

COMPARISON OF QC 1000 WITH ISQM 1 AND SQMS 1

On May 13, 2024, the Public Company Accounting Oversight Board adopted a new quality control standard, as reflected in *A Firm's System of Quality and Other Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Release No. 2024-005. On September 9, 2024, the Securities and Exchange Commission approved the Board's new quality control standard, SEC Release No. 34-100968.

This comparison document was prepared by staff of the Office of the Chief Auditor as a reference tool for the new standard, [QC 1000, A Firm's System of Quality Control](#). This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board.

The table below maps the text of QC 1000 against the requirements of the International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("ISQM 1"), adopted by the International Auditing and Assurance Standards Board ("IAASB"), and the Statement on Quality Management Standards No. 1, *A Firm's System of Quality Management* ("SQMS 1"), adopted by the American Institute of CPAs ("AICPA"), which address similar matters. Requirements of ISQM 1 and SQMS 1 appear multiple times if they address matters covered by multiple provisions of QC 1000.

The comparison may not reflect the views of the IAASB or AICPA regarding the interpretation of their standards. Additionally, the IAASB and AICPA requirements are accompanied by application and other explanatory materials that provide further guidance on those standards. Because these materials are not part of the requirements,¹ they are not included in the comparison.

Paragraphs 2, 3, 16(e), and 34(f) of ISQM 1 and paragraphs 2, 3, 17 (definition of engagement quality reviewer), and 35(f) of SQMS 1, which relate to engagement quality review, have been omitted from the comparison. We do not address engagement quality review in QC 1000. See AS 1220, *Engagement Quality Review*.

¹ Paragraph A8. of ISQM 1 and paragraph A7. of SQMS 1 state that, although application and other explanatory material does not, in itself, impose a requirement, it is relevant to the proper application of the requirements.

Introduction

QC 1000	ISQM 1	SQMS 1
<p>.01 A quality control (“QC”) system of a registered public accounting firm (“firm”), as described by this standard, consists of components that are present, function, and operate together, not exclusively in a linear manner, enabling the consistent performance of <i>engagements</i>¹ and the issuance of informative, accurate, and independent <i>engagement reports</i>² in accordance with <i>applicable professional and legal requirements</i>. A QC system is a continual and iterative process that is responsive to changes in the nature and circumstances of the firm and its <i>engagements</i> and to relevant information that the firm gathers through its monitoring activities and from other sources. The QC system reflects and reinforces the firm’s role in protecting the interests of investors through the preparation of informative, accurate, and independent <i>engagement reports</i>.</p> <p>¹ Terms defined in Appendix A, <i>Definitions</i>, are italicized throughout the standard.</p> <p>² “Engagement reports” refers to reports issued in connection with <i>engagements</i> (e.g., audit, attest, examination, or review).</p> <p>.02 This standard sets forth the requirements for a firm with respect to the design, implementation, and operation of a QC system. This standard establishes a risk-based approach to the firm’s QC system such that the firm proactively manages the quality of <i>engagements</i> it performs and compliance with <i>applicable professional and legal requirements</i>. This risk-based approach includes establishing <i>quality objectives</i>, identifying and assessing <i>quality risks</i> to the achievement of the <i>quality objectives</i>, designing</p>	<p>1. This International Standard on Quality Management (ISQM) 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.</p> <p>4. This ISQM is to be read in conjunction with relevant ethical requirements. Law, regulation or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this ISQM. (Ref: Para. A2)</p> <p>6. A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ISQM, a system of quality management addresses the following eight components: (Ref: Para. A3)</p> <ul style="list-style-type: none"> (a) The firm’s risk assessment process; (b) Governance and leadership; (c) Relevant ethical requirements; (d) Acceptance and continuance of client relationships and specific engagements; (e) Engagement performance; (f) Resources; (g) Information and communication; and 	<p>1. This Statement on Quality Management Standards (SQMS) deals with a firm’s responsibilities to design, implement, and operate a system of quality management for its accounting and auditing practice.</p> <p>4. This SQMS is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. Law, regulation, or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this SQMS. (Ref: par. A1)</p> <p>7. A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It does not operate in a linear manner. However, for the purposes of this SQMS, a system of quality management addresses the following eight components: (Ref: par. A2)</p> <ul style="list-style-type: none"> a. The firm’s risk assessment process b. Governance and leadership c. Relevant ethical requirements d. Acceptance and continuance of client relationships and specific engagements e. Engagement performance f. Resources g. Information and communication

QC 1000	ISQM 1	SQMS 1
<p>and implementing <i>quality responses</i> to address the <i>quality risks</i>, and monitoring the firm’s QC system.</p> <p>.03 This standard describes the following eight integrated components of a firm’s QC system:</p> <ul style="list-style-type: none"> a. The firm’s risk assessment process; b. Governance and leadership; c. Ethics and independence; d. Acceptance and continuance of <i>engagements</i>; e. <i>Engagement</i> performance; f. Resources; g. Information and communication; and h. The monitoring and remediation process. <p>Note: The components of the QC system interact with each other in a variety of ways. For example, the firm’s risk assessment process applies to the components for which <i>quality objectives</i> are established. The monitoring and remediation process applies to all of the components of the QC system, including the monitoring and remediation component itself.</p>	<p>(h) The monitoring and remediation process.</p> <p>7. This ISQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: Para. A4)</p> <p>15. The public interest is served by the consistent performance of quality engagements. The design, implementation and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism.</p>	<p><i>h.</i> The monitoring and remediation process</p> <p>8. This SQMS requires the firm to apply a risk-based approach in designing, implementing, and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: par. A3)</p> <p>16. The public interest is served by the consistent performance of quality engagements. The design, implementation, and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 15a–b, are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.</p>

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<p>.04 In addition to the requirements relating to the components of the QC system, this standard includes requirements related to:</p> <ul style="list-style-type: none"> a. Roles and responsibilities (<i>see</i> paragraphs .10-.17); b. Evaluation of and reporting on the QC system (<i>see</i> paragraphs .77-.80); and c. Documentation of the QC system (<i>see</i> paragraphs .81-.86). 	<p>12. Paragraph 14 contains the objective of the firm in following this ISQM. This ISQM contains: (Ref: Para. A6)</p> <ul style="list-style-type: none"> (a) Requirements designed to enable the firm to meet the objective in paragraph 14; (Ref: Para. A7) (b) Related guidance in the form of application and other explanatory material; (Ref: Para. A8) (c) Introductory material that provides context relevant to a proper understanding of this ISQM; and (d) Definitions. (Ref: Para. A9) 	<p>13. Paragraph 15 contains the objective of the firm in following this SQMS. This SQMS contains the following: (Ref: par. A5)</p> <ul style="list-style-type: none"> a. Requirements designed to enable the firm to meet the objective in paragraph 15 (Ref: par. A6) b. Related guidance in the form of application and other explanatory material (Ref: par. A7) c. Introductory material that provides context relevant to a proper understanding of this SQMS d. Definitions (Ref: par. A8)

The Firm's QC System

QC 1000	ISQM 1	SQMS 1
<p>.05 A properly conducted <i>engagement</i> and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design and, if applicable, implement and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent <i>engagement</i> reports in accordance with <i>applicable professional and legal requirements</i>. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:</p> <ul style="list-style-type: none"> a. The firm, each member of <i>firm personnel</i>, and each <i>other participant</i>: <ul style="list-style-type: none"> (1) Conduct each of the firm's <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>; and (2) Fulfill their other responsibilities that are part of or subject to the firm's QC system in accordance with <i>applicable professional and legal requirements</i>; and b. Each <i>engagement</i> report issued by the firm is in accordance with <i>applicable professional and legal requirements</i> <p>(hereinafter referred to as the "reasonable assurance objective").</p>	<p>14. 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:</p> <ul style="list-style-type: none"> (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. 	<p>15. The objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that</p> <ul style="list-style-type: none"> 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 are appropriate in the circumstance

