the firm level may support the monitoring of an IT application developed by the network.

Information and Communication (Ref: Para. 62)

A168. In determining the expected form, timing and content of communications between the firm and the network, the firm may take into consideration the information that is needed to support the firm in designing, implementing and operating its system of quality management.

Monitoring and Remediation Process (Ref: Para. 63–65)

A169. The information about the overall scope, extent and results of the monitoring activities across the network firms' systems of quality management may highlight trends and common areas of deficiencies across the network. Such information may be considered by the firm in determining the nature, timing and extent of the firm's monitoring activities, since it may highlight areas where monitoring should be undertaken. It may also indicate deficiencies in network requirements or services used by the firm in its system of quality management.

A170. The results of the network's monitoring activities of the firm's system of quality management may include information such as:

- A description of the monitoring activities, including their nature, timing and extent;
- Findings from the monitoring activities and deficiencies identified; and
- The network's evaluation of the root cause(s) of the deficiencies, the assessed effect of the deficiencies and recommended remedial actions.

A171. Deficiencies identified in other network firms' systems of quality management may be relevant to the firm when another network firm performs work in relation to the firm's engagements, such as in the capacity of a component auditor. The network may also gather information from the network firms regarding the results of external inspections over the network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network or may restrict the specificity of such information.

A172. Paragraph 46 requires the firm to evaluate the system of quality management, which includes the network requirements or services used by the firm. The network requirements or services may be monitored by the network, the firm, or a combination of both. For example, the network may undertake monitoring activities at a network level for a common methodology (i.e., an intellectual resource), however various monitoring activities at a firm level may support the evaluation of the methodology, including engagement inspections.

A173. In some cases the firm may determine that the remedial actions by the network are inadequate, or such remedial actions may take time to effectively address the deficiency. In such cases, the firm may need to implement its own remedial actions to address the deficiency until such time as the network has effectively addressed the deficiency.

Service Providers (Ref: Para. 66–67)

A174. The firm may obtain or use human resources, technological resources or intellectual resources in its system of quality management that are provided to the firm by a service provider. The service providers used by the firm include individuals or organizations that are external to the firm, excluding networks or other firms in the network. Examples of resources from a service provider used by the firm in its system of quality management include the use of human resources to perform the firm's monitoring activities (i.e., monitoring and remediation) or engagement quality control reviews (i.e.,

engagement performance), or to provide consultation on technical matters (i.e., engagement performance). The firm may also purchase a commercial IT application (i.e., a technological resource) from a service provider. Resources from a service provider may also be used by the firm in relation to the performance of engagements, for example, the firm may use an expert external to the firm or other human resources to assist in the performance of engagements (e.g., to attend a physical inventory count or inspect physical fixed assets at a remote location). The use of resources from a service provider does not include using the work of an entity's internal audit function, in accordance with ISA 610 (Revised 2013).⁹

A175. Considering the ability of the firm to fulfill relevant ethical requirements in relation to the use of the resources includes consideration of matters such as:

- Whether the use of the service provider is permissible under relevant ethical requirements, for example, relevant ethical requirements may prohibit certain business relationships.
- The extent to which the service provider needs to fulfill the relevant ethical requirements, for example, the relevance of the principles of professional ethics, including independence, in the circumstance when the service provider participates in the performance of the engagement, performs the engagement quality control review or provides consultation.

A176. The use of a service provider is a response to a quality risk(s), but may also give rise to quality risks, or may affect the assessment of the quality risks. For example, when the firm uses resources from a service provider in the performance of engagements, it may increase the likelihood that personnel do not have the competence and capabilities to perform the engagement, that they exercise inappropriate judgment when performing the engagement, they do not implement the firm's responses at the engagement level or they do not fulfill the relevant ethical requirements. Such quality risks may also affect the management of quality at the engagement level. For example, in circumstances when the firm uses human resources from a service provider to assist in the performance of engagement procedures, there may be a need for the engagement partner to have greater oversight on a more frequent basis and perform more in-depth reviews of work performed by the individual.

A177. The firm's responsibilities in using the service provider may include matters such as the actions the firm needs to take in order to implement the resource in the firm or information the firm needs to communicate to the service provider in order that the resource can function effectively. For example, in the case of an IT application (i.e., a technological resource), the firm may need to have appropriate supporting IT infrastructure and IT processes in place.

A178. Obtaining an understanding of the service provider may include understanding the conditions of the service, for example, how often updates will be provided for an IT application, limitations on the use of the IT application and how the service provider addresses confidentiality of data. Understanding the expected form, timing and content of communications between the firm and the service provider is necessary in determining how the firm will be alerted to matters affecting the use of the resource, for example, updates or changes to the resource, or deficiencies in the resource.

