



Quality Management- related Conforming Amendments to the Code

IESBA FINAL PRONOUNCEMENT
APRIL 2022

Aneica Boyd, 8 June 2022

Scope

Alignment of the Code with quality management amendments arising from the following quality standards;

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; and
- ISQM 2, *Engagement Quality Reviews*;

Timing

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

What are the changes?

Proposed amendments to align with terminology used in ISQM 1 and ISQM 2

- ❑ Code refers to ISQC1 which ISQM 1 replaces
- ❑ Definition update (ISQM 2) - engagement quality control review (EQCR) to engagement quality review (EQR); add definition of engagement quality reviewer
- ❑ Change for firm being required to “design, implement and operate” a quality management system in accordance with ISQM 1.

Proposed amendments to reflect revisions to certain concepts and principles in ISQM 1 and ISQM 2. An example is the removal of the concept of the firm obtaining reasonable assurance at the individual policies or procedures level.

What are the changes?

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Engagement quality ~~control~~ review ~~A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments made by the engagement team made and the conclusions it reached in formulating the thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.~~
An objective evaluation of the significant judgments made by the engagement team made and the conclusions it reached in formulating the thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.

Engagement quality reviewer ~~A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.~~
A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Key audit partner The engagement partner, the individual responsible for the engagement quality ~~control~~ review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

Network A larger structure:
 (a) That is aimed at co-operation; and
 (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality ~~control~~ management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE

LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQM <u>Cs</u>	International Standards on Quality <u>ManagementControl</u>
ISREs	International Standards on Review Engagements

What are the changes?

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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The Firm and its Operating Environment

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

...

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

IAASB Staff feedback included a suggestion that the phrase "including decisions about accepting or providing services to a client" be deleted on the ground that this provision implies that the engagement partner makes the decision to accept or continue the client engagement. It was observed that paragraph 30 of ISQM 1 addresses judgments by the firm about whether to accept or continue a client relationship or specific engagement. It was also observed that paragraph 22 of ISA 220 (Revised) requires the engagement partner to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. As a result, it was argued that the firm makes the decision whether to accept or continue a client relationship or specific engagement and the engagement partner confirms that the firm followed its policies or procedures in this regard.

In deliberating this matter, the IESBA considered that authority and accountability rest with individual professional accountants in public practice (PAPPs) within the firm even though decisions about accepting or providing services to a client are those of the firm. Additionally, in some jurisdictions, engagements are required to be under the names of engagement partners for licensing, regulatory or other reasons.

~~The IESBA is therefore not proposing any amendment to this provision.~~

What are the changes?

SECTION 320

PROFESSIONAL APPOINTMENTS

Client and Engagement Acceptance

General

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320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- ~~The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~ Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

Commented [A3]: The quality objective in para 30(a)(ii) of ISQM 1 deals with the firm's ability to perform the engagement (including the competence/ capabilities of the engagement team).

"The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)"

ISQM 1 requires the firm to identify quality risks to the achievement of this quality objective and design responses (policies or procedures) to address the quality risks.

In other words, there is a threat to the firm's ability to meet the quality objective when the policies or procedures designed and implemented by the firm to meet the quality objective are deficient. So, the threat to assigning individuals lacking the appropriate competence is higher when the policies or procedures designed and implemented by the system of quality management (SOQM) are not effective.

Concept of Reasonable Assurance

The concept of reasonable assurance at the individual policies or procedures level has been taken out of ISQM 1. This is because the SOQM as a whole provides reasonable assurance that the objectives of the SOQM are achieved (see paragraphs 14 and 15 of ISQM 1). It is expected that the various components of the SOQM operate in an interconnected manner (see paragraph 7 of ISQM 1).

Thank you

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