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<p>Note: Reasonable assurance is not absolute assurance, but a high level of assurance. It is obtained when a firm’s QC system reduces to an appropriately low level the risk that the objectives set forth in a. and b. are not achieved.</p>		
<p>.06 A firm must design a QC system that complies with this standard. To design such a QC system, the firm must:</p> <ul style="list-style-type: none"> a. Assign QC-related roles and responsibilities (see paragraphs .10-.17); b. Establish <i>quality objectives</i>, annually identify and assess <i>quality risks</i> to the achievement of those objectives, and design <i>quality responses</i> to address those risks (see paragraphs .18-.57); c. Design a monitoring and remediation process (see paragraphs .58-.76); and d. Document the design of the QC system (see paragraphs .81-.86). <p>.07 The requirement to implement and operate the QC system applies as follows:</p> <ul style="list-style-type: none"> a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with <i>applicable professional and legal requirements</i> with respect to any of the firm’s <i>engagements</i>³ and thereafter through the following September 30.⁴ 	<p>5. This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies and the system of quality management that is established in accordance with the requirements of this ISQM enables the consistent performance by the firm of all such engagements).</p> <p>.19 The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)</p>	<p>5. This SQMS applies to audit and attestation engagements performed by a firm in accordance with Government Auditing Standards. This SQMS does not apply to government audit organizations. Instead, those government audit organizations are subject to the quality control and assurance requirements of Government Auditing Standards.</p> <p>6. This SQMS applies to all firms that perform any engagement included in a firm’s accounting and auditing practice. The system of quality management that is established in accordance with the requirements of this SQMS enables the consistent performance by the firm of all such engagements.</p> <p>20. The firm should design, implement, and operate a system of quality management. In doing so, the firm should exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation, and operation of the system of quality management. (Ref: par. A30–A31)</p>

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<p>b. During the time the firm’s QC system is required to be operating effectively, the firm’s QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm’s participation in such work (i.e., even if the firm plays less than a substantial role).⁵</p> <p>c. A firm that is required to implement and operate its QC system is also required to annually evaluate its QC system as of September 30 and report on that evaluation (see paragraphs .77-.80).</p> <p>d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the <i>quality risks</i> the firm likely would face if it were to perform <i>engagements</i>) as provided in paragraph .06.</p> <p>Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to implement and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.</p> <p>³ With respect to firm responsibilities subsequent to the issuance of an audit report, see, for example, AS 2901, <i>Responding to Engagement Deficiencies After Issuance of the Auditor’s Report</i>; AS 2905, <i>Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report</i>; AS</p>		

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<p>4101, <i>Responsibilities Regarding Filings Under Federal Securities Statutes.</i></p> <p>⁴ See paragraph .77 (requiring evaluation of the effectiveness of the QC system as of September 30).</p> <p>⁵ See PCAOB Rule 1001(p)(ii).</p>		
<p>.08 In applying a risk-based approach to its QC system, the firm must:</p> <p>a. Design, implement, and operate a risk assessment process, including:</p> <p>(1) Establishing <i>quality objectives</i> necessary to achieve the reasonable assurance objective;</p> <p>(2) Identifying and assessing <i>quality risks</i> to the achievement of the <i>quality objectives</i>; and</p> <p>(3) Designing and implementing <i>quality responses</i> to address the <i>quality risks</i>;</p> <p>b. Design, implement, and operate a monitoring and remediation process; and</p> <p>c. Evaluate the effectiveness of the QC system and report on that evaluation.</p>	<p>8. The risk-based approach is embedded in the requirements of this ISQM through:</p> <p>(a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.</p> <p>(b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.</p> <p>(c) Designing and implementing responses to address the quality risks. The nature, timing and extent of the firm’s responses to address the quality risks are based on and are responsive to the reasons for the assessments given to the quality risks.</p> <p>23. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and</p>	<p>9. The risk-based approach is embedded in the requirements of this SQMS through the following:</p> <p>a. <i>Establishing quality objectives.</i> The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this SQMS and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.</p> <p>b. <i>Identifying and assessing risks to the achievement of the quality objectives</i> (referred to in this SQMS as <i>quality risks</i>). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.</p> <p>c. <i>Designing and implementing responses to address the quality risks.</i> The nature, timing, and extent of the firm’s responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.</p> <p>24. The firm should design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and</p>

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	implement responses to address the quality risks. (Ref: Para. A39–A41)	design and implement responses to address the quality risks. (Ref: par. A40–A42)
<p>.09 In applying a risk-based approach to the firm’s QC system, the firm must take into account the nature and circumstances of the firm, its <i>engagements</i>, and other relevant information. Accordingly, the firm should tailor its QC system to the firm’s specific facts and circumstances (e.g., the size and complexity of the firm, the types and variety of <i>engagements</i> it performs, the types of companies for which it performs <i>engagements</i>, and whether it is a member of a network and, if so, the nature and extent of the relationship between the firm and the network).</p> <p>Note: Networks may be structured in a variety of ways and could include arrangements between firms for the purpose of sharing knowledge; developing and implementing consistent policies, tools, and methodologies; conducting multi-location <i>engagements</i>; or executing other types of business or service matters. Networks may include both registered and unregistered accounting firms.</p>	<p><i>Scalability</i></p> <p>10. In applying a risk-based approach, the firm is required to take into account:</p> <ul style="list-style-type: none"> (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm’s system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.</p> <p><i>Networks and Service Providers</i></p> <p>11. This ISQM addresses the firm’s responsibilities when the firm:</p> <ul style="list-style-type: none"> (a) Belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in the performance of engagements; or (b) Uses resources from a service provider in the system of quality management or in the performance of engagements. 	<p><i>Scalability</i></p> <p>11. In applying a risk-based approach, the firm is required to take into account</p> <ul style="list-style-type: none"> a. the nature and circumstances of the firm, and b. the nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm’s system of quality management — in particular, the complexity and formality of the system — will vary. For example, a firm that performs different types of engagements for a wide variety of entities, such as audits of specialized industries or group audits for multinational entities, will likely need to have a more complex and formalized system of quality management and supporting documentation than a firm that performs only reviews of financial statements or compilation engagements.</p> <p><i>Networks and Service Providers</i></p> <p>12. This SQMS addresses the firm’s responsibilities when the firm</p> <ul style="list-style-type: none"> a. belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in performing engagements, or

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	<p>Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.</p>	<p><i>b.</i> uses resources from a service provider in the system of quality management or in performing engagements.</p> <p>Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.</p>
N/A	<p>13. Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this ISQM is required to be performed within one year following December 15, 2022.</p>	<p>14. Systems of quality management in compliance with this SQMS are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by paragraphs 54–55 is required to be performed within one year following December 15, 2025.</p>
<p>N/A</p> <p>(See PCAOB Rule 3101, <i>Certain Terms Used in Auditing and Related Professional Practice Standards</i>)</p>	<p>17. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)</p>	<p>18. The firm should comply with each requirement of this SQMS unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: par. A29)</p>

Roles and Responsibilities

QC 1000	ISQM 1	SQMS 1
<p>.10 All firm personnel and other participants involved in the design, implementation, and operation of the QC system must exercise due professional care in all matters related to the QC system. Due professional care concerns what those individuals do and how well they do it. Due professional care means acting with reasonable care and diligence, exercising professional skepticism, acting with integrity, and complying with <i>applicable professional and legal requirements</i>. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of the relevant information.</p>	<p>N/A</p>	<p>N/A</p>
<p>.11 The firm’s principal executive officer (i.e., the highest-ranking executive, regardless of formal title) is ultimately responsible and accountable for the QC system as a whole.</p> <p>Note: If a firm has co-principal executive officers, the references to “the individual assigned ultimate responsibility and accountability for the QC system as a whole” apply to each of the co-principal executive officers and each of them is ultimately responsible and accountable for the QC system as a whole.</p> <p>.12 The firm must assign other roles and responsibilities with respect to the QC system to <i>firm personnel</i> who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.⁶ Such roles should include the following:</p>	<p>20. The firm shall assign: (Ref: Para. A32–A35)</p> <p>(a) 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);</p> <p>(b) Operational responsibility for the system of quality management;</p> <p>(c) Operational responsibility for specific aspects of the system of quality management, including:</p> <p>(i) Compliance with independence requirements; and (Ref: Para. A36)</p> <p>(ii) The monitoring and remediation process.</p> <p>21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)</p>	<p>21. The firm should assign (Ref: par. A32–A36)</p> <p>a. ultimate responsibility and accountability for the system of quality management to the firm’s CEO or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent);</p> <p>b. operational responsibility for the system of quality management; and</p> <p>c. operational responsibility for specific aspects of the system of quality management, including</p> <p>i. compliance with independence requirements, and (Ref: par. A37)</p> <p>ii. the monitoring and remediation process.</p> <p>22. In assigning the roles in paragraph 21, the firm should determine that the individual or individuals (Ref: par. A38)</p>