A179. Actions the firm may take to determine whether the resource is appropriate for use in the firm's system of quality management include those described in paragraph A165. The firm may also determine it appropriate to understand how the resource will be evaluated and remediated by the

⁹ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

service provider. There may be circumstances when the service provider supplies the firm with an assurance report on the description and design of their controls over the resource, and in some circumstances, it may also include assurance on the operating effectiveness of such controls.

Documentation (Ref: Para. 68–71)

A180. Documentation provides evidence that the firm complies with this ISQC and law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the retention of organizational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this ISQC may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications (i.e., technological resources) that are integral to the components of the system of quality management, for example, a documented confirmation from personnel regarding compliance with the firm's policies or procedures for independence.

A181. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications (i.e., a technological resource) or other digital forms (e.g., in databases). Factors that may affect the firm's judgments about the form, content and extent of documentation may include:

- The size of the firm and the number of offices;
- The nature and complexity of the firm's practice and organization;
- The types of services the firm provides and the nature of the clients to whom services are provided; and
- The nature and complexity of the matter being documented, for example, whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk

In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

A182. In some instances, an external oversight authority may establish expected documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters, including conflicts of interest, non-compliance with laws and regulations and independence.

A183. In some circumstances, it may be appropriate for the firm to document its process and analyses for establishing the quality objectives, identifying and assessing quality risks and designing responses to such risks, to provide a history of the basis for decisions made by the firm about its system of quality management.

Appendix 1

The Components of a System of Quality Management

1. This appendix describes the eight components of a firm's system of quality management. The components in this ISQC have similarities to the components of internal control described in the Committee of Sponsoring Organizations of the Treadway Commission *Internal Control – Integrated Framework*. For example, the governance and leadership component is similar to the entity's control environment and the firm's risk assessment process is similar to the entity's risk assessment process.

Governance and Leadership

2. The governance and leadership component creates the environment in which the other components of the system of quality management operate because it addresses the firm's culture, decision-making process, actions, the assignment of responsibility and how the firm obtains and allocates resources. The governance and leadership component also provides the basis for the system of quality management because the firm needs to establish structures, reporting lines and appropriate authority and responsibility in order that the other components of the system of quality management can be developed. For example, in order to establish a system of quality management, the firm needs to identify the individual(s) responsible for its development. Accordingly, the governance and leadership component has a pervasive effect on the system of quality management and the other components cannot be effective if the environment in which they operate is not appropriate.

The Firm's Risk Assessment Process

3. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, which consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives and designing and implementing responses to address the quality risks.
4. The quality objectives established by the firm are the quality objectives set out in this ISQC, which are organized by component. However, given the nature and circumstances of the firm and its engagements, the firm may establish:
 - (a) More granular quality objectives; or
 - (b) Additional quality objectives when the quality objectives set out in this ISQC or the more granular quality objectives (if any) do not provide a sufficient basis for the achievement of the overall objective of this ISQC set out in paragraph 19.
5. Quality risks arise from conditions, events, circumstances, actions or inactions that may affect the achievement of the quality objectives, and which are associated with the nature and circumstances of the firm and its engagements, including the types of entities for whom such engagements are undertaken. For example:
 - (a) *Nature and circumstances of the firm*: The firm may have a service delivery center that includes human resources who perform specific tasks for engagement teams which are repetitive in nature. This may create, or increase the likelihood of, the quality risks for the appropriate direction and supervision of the engagement team and review of the work performed because the personnel may not be in the same location as the engagement partner or the engagement team.

- (b) *The engagements performed by the firm, including the types of entities for whom engagements are undertaken:* The firm may only perform related services engagements and because of the nature of such engagements, the firm may not identify any quality risks relating to the fulfillment of independence requirements, because there is not a reasonable possibility that the quality risks will occur. In relation to the types of entities for whom engagements are undertaken, the firm may perform engagements for entities in a particular industry, such as banks, insurance companies and pension funds. This may create the risk that personnel do not have the appropriate knowledge of the industry to perform the engagement.

The nature and circumstances of the firm and its engagements also affect the assessment of the likelihood of the quality risks occurring and the significance of the effect of the quality risk on the achievement of the quality objectives.

- 6. The responses designed and implemented by the firm consist of:
 - (a) The responses required by this ISQC, which are organized by component; and
 - (b) Additional responses determined by the firm.The responses required by this ISQC alone are not sufficient to address the quality risks.
- 7. The responses designed and implemented by the firm, including the responses required by this ISQC, are affected by the nature and circumstances of the firm and its engagements, including the types of entities for whom such engagements are undertaken. For example:
 - (a) *Nature and circumstances of the firm:* In circumstances when the firm has a service delivery center that includes human resources who perform specific tasks for engagement teams, the firm may obtain technology to facilitate interaction between the engagement partner and personnel located in the central location, to support appropriate direction and supervision.
 - (b) *The engagements performed by the firm, including the types of entities for whom engagements are undertaken:* In circumstances when the firm performs engagements in a particular industry, the firm may provide training for personnel on matters unique to that industry, or recruit personnel with experience in the industry.
- 8. The firm's processes for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses includes considering whether they need to be modified, as appropriate, for changes in the matters described above.