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<p>a. Operational responsibility and accountability for the QC system as a whole;</p> <p>b. Operational responsibility for the firm’s compliance with ethics and independence requirements;</p> <p>c. Operational responsibility for the monitoring and remediation process; and</p> <p>d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.</p> <p>Note: Each of the roles identified in subparagraphs a.-c. above cannot be shared, but rather must be assigned to only one individual. However, depending on the nature and circumstances of the firm (including its size and structure) and its <i>engagements</i>, the firm may assign one individual to more than one of the roles identified in paragraphs .11 and .12.</p> <p>⁶ See Note in paragraph .44a. of this standard for a description of competence.</p>	<p>(a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)</p> <p>(b) Understands their assigned roles and that they are accountable for fulfilling them.</p>	<p>a. have the appropriate experience, knowledge, influence, and authority within the firm and sufficient time to fulfill their assigned responsibility, and (Ref: par. A39)</p> <p>b. understand their assigned roles and that they are accountable for fulfilling them.</p>
<p>.13 The firm should establish a direct line of communication from each individual assigned operational responsibilities (see paragraph .12) to the individual assigned ultimate responsibility and</p>	<p>22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process, have a direct line of communication to the</p>	<p>23. The firm should determine that the individual or individuals assigned operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process have a direct line of communication to the</p>

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<p>accountability for the QC system as a whole (see paragraph .11).</p>	<p>individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	<p>individual or individuals assigned ultimate responsibility and accountability for the system of quality management.</p>
<p>.14 The individual assigned ultimate responsibility and accountability for the QC system as a whole should:</p> <ul style="list-style-type: none"> a. Demonstrate a commitment to quality through the individual’s actions, behaviors, and communications. This includes recognizing and reinforcing the importance of professional ethics, values, and attitudes, and establishing the expected behavior of <i>firm personnel</i> related to activities within the firm’s QC system and the performance of its <i>engagements</i>. b. Establish or direct the establishment of structures, reporting lines, and authorities and responsibilities for the following roles: <ul style="list-style-type: none"> (1) Operational responsibility and accountability for the QC system as a whole; (2) Operational responsibility for the firm’s compliance with ethics and independence requirements; (3) Operational responsibility for the monitoring and remediation process; and 	<p>9. This ISQM requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 14(a) and (b), are being achieved. (Ref: Para. A5)</p> <p>18. The individual(s) assigned ultimate responsibility and accountability for the firm’s system of quality management, and the individual(s) assigned operational responsibility for the firm’s system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.</p> <p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A187–A189)</p>	<p>10. This SQMS requires that, at least annually, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality management and conclude whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 15a–b, are being achieved. (Ref: par. A4)</p> <p>19. The individual or individuals assigned ultimate responsibility and accountability for the firm’s system of quality management, and the individual or individuals assigned operational responsibility for the firm’s system of quality management, should have an understanding of this SQMS, including the application and other explanatory material, to understand the objective of this SQMS and to apply its requirements properly.</p> <p>54. The individual or individuals assigned ultimate responsibility and accountability for the system of quality management should evaluate, on behalf of the firm, the system of quality management. The evaluation should be undertaken as of a point in time and performed at least annually. (Ref: par. A206–A209)</p>

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<p>(4) If assigned, operational responsibility for other aspects of the QC system.</p> <p>c. Be accountable for the design, implementation, and operation of the firm’s QC system in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures and for the annual evaluation of the firm’s QC system required by paragraph .77.</p> <p>d. Certify the firm’s report to the PCAOB on its annual evaluation of the QC system (see paragraph .79).</p>		
<p>.15 The individual assigned operational responsibility and accountability for the QC system as a whole should:</p> <p>a. Supervise the design, implementation, and operation of the firm’s QC system in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures; and</p> <p>b. Certify the firm’s report to the PCAOB on its annual evaluation of the QC system (see paragraph .79).</p>	<p>18. The individual(s) assigned ultimate responsibility and accountability for the firm’s system of quality management, and the individual(s) assigned operational responsibility for the firm’s system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.</p>	<p>19. The individual or individuals assigned ultimate responsibility and accountability for the firm’s system of quality management, and the individual or individuals assigned operational responsibility for the firm’s system of quality management, should have an understanding of this SQMS, including the application and other explanatory material, to understand the objective of this SQMS and to apply its requirements properly.</p>
<p>.16 The individual assigned operational responsibility for the firm’s compliance with ethics and independence requirements should:</p>	<p>N/A</p>	<p>N/A</p>

QC 1000	ISQM 1	SQMS 1
<ul style="list-style-type: none"> a. Supervise the design, implementation, and operation of the firm’s ethics and independence component (see paragraphs .30-.36); and b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm’s monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole. 		
<p>.17 The individual assigned operational responsibility for the monitoring and remediation process should:</p> <ul style="list-style-type: none"> a. Supervise the design, implementation, and operation of the firm’s monitoring and remediation process (see paragraphs .58-.76) and the annual evaluation of the QC system (see paragraphs .77-.78), including: <ul style="list-style-type: none"> (1) The evaluation of the results of the monitoring activities; (2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate <i>QC deficiencies</i> and, if not, the taking of timely action until such <i>QC deficiencies</i> are remediated; and 	<p>43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:</p> <ul style="list-style-type: none"> (a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and (b) Implemented to address previously identified deficiencies are effective. <p>44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.</p> <p><i>Ongoing Communication Related to Monitoring and Remediation</i></p>	<p>44. The individual or individuals assigned operational responsibility for the monitoring and remediation process should evaluate whether the remedial actions</p> <ul style="list-style-type: none"> a. are appropriately designed to address the identified deficiencies and their related root causes and determine that they have been implemented. b. implemented to address previously identified deficiencies are effective. <p>45. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual or individuals assigned operational responsibility for the monitoring and remediation process should take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.</p>

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<p>(3) The firm’s other policies and procedures with regard to monitoring and remediation.</p> <p>b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:</p> <p>(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;</p> <p>(2) Identified <i>engagement deficiencies</i>, <i>QC deficiencies</i>, and <i>major QC deficiencies</i>, including the nature, severity, and pervasiveness of such deficiencies; and</p> <p>(3) Actions taken to address <i>engagement deficiencies</i>, <i>QC deficiencies</i>, and <i>major QC deficiencies</i>.</p>	<p>46. 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: (Ref: Para. A174)</p> <p>(a) A description of the monitoring activities performed;</p> <p>(b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and</p> <p>(c) The remedial actions to address the identified deficiencies.</p>	<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>47. The individual or individuals assigned operational responsibility for the monitoring and remediation process should communicate the following on a timely basis to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management: (Ref: par. A190)</p> <p>a. A description of the monitoring activities performed</p> <p>b. The identified deficiencies, including the severity and pervasiveness of such deficiencies</p> <p>c. The remedial actions to address the identified deficiencies</p>

The Firm's Risk Assessment Process

QC 1000	ISQM 1	SQMS 1
<p>.18 The firm's risk assessment process provides the basis for the design, implementation, and operation of the firm's QC system. The risk assessment process consists of establishing <i>quality objectives</i>, identifying and assessing <i>quality risks</i> to the achievement of the <i>quality objectives</i>, and designing and implementing <i>quality responses</i> to address the <i>quality risks</i>.</p>	<p>N/A</p>	<p>N/A</p>
<p>.19 The firm must establish the <i>quality objectives</i> necessary to achieve the reasonable assurance objective. This consists of the <i>quality objectives</i> specified in this standard and any other <i>quality objectives</i> that are necessary under paragraph .08a.(1).</p> <p>Note: <i>Quality objectives</i> are specified in this standard for six of the components of the QC system: governance and leadership (see paragraph .25), ethics and independence (see paragraph .31), acceptance and continuance of <i>engagements</i> (see paragraph .38), <i>engagement</i> performance (see paragraph .42), resources (see paragraph .44), and information and communication (see paragraph .53).</p>	<p>24. The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A42–A44)</p>	<p>25. The firm should establish the quality objectives specified by this SQMS and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: par. A43–A45)</p>
<p>.20 Annually, the firm must identify and assess <i>quality risks</i> to achieving each of the <i>quality objectives</i> established by the firm. The firm should:</p> <p>a. Obtain an understanding of the conditions, events, and activities that</p>	<p>25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:</p> <p>(a) Obtain an understanding of the conditions, events, circumstances, actions or inactions that</p>	<p>26. The firm should identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm should do the following:</p>

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<p>may adversely affect the achievement of its <i>quality objectives</i>, which includes an understanding of the following:</p> <p>(1) The nature and circumstances of the firm, including:</p> <p>(a) The complexity and operating characteristics of the firm;</p> <p>(b) The firm’s business processes and strategic and operational decisions and actions;</p> <p>(c) The characteristics and management style of leadership;</p> <p>(d) The extent to which a culture of integrity and a commitment to audit quality, including ethics and independence, is promoted within the firm and embraced by <i>firm personnel</i> across all levels;</p> <p>(e) The resources of the firm;</p> <p>(f) The environment in which the firm operates, including <i>applicable professional and legal requirements</i>;</p> <p>(g) If the firm belongs to a network, the characteristics of the network and the network’s resources and services and the nature and extent of such</p>	<p>may adversely affect the achievement of the quality objectives, including: (Ref: Para. A45–A47)</p> <p>(i) With respect to the nature and circumstances of the firm, those relating to:</p> <p>a. The complexity and operating characteristics of the firm;</p> <p>b. The strategic and operational decisions and actions, business processes and business model of the firm;</p> <p>c. The characteristics and management style of leadership;</p> <p>d. The resources of the firm, including the resources provided by service providers;</p> <p>e. Law, regulation, professional standards and the environment in which the firm operates; and</p> <p>f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.</p> <p>(ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:</p> <p>a. The types of engagements performed by the firm and the reports to be issued; and</p>	<p>a. Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, including the following: (Ref: par. A46–A48)</p> <p>i. With respect to the nature and circumstances of the firm, those relating to</p> <p>(1) the complexity and operating characteristics of the firm;</p> <p>(2) the strategic and operational decisions and actions, business processes, and business model of the firm;</p> <p>(3) the characteristics and management style of leadership;</p> <p>(4) the resources of the firm, including the resources provided by service providers;</p> <p>(5) law, regulation, professional standards, and the environment in which the firm operates; and</p> <p>(6) in the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any</p> <p>ii. With respect to the nature and circumstances of the engagements performed by the firm, those relating to</p> <p>(1) the types of engagements performed by the firm and the reports to be issued, and</p>

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<p>resources and services used by the firm;</p> <p>(h) If the firm uses <i>other participants</i>, the nature and extent of their involvement;</p> <p>(i) If the firm participates in other firms' <i>engagements</i>, the nature and extent of the firm's participation; and</p> <p>(j) If the firm uses resources or services obtained from <i>third-party providers</i>, the nature and extent of those resources or services.</p> <p>(See Appendix B for specific examples.)</p> <p>(2) The nature and circumstances of the firm's <i>engagements</i> (see Appendix B for specific examples).</p> <p>(3) Other relevant information, including information from the firm's monitoring and remediation activities, external inspections or reviews, and other oversight activities by regulators.</p> <p>Note: The firm might identify conditions, events, and activities that may adversely affect the achievement of its <i>quality objectives</i> by asking "what could go wrong?" in</p>	<p>b. The types of entities for which such engagements are undertaken.</p> <p>(b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A48)</p>	<p>(2) the types of entities for which such engagements are undertaken</p> <p>b. Take into account how, and the degree to which, the conditions, events, circumstances, actions, or inactions in paragraph 26a may adversely affect the achievement of the quality objectives. (Ref: par. A49–A50)</p>

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<p>relation to the achievement of a given <i>quality objective</i>.</p> <p>b. Identify and assess <i>quality risks</i> based on the understanding obtained pursuant to paragraph .20a. and taking into account whether, how, and the degree to which the achievement of the <i>quality objectives</i> may be adversely affected.</p> <p>Note: The assessment of <i>quality risks</i> is based on inherent risk (i.e., without regard to the effect of any related <i>quality responses</i>).</p>		
<p>.21 The firm must design and implement <i>quality responses</i> that (1) are based on the <i>quality risks</i> and the reasons for the assessments given to the <i>quality risks</i>, and (2) reduce to an appropriately low level the risk that the <i>quality objective</i> will not be achieved.</p> <p>Note: Certain components include requirements for specified <i>quality responses</i>. These specified <i>quality responses</i> are to be included in the <i>quality responses</i> designed and implemented by the firm. Specified <i>quality responses</i> may address multiple <i>quality risks</i> within multiple components but are not intended to be comprehensive and alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> of the firm's QC system. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may</p>	<p>26. The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34. (Ref: Para. A49–A51)</p>	<p>27. The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses should include the responses specified in paragraph 35. However, the responses specified in paragraph 35 alone are not sufficient to achieve the objectives of the system of quality management. (Ref: par. A51–A53)</p>

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<p>need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>		
<p>Modifications to the Quality Objectives, Quality Risks, or Quality Responses</p> <p>.22 In addition to identifying and assessing <i>quality risks</i> annually, the firm should establish policies and procedures to monitor, identify, and assess changes to conditions, events, and activities that indicate modifications to the firm’s <i>quality objectives, quality risks, or quality responses</i> may be needed. Such policies and procedures should specify that the firm take into account, among other sources, information from the firm’s monitoring and remediation process.</p> <p>.23 If the firm identifies changes to conditions, events, or activities indicating that modifications to the <i>quality objectives, quality risks, or quality responses</i> may be needed, the firm should determine what, if any, modifications are needed and make them on a timely basis.</p>	<p>27. The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A53)</p> <p>(a) Establish additional quality objectives or modify additional quality objectives already established by the firm; (Ref: Para. A54)</p> <p>(b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or</p> <p>(c) Design and implement additional responses, or modify the responses.</p>	<p>28. The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm should consider the information and, when appropriate, (Ref: par. A54–A55)</p> <p>a. establish additional quality objectives or modify additional quality objectives previously established by the firm; (Ref: par. A56)</p> <p>b. identify and assess additional quality risks, modify the quality risks, or reassess the quality risks; or</p> <p>c. design and implement additional responses or modify the responses.</p>

Governance and Leadership

QC 1000	ISQM 1	SQMS 1
<p>.24 This component addresses the environment that enables the effective oversight and operation of the QC system and directs the firm’s culture, decision-making processes, organizational structure, and leadership.</p>	<p>.19 The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)</p>	<p>20. The firm should design, implement, and operate a system of quality management. In doing so, the firm should exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation, and operation of the system of quality management. (Ref: par. A30–A31)</p>
<p>Governance and Leadership Quality Objectives</p> <p>.25 The <i>quality objectives</i> established by the firm with respect to its governance and leadership should include the following:</p> <p>a. The firm’s commitment to quality is communicated and promoted by leadership to recognize and reinforce:</p> <ol style="list-style-type: none"> (1) The firm’s role in protecting investors and the public interest by consistently fulfilling its responsibilities under <i>applicable professional and legal requirements</i>; (2) The importance of adherence to appropriate standards of conduct by <i>firm personnel</i>;⁷ (3) The importance of professional ethics, values, and attitudes; and (4) The expected behavior and responsibility of <i>firm personnel</i> for 	<p>28. The firm shall establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces: (Ref: Para. A55–A56)</p> <ol style="list-style-type: none"> (i) The firm’s role in serving the public interest by consistently performing quality engagements; (ii) The importance of professional ethics, values and attitudes; (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behavior; and (iv) The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities. 	<p>29. The firm should establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>a. The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: (Ref: par. A57–A58)</p> <ol style="list-style-type: none"> i. The firm’s role in serving the public interest by consistently performing quality engagements ii. The importance of professional ethics, values, and attitudes iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior iv. The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities

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<p>quality relating to activities that are subject to <i>applicable professional and legal requirements</i>, including activities within the firm’s QC system and the firm’s performance on <i>engagements</i>.</p> <p>b. The firm clearly defines leadership’s responsibility for quality and holds leadership accountable, including through their performance evaluation and compensation.</p> <p>c. Leadership demonstrates a commitment to quality through its actions and behaviors.</p> <p>d. The firm’s strategic decisions and actions, including financial and operational priorities, are consistent with and support the firm’s commitment to quality.</p> <p>e. The firm’s organizational and governance structure and the assignment of roles, responsibilities, and authority enable the design, implementation, and operation of the firm’s QC system and support performance of the firm’s <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>.</p> <p>f. Resource needs are planned for, and resources are obtained or developed and allocated or assigned, in a manner that enables the effective design, implementation, and operation of the</p>	<p>(b) Leadership is responsible and accountable for quality. (Ref: Para. A57)</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A58)</p> <p>(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm’s system of quality management. (Ref: Para. A32, A33, A35, A59)</p> <p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm’s commitment to quality. (Ref: Para. A60-A61)</p>	<p>b. Leadership is responsible and accountable for quality. (Ref: par. A59)</p> <p>c. Leadership demonstrates a commitment to quality through its actions and behaviors. (Ref: par. A60)</p> <p>d. The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm’s system of quality management. (Ref: par. A32–A35 and A61)</p> <p>e. Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm’s commitment to quality. (Ref: par. A62–A63)</p>

QC 1000	ISQM 1	SQMS 1
<p>firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>.</p> <p>Note: Resources include people, financial, technological, and intellectual resources, and resources from a network or <i>third-party provider</i>.⁸</p> <p>⁷ See paragraph .46.</p> <p>⁸ See paragraphs .44h. and .44i. for an explanation of technological and intellectual resources.</p>		
<p>Governance and Leadership Specified Quality Responses</p> <p>.26 In designing and implementing <i>quality responses</i> to address the <i>quality risks</i> in the governance and leadership component, the firm should include the specified <i>quality responses</i> in paragraphs .27-.29. These specified <i>quality responses</i> alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> for this component. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p>
<p>.27 The firm should establish and maintain clear lines of responsibility and supervision—including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm, up to and including the principal executive officer(s)⁹ or equivalent—within the QC system.</p>	<p>N/A</p>	<p>N/A</p>

QC 1000	ISQM 1	SQMS 1
<p>⁹ See paragraph .11.</p>		
<p>.28 If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm’s governance structure should incorporate an external oversight function for the QC system composed of one or more persons who are not partners, shareholders, members, other principals, or employees of the firm and do not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system (an “External QC Function” or “EQCF”). The EQCF should have the experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned to the EQCF by the firm. The responsibilities of the EQCF should include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.</p>	<p>N/A</p>	<p>N/A</p>
<p>.29 The firm should design, implement, and maintain policies and procedures for addressing potential noncompliance with <i>applicable professional and legal requirements</i> and with the firm’s policies and procedures with respect to the QC system, the firm’s <i>engagements, firm personnel, or and other participants</i>. Such policies and procedures should be made available to all <i>firm personnel and other participants</i> and address:</p> <p style="padding-left: 40px;">a. Processes and responsibilities for receiving complaints and allegations from internal and external parties (for example, policies and procedures</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p style="padding-left: 40px;">(c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures established in accordance with this ISQM. (Ref: Para. A120–A121)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <p style="padding-left: 40px;">c. The firm establishes policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies or procedures established in accordance with this SQMS. (Ref: par. A128–A129)</p>

QC 1000	ISQM 1	SQMS 1
<p>regarding a complaints mailbox or hotline or a whistleblower program);</p> <ul style="list-style-type: none"> b. Protecting persons making complaints and allegations from retaliation; c. Investigating and addressing complaints and allegations; and <p>Note: The nature, timing, and extent of the process to investigate and address complaints and allegations should be commensurate with and responsive to the significance of the related complaint or allegation.</p> <ul style="list-style-type: none"> d. If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, providing a confidential and anonymous process for submitting complaints and allegations and protecting the confidentiality of the individuals and entities that made a complaint or allegation during the investigation. 		

Ethics and Independence

QC 1000	ISQM 1	SQMS 1
<p>.30 This component addresses the fulfillment of firm and individual responsibilities under ethics and independence requirements.¹⁰</p> <p>¹⁰ Ethics and independence requirements include PCAOB independence and ethics standards and rules, the U.S. Securities and Exchange Commission (“SEC”)</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>rule on auditor independence, and other applicable requirements regarding accountant ethics and independence that are relevant to fulfilling their obligations and responsibilities in the conduct of <i>engagements</i> or in relation to the QC system, such as those arising under state law or the law of other jurisdictions. <i>See, e.g.</i>, Regulation S-X Rule 2-01, 17 C.F.R. § 210.2-01, and PCAOB Rules under Section 3. Auditing and Related Professional Practice Standards, Part 5 – Ethics and Independence.</p>		
<p>Ethics and Independence Quality Objectives</p> <p>.31 The <i>quality objectives</i> established by the firm with respect to ethics and independence requirements should include the following:</p> <ul style="list-style-type: none"> a. Ethics and independence requirements are understood and complied with by the firm and <i>firm personnel</i> and, with respect to work performed on behalf of the firm, by others subject to such requirements.¹¹ b. Conditions, events, relationships, or activities that could constitute violations of ethics and independence requirements are properly identified, evaluated, and responded to by the firm and <i>firm personnel</i> on a timely basis. c. Violations are communicated on a timely basis to the individual assigned operational responsibility for the firm’s compliance with ethics and independence requirements. <p>¹¹ Others subject to such requirements may include, for</p>	<p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)</p> <ul style="list-style-type: none"> (a) The firm and its personnel: <ul style="list-style-type: none"> (i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject; and (Ref: Para. A22, A24) (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject. (b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject: <ul style="list-style-type: none"> (i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A22, A24, A65) 	<p>30. The firm should establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: par. A64–A66 and A68)</p> <ul style="list-style-type: none"> a. The firm and its personnel <ul style="list-style-type: none"> i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject, and (Ref: par. A23) ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject. b. Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject <ul style="list-style-type: none"> i. understand the relevant ethical requirements that apply to them, and (Ref: par. A23 and A67)

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<p>example, “associated persons” of a firm (as defined in PCAOB Rule 1001(p)(i)) and “covered persons in the firm” (as defined in Regulation S-X Rule 2-01(f)(11), 17 C.F.R. § 210.2-01(f)(11)) that in each case are not <i>firm personnel</i>.</p>	<p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.</p> <p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(a) The firm establishes policies or procedures for:</p> <p>(i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)</p> <p>(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)</p>	<p>ii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (Ref: par. A68)</p> <p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <p>a. The firm establishes policies or procedures for</p> <p>i. identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements. (Ref: par. A125)</p> <p>ii. identifying, communicating, evaluating, and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: par. A126–A127)</p>
<p>Ethics and Independence Specified Quality Responses</p> <p>.32 In designing and implementing <i>quality responses</i> to address the <i>quality risks</i> in the ethics and independence component, the firm must include the specified <i>quality responses</i> in paragraphs .33 -.36. These specified <i>quality responses</i> alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> for this component. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>	<p>.34 In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p>