Relevant Ethical Requirements

- 9. The relevant ethical requirements component comprises the firm's processes for managing compliance with relevant ethical requirements, in order that the firm, its personnel and others subject to relevant ethical requirements, as applicable, fulfill the relevant ethical requirements. The processes include how threats to complying with relevant ethical requirements are identified, assessed and addressed and the firm's responses to breaches of the relevant ethical requirements. Relevant ethical requirements include independence requirements.

Acceptance and Continuance of Client Relationships and Specific Engagements

- 10. The acceptance and continuance of client relationships and specific engagements comprises the firm's processes for consideration of matters in determining whether to accept or continue a client

relationship or specific engagement. Such matters include the nature and circumstances of the engagement, the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance and the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. This component also requires that the firm does not prioritize the firm's financial and operational interests in its decision to accept and continue client relationships and specific engagements.

Resources

11. The resources component comprises the firm's processes for obtaining, developing, using, maintaining and allocating resources to support the design, implementation and operation of the system of quality management. The resources relevant to the firm's system of quality management include human resources, technological resources and intellectual resources. Furthermore, financial resources are needed for obtaining, developing and maintaining the other types of resources, and are addressed as part of the resource planning in the governance and leadership component. The firm may have competing priorities that affect the allocation of resources, however the firm is required to have appropriate resource planning, including anticipation of resource needs, and obtain and allocate resources in a manner that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management.

Engagement Performance

12. The engagement performance component comprises the firm's actions to promote and support the consistent performance of quality engagements in accordance with professional standards and legal and regulatory requirements. This includes how the firm supports engagement teams in making judgments, forming conclusions, and documenting the work performed. Matters addressed in this component include the responsibilities of the engagement team, including in relation to direction, supervision and review, consultation, differences of opinion, the assembly and retention of documentation and requirements addressing engagement quality control reviews.

Information and Communication

13. The information and communication component encompasses the firm's actions to obtain, generate or use relevant information to support the design, implementation and operation of the system of quality management. This includes establishing an information system, whether through the use of manual and automated elements (technological resources), to identify, capture, process and maintain information.
14. The information and communication component also encompasses two-way communication within the firm and communication with external parties, such as information about the firm's system of quality management. Such communication assists external parties in understanding the firm's activities to address quality through its system of quality management and the effectiveness of the firm's system.

Monitoring and Remediation Process

15. Monitoring comprises the firm's processes for evaluating the design, implementation and operation of the system of quality management. It involves undertaking ongoing and periodic monitoring activities, and identifying and evaluating deficiencies in the system of quality management based on

the findings from the monitoring activities, results of external inspections or other information sources (e.g., through the firm's complaints and allegations process). In order to understand how the deficiencies arose, this ISQC also requires the firm to understand the root cause of the deficiencies.

16. Remediation comprises the firm's actions for responding to deficiencies, which includes designing and implementing remedial actions and monitoring those actions to determine whether they appropriately address the deficiency. Remediation may also involve addressing the specific engagement, for example, when the deficiency indicates that the engagement report is inappropriate. Communication of the results of monitoring and remediation within the firm also forms part of the firm's remedial actions, since personnel often need to be aware of the results in order to fulfill their roles and responsibilities.
17. This component also includes the responsibilities of the individual(s) assigned ultimate responsibility and accountability for the system of quality management to determine whether the system of quality management provides the firm with reasonable assurance in relation to the objectives described in paragraph 19(a) and (b).

Interrelationship of the Components

18. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, and in doing so the firm is required to include the quality objectives and responses set out in each of the components of this ISQC.
19. The governance and leadership component is important to the design, implementation and operation of the other components of the system of quality management because it provides the basis for the system of quality management and also creates the environment in which the other components of the system of quality management operate.
20. Other components such as information and communication and resources have quality objectives that support the design, implementation and operation of the system of quality management, and therefore such components may include responses that affect or relate to the other components of the system of quality management. For example, the information and communication component contains the information system that provides the information needed for the operation of the other components or the resources component addresses the establishment of human resources that are needed operate the various aspects of the system of quality management. There may be interrelationships within the components as well, for example, human resources are needed for the development of intellectual resources.
21. There may also be relationships between components because there are matters that relate to each other, for example, aspects of the relevant ethical requirements component may be relevant when accepting or continuing client relationships and specific engagements.
22. The monitoring and remediation process monitors the entire system of quality management, and therefore the monitoring activities are undertaken over all of the components of the system of quality management.