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<p>.33 The firm must design, implement, and maintain policies and procedures that address ethics and independence requirements, including:</p> <ul style="list-style-type: none"> a. Identifying and addressing matters that may reasonably be thought to bear on the independence of the firm, <i>firm personnel</i>, and affiliates of the firm;¹² b. Obligations of <i>firm personnel</i> to perform with integrity and objectivity all activities associated with the operation of the QC system and the performance of <i>engagements</i> (such as training and other professional development activities; <i>engagement</i> planning, performance, and supervision; and communication with companies for which the firm performs <i>engagements</i>, other <i>firm personnel</i>, and regulators);¹³ c. Obligations of associated persons of the firm,¹⁴ other than <i>firm personnel</i>, to perform work on behalf of the firm with integrity and objectivity; d. Consultations on ethics and independence matters, including identifying ethics and independence matters requiring consultation; e. Monitoring compliance (e.g., internal inspection of independence compliance at least annually) with applicable ethics and independence requirements and related firm policies and procedures by the firm, <i>firm personnel</i>, affiliates of the firm, and, with respect to work 	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <ul style="list-style-type: none"> (a) The firm establishes policies or procedures for: <ul style="list-style-type: none"> (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117) (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119) 	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <ul style="list-style-type: none"> a. The firm establishes policies or procedures for <ul style="list-style-type: none"> i. identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements. (Ref: par. A125) ii. identifying, communicating, evaluating, and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: par. A126–A127)

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<p>performed on behalf of the firm, others subject to such requirements; and</p> <p>f. With respect to violations and potential violations of ethics and independence requirements:</p> <ol style="list-style-type: none"> (1) Identifying conditions, events, relationships, and activities that could constitute ethics or independence violations involving the firm, <i>firm personnel</i>, and, with respect to work performed on behalf of the firm, others subject to such requirements; (2) Taking preventive and corrective actions to address ethics or independence violations, as appropriate, on a timely basis; (3) Reporting requirements for <i>firm personnel</i> and, others performing work on behalf of the firm who are subject to such requirements regarding ethics or independence violations of which they become aware that may affect the firm, including requirements for escalating reporting of such violations; and (4) Communicating, as appropriate, to external parties (for example, to audit committees).¹⁵ <p>¹² PCAOB Rule 3526, <i>Communication with Audit Committees Concerning Independence</i>, requires the</p>		

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<p>firm to communicate with the audit committee regarding matters that may reasonably be thought to bear on the independence of the firm, <i>firm personnel</i>, and affiliates of the firm. Some, but not all, such matters are the subject of specific SEC or PCAOB requirements. <i>See, e.g.,</i> Rule 2-01 of Regulation S-X, 17 C.F.R. § 210.2-01; PCAOB Rule 3522, <i>Tax Transactions</i>; PCAOB Rule 3523, <i>Tax Services for Persons in Financial Reporting Oversight Roles</i>.</p> <p>¹³ See PCAOB Rule 3500T, <i>Interim Ethics and Independence Standards</i>; EI 1000, <i>Integrity and Objectivity</i>.</p> <p>¹⁴ See PCAOB Rule 1001(p)(i).</p> <p>¹⁵ The term “audit committee” has the same meaning as it does in AS 1301, <i>Communications with Audit Committees</i>.</p>		
<p>.34 The firm’s policies and procedures for matters that may reasonably be thought to bear on the independence of the firm, <i>firm personnel</i>, and affiliates of the firm (<i>see</i> paragraph .33a.) must include:</p> <ul style="list-style-type: none"> a. Identifying firm and personal relationships and arrangements with restricted entities, including a process for identifying direct or material indirect financial interests that might impair the firm’s independence of <i>firm personnel</i> that are managerial employees or partners, shareholders, members, or other principals. <p>(1) If the firm issued audit reports with respect to more than 100 issuers</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p>

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<p>during the prior calendar year, the process to identify investments in securities that might impair the independence of the firm or such <i>firm personnel</i> must be automated;</p> <p>(2) If the firm issued audit reports with respect to 100 or fewer issuers during the prior calendar year, the firm should consider automating the process to identify investments in securities that might impair the independence of the firm or such <i>firm personnel</i>, taking into account the <i>quality risks</i> and the nature and circumstances of the firm;</p> <p>Note: Firm and personal relationships and arrangements with restricted entities include, for example, financial relationships, employment relationships, business relationships, non-audit services, contingent fee arrangements, partner rotation, certain tax services, and arrangements requiring audit committee pre-approval.¹⁶ The term “restricted entities” includes all audit clients (including affiliates of the audit client) of the firm and affiliates of the firm.¹⁷</p> <p>b. Maintaining and making available the list of restricted entities to <i>firm personnel</i> and others performing work on behalf of the firm who are subject to independence requirements;</p>		

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<p>Note: This includes updating and communicating, at least monthly (and more frequently, if appropriate), additions to the list of restricted entities to <i>firm personnel</i> and others performing work on behalf of the firm whose relationships and arrangements with such additional restricted entities may reasonably be thought to bear on the independence of the firm.</p> <p>c. Requiring that the list of restricted entities be reviewed before the firm enters into any relationships, <i>engagements</i> to perform non-audit services, or fee arrangements that might affect compliance with independence requirements, and, if such review indicates that action is required under <i>applicable professional and legal requirements</i> or the firm’s policies and procedures, taking required actions on a timely basis;</p> <p>d. Requiring <i>firm personnel</i> to review the list of restricted entities (1) upon employment or engagement, (2) after additions to the list of restricted entities are communicated by the firm, (3) prior to themselves or a relevant family member¹⁸ obtaining any direct or material indirect financial interest in or entering into or modifying a direct or material indirect relationship with an entity, (4) prior to changes in position</p>		

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<p>(e.g., going into a chain of command or other covered person role¹⁹), and (5) prior to entering into any business or employment relationships, and, if such review indicates that action is required under <i>applicable professional and legal requirements</i> or the firm’s policies and procedures, taking required actions on a timely basis;</p> <p>e. Obtaining certifications from <i>firm personnel</i> regarding familiarity and compliance with (1) SEC and PCAOB independence requirements, applicable ethics requirements, and the firm’s independence and ethics policies and procedures upon employment and at least annually thereafter, and (2) SEC and PCAOB independence requirements and the firm’s independence policies and procedures upon any change in professional circumstances that is relevant to independence; and</p> <p>f. Identifying matters that require audit committee pre-approval and obtaining such pre-approval.²⁰</p> <p>¹⁶ See, e.g., Regulation S-X Rule 2-01(c), 17 C.F.R. § 210.2-01(c); PCAOB Rules 3522 and 3523.</p> <p>¹⁷ “Audit client” is defined for purposes of SEC rules in Regulation S-X Rule 2-01(f)(6), 17 C.F.R. § 210.2-01(f)(6), and for purposes of PCAOB rules in PCAOB Rule 3501(a)(iv). “Affiliate of the audit client” is defined in PCAOB Rule 3501(a)(ii) as having the same meaning as defined in Regulation S-X Rule 2-01(f)(4), 17 C.F.R. § 210.2-01(f)(4). “Affiliate of the accounting firm” is</p>	<p>(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p>	<p>b. The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent</p>

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<p>defined in PCAOB Rule 3501(a)(i), and, for purposes of this Note to paragraph .34a., “accounting firm,” which includes the firm’s associated entities, is defined in Regulation S-X Rule 2-01(f)(2), 17 C.F.R. § 210.2-01(f)(2).</p> <p>¹⁸ Context determines which family members would be relevant. <i>See, e.g.</i>, Regulation S-X Rule 2-01(f)(9), 17 C.F.R. § 210.2-01(f)(9) (defining “close family members”); Regulation S-X Rule 2-01(f)(13), 17 C.F.R. § 210.2-01(f)(13) (defining “immediate family members”); <i>see generally</i> Regulation S-X Rule 2-01(c), 17 C.F.R. § 210.2-01(c) (referring to “close family member” or “immediate family member” depending on the context).</p> <p>¹⁹ <i>See</i> Regulation S-X Rule 2-01(f)(11), 17 C.F.R. § 210.2-01(f)(11) (defining “covered persons in the firm”).</p> <p>²⁰ <i>See, e.g.</i>, Regulation S-X Rule 2-01(c)(7), 17 C.F.R. § 210.2-01(c)(7); PCAOB Rule 3524, <i>Audit Committee Pre-approval of Certain Tax Services</i>; PCAOB Rule 3525, <i>Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting</i>.</p>		
<p>.35 The firm must make available its ethics and independence policies and procedures to <i>firm personnel</i> and others performing work on behalf of the firm who are subject to ethics and independence requirements, including communicating any substantive changes to such policies and procedures on a timely basis.</p>	N/A	N/A
<p>.36 The firm must provide mandatory training to <i>firm personnel</i> near the time of initial employment and periodically (at least annually) thereafter that addresses ethics and independence requirements and</p>	N/A	N/A

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the firm's ethics and independence policies and procedures.		

Acceptance and Continuance of Engagements

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<p>.37 This component addresses the firm’s processes for making decisions about whether to accept or continue an <i>engagement</i>.</p>	<p>N/A</p>	<p>N/A</p>
<p>Acceptance and Continuance of Engagements Quality Objectives</p> <p>.38 The <i>quality objectives</i> established by the firm with respect to the acceptance and continuance of <i>engagements</i> should include the following:</p> <p>a. Judgments about whether to accept or continue an <i>engagement</i> are:</p> <p>(1) Initially made as part of or before performing preliminary <i>engagement</i> activities;²¹</p> <p>(2) Consistent with the firm’s ability to perform the <i>engagement</i> in accordance with <i>applicable professional and legal requirements</i>, based on:</p> <p>(a) Whether the firm is independent;</p> <p>(b) Whether the services are permissible and any required audit committee pre-approval has been or will be obtained;²²</p> <p>(c) The extent to which the firm is or will be able to gain access to company information to</p>	<p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>(a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Information obtained 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) that is sufficient to support such judgments; and (Ref: Para. A67–A71)</p> <p>(ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)</p> <p>(b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A73–A74)</p>	<p>31. The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>a. Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following:</p> <p>i. Information obtained 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) that is sufficient to support such judgments (Ref: par. A69–A74)</p> <p>ii. The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements (Ref: par. A75–A76)</p> <p>b. The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: par. A77–A78)</p>

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<p>perform the <i>engagement</i>, including to company personnel who provide such information;</p> <p>(d) The extent to which the firm has or can obtain resources to perform the <i>engagement</i>;²³ and</p> <p>(e) Other relevant factors associated with providing professional services in the particular circumstances; and</p> <p>(3) Based on and supported by information about the nature and circumstances of the <i>engagement</i> and the integrity and ethical values of the company (including management and the audit committee).²⁴</p> <p>b. The terms of the <i>engagement</i>, including the objective of the <i>engagement</i> and responsibilities of the firm and management, are consistent with <i>applicable professional and legal requirements</i>, and are understood by the firm and the company.²⁵</p> <p>²¹ See, e.g., paragraph .06 of AS 2101, <i>Audit Planning</i>.</p> <p>²² See, e.g., Regulation S-X Rule 2-01(c)(7), 17 C.F.R. § 210.2-01(c)(7); PCAOB Rule 3524; PCAOB Rule 3525.</p> <p>²³ See, for example, paragraph .06H of AS 2101, and paragraph .08 of AS 1210, <i>Using the Work of an</i></p>		

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<p><i>Auditor-Engaged Specialist</i>, when evaluating when such resources are or will be involved in the <i>engagement</i>.</p> <p>²⁴ For a prospective <i>engagement</i>, this includes evaluating information obtained from a predecessor firm. <i>See generally, e.g., AS 2610, Initial Audits—Communications Between Predecessor and Successor Auditors.</i></p> <p>²⁵ <i>See, e.g., AS 1301.05.</i></p>		
<p>Acceptance and Continuance of Engagements Specified Quality Response</p> <p>.39 In designing and implementing <i>quality responses</i> to address the <i>quality risks</i> in the acceptance and continuance of <i>engagements</i> component, the firm should include the specified <i>quality response</i> in paragraph .40. This specified <i>quality response</i> alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> for this component. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p>
<p>.40 The firm should design, implement, and maintain policies and procedures to address situations in which the firm becomes aware of information subsequent to accepting or continuing an <i>engagement</i> that could have caused the firm to decline such <i>engagement</i> had that information been known prior to acceptance or continuance.²⁶</p> <p>²⁶ For purposes of this standard, the firm is deemed “aware” of information when any partner, shareholder, member, or other principal of the firm first becomes</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(d) The firm establishes policies or procedures that address circumstances when:</p> <p>(i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <p>d. The firm establishes policies or procedures that address the following circumstances:</p> <p>i. The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement</p>

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aware of such information.	had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)	had that information been known prior to accepting or continuing the client relationship or specific engagement. (Ref: par. A130–A131)
N/A	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(d) The firm establishes policies or procedures that address circumstances when:</p> <p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)</p>	<p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <p>d. The firm establishes policies or procedures that address the following circumstances:</p> <p>ii. The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: par. A132–A133)</p>

Engagement Performance

QC 1000	ISQM 1	SQMS 1
<p>.41 This component addresses the firm’s processes relating to the performance of the firm’s <i>engagements by firm personnel and other participants</i> in accordance with <i>applicable professional and legal requirements</i>.</p>	<p>N/A</p>	<p>N/A</p>
<p>Engagement Performance Quality Objectives</p> <p>.42 The <i>quality objectives</i> established by the firm with respect to the performance of its <i>engagements</i>, including work performed on other firms’ <i>engagements</i>, should include the following:</p> <ul style="list-style-type: none"> a. Responsibilities are understood and fulfilled by <i>firm personnel and other participants</i> in accordance with <i>applicable professional and legal requirements</i>, including, as applicable:²⁷ <ul style="list-style-type: none"> (1) The responsibilities of the engagement partner for an <i>engagement</i> and its performance;²⁸ (2) Responsibilities for planning and performing the <i>engagement</i>, including: <ul style="list-style-type: none"> (a) Exercising due professional care, including professional skepticism, such that conclusions reached are appropriate under <i>applicable professional and legal requirements</i> and supported 	<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <ul style="list-style-type: none"> (a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75) (b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77) (c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A78) 	<p>32. The firm should establish the following quality objectives that address the performance of quality engagements:</p> <ul style="list-style-type: none"> a. Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: par. A79) b. The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members. (Ref: par. A80–A81) c. Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism. (Ref: par. A82)

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<p>by sufficient appropriate evidence; and</p> <p>(b) Properly supervising the work performed by <i>firm personnel</i> and <i>other participants</i>;²⁹ and</p> <p>(3) Responsibilities for reporting and other communications with respect to the <i>engagement</i>.</p> <p>b. Consultations on complex, unusual, or unfamiliar accounting and auditing matters are undertaken with qualified individuals from within or outside the firm, and conclusions are:</p> <p>(1) Agreed to by the engagement partner and the parties consulted or addressed as a difference in professional judgment in accordance with paragraph .42c;</p> <p>(2) In accordance with <i>applicable professional and legal requirements</i>; and</p> <p>(3) Implemented before the issuance of the <i>engagement report</i>.³⁰</p> <p>c. Differences in professional judgment related to the <i>engagement</i> that arise among <i>firm personnel</i>, among <i>other participants</i>, or between <i>firm personnel</i> and <i>other participants</i>, including the engagement quality reviewer or those that provide consultation, are brought to the attention of the individual(s) with</p>	<p>(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)</p> <p>(e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)</p> <p>(f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. (Ref: Para. A83–A85)</p>	<p>d. Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented. (Ref: par. A83–A85)</p> <p>e. Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management, are brought to the attention of the firm and resolved. (Ref: par. A86)</p> <p>f. Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards. (Ref: par. A87–A89)</p>

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<p>responsibility and authority for resolving such matters and are resolved before the issuance of an <i>engagement</i> report, such that the <i>engagement</i> is performed in accordance with <i>applicable professional and legal requirements</i>.³¹</p> <p>d. <i>Engagement</i> documentation is prepared, reviewed, assembled, and retained in accordance with <i>applicable professional and legal requirements</i>.³²</p> <p>²⁷ See PCAOB Rule 3100, <i>Compliance with Auditing and Related Professional Practice Standards</i>, which requires compliance with all applicable auditing and related professional practice standards adopted by the Board and approved by the SEC.</p> <p>²⁸ For purposes of this standard, the “practitioner with final responsibility” in AT Section 101, <i>Attest Engagements</i>, is treated as the “engagement partner.”</p> <p>²⁹ See generally, e.g., AS 1201, <i>Supervision of the Audit Engagement</i>.</p> <p>³⁰ Consultation does not alter the responsibilities of the engagement partner for designing and performing procedures to obtain sufficient appropriate evidence to support the <i>engagement</i> report. See generally, e.g., AS 1201.</p> <p>³¹ See, for example, paragraph .48 of AT Section 101, regarding the elements of supervision, including dealing with differences of opinion among personnel, and paragraph .12d of AS 1215, <i>Audit Documentation</i>, regarding documentation of disagreements.</p>		

QC 1000	ISQM 1	SQMS 1
³² See generally AS 1215.		

Resources

QC 1000	ISQM 1	SQMS 1
<p>.43 This component addresses the firm’s processes for obtaining, developing, using, maintaining, allocating, and assigning the firm’s resources to enable the design, implementation, and operation of the firm’s QC system and the performance of its <i>engagements</i>. The firm’s resources include people, financial, technological, and intellectual resources, and resources from a network or <i>third-party provider</i>.</p>	N/A	N/A
<p>Resources Quality Objectives</p> <p>.44 The <i>quality objectives</i> established by the firm with respect to the firm’s resources should include the following:</p> <p>a. <i>Firm personnel</i> are hired, developed, and retained who have the competence to perform activities and carry out responsibilities for the operation of the firm’s QC system and the performance of the firm’s <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.³³</p> <p>Note: Competence consists of having the knowledge, skill, and ability that enable individuals to act in accordance with <i>applicable professional</i></p>	<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)</p> <p>Human Resources</p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</p>	<p>33. The firm should establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a timely manner to enable the design, implementation, and operation of the system of quality management: (Ref: par. A90–A91)</p> <p><i>Human Resources</i></p> <p>a. Personnel are hired, developed, and retained and have the competence and capabilities to (Ref: par. A92–A94)</p> <p>i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or</p>

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<p><i>and legal requirements</i> and the firm’s policies and procedures. Competence is measured both qualitatively and quantitatively.</p> <p>b. <i>Firm personnel</i> demonstrate a commitment to quality through (1) their actions and behaviors and (2) development and maintenance of the competence to perform their roles.</p> <p>c. <i>Firm personnel</i> and individuals who are <i>other participants</i> assigned to <i>engagements</i>, including the engagement partner and engagement quality reviewer, have the competence, objectivity, and time needed to fulfill their responsibilities on such <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p> <p>d. <i>Firm personnel</i> who are assigned to participate in another firm’s <i>engagement</i> have the competence, objectivity, and time to perform such activities in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p> <p>e. <i>Firm personnel</i> and individuals who are <i>other participants</i> assigned to perform activities within the QC system have the competence, objectivity, authority, and time needed to perform such activities in accordance with <i>applicable professional</i></p>	<p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)</p> <p>(c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: Para. A94)</p> <p>(d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A88–A89, A95–A97)</p> <p>(e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.</p> <p>Technological Resources</p> <p>(f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)</p>	<p>ii. perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</p> <p>b. Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives. (Ref: par. A95–A97)</p> <p>c. Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: par. A98)</p> <p>d. Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement. (Ref: par. A92–A93 and A99–A101)</p> <p>e. Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.</p> <p><i>Technological Resources</i></p> <p>f. Appropriate technological resources are obtained or developed, implemented,</p>

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<p><i>and legal requirements and the firm’s policies and procedures.</i>³⁴</p> <p>f. <i>Firm personnel</i> comply with the firm’s policies and procedures related to the operation of the firm’s QC system and the performance of its <i>engagements</i> and the work performed on other firms’ <i>engagements</i>.</p> <p>g. <i>Firm personnel</i> are (1) evaluated at least annually, (2) incentivized to fulfill their assigned responsibilities and adhere to appropriate standards of conduct, including through compensation plans and decisions in which quality considerations play a critical part, and (3) held accountable for their actions and failures to act.³⁵</p> <p>h. Technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p> <p>Note: Technological resources generally include information technology applications, infrastructure, and processes.</p> <p>i. Intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s QC system and the performance of</p>	<p>Intellectual Resources</p> <p>(g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm’s system of quality management and 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. A102–A104)</p> <p>Service Providers</p> <p>(h) Human, technological or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in the performance of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)</p> <p>39. The firm shall establish policies or procedures that:</p> <p>(a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and</p> <p>(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 reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A155–A156)</p>	<p>maintained, and used to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: par. A102–A106 and A109)</p> <p><i>Intellectual Resources</i></p> <p>g. Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: par. A107–A109)</p> <p><i>Service Providers</i></p> <p>h. Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in performing engagements, taking into account the quality objectives in paragraph 33d–g. (Ref: par. A110–A115)</p> <p>40. The firm should establish policies or procedures that</p> <p>a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and</p> <p>b. address the objectivity of the individuals performing the monitoring activities, based on</p>

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<p>its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p> <p>Note: Intellectual resources generally include resources that a firm makes available, or requires the use of, to enable the operation of the firm’s QC system and the performance of its <i>engagements</i>, including, for example, the firm’s policies and procedures, methodologies, guides, practice aids, and standardized documentation templates.</p> <p>j. If the firm belongs to a network that provides or requires the use of network resources or services or if the firm obtains resources or services from a <i>third-party provider</i>:³⁶</p> <p>(1) An understanding is obtained of how such resources or services are developed and maintained; and</p> <p>(2) Such resources or services are supplemented or adapted as necessary such that their use enables the operation of the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p>	<p>48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A175)</p> <p>(a) The requirements established by the network regarding the firm’s system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);</p> <p>(b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm’s system of quality management (i.e., network services); I</p> <p>(c) The firm’s responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A176)</p> <p>The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A177)</p> <p>49. Based on the understanding obtained in paragraph 48, the firm shall:</p> <p>(a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality</p>	<p>the premise that objectivity is enhanced when the engagement team members or the engagement quality reviewer of an engagement are not involved in performing any monitoring activities related to that engagement. (Ref: par. A169–A173)</p> <p>49. When the firm belongs to a network, the firm should understand the following, when applicable: (Ref: par. A20 and A191–A193)</p> <p>a. The requirements established by the network regarding the firm’s system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (that is, network requirements)</p> <p>b. Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation, or operation of the firm’s system of quality management (that is, network services)</p> <p>c. The firm’s responsibilities for any actions that are necessary to implement the network requirements or use network services (Ref: par. A194)</p> <p>The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation, and operation of the system of quality management. The firm should not allow compliance with the network requirements or use of network services to contravene the requirements of this SQMS. (Ref: par. A20 and A195)</p>

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<p>³³ For certain specified activities and responsibilities of certain <i>firm personnel</i>, see paragraphs .10-.17.</p> <p>³⁴ These individuals include engagement quality reviewers and those performing activities within the QC system, such as monitoring activities.</p> <p>³⁵ Paragraph .46 describes appropriate standards of conduct by <i>firm personnel</i>.</p> <p>³⁶ Resources acquired from a <i>third-party provider</i> may include methodologies, applications, and tools used in the firm’s QC system or the performance of its <i>engagements</i>.</p>	<p>management, including how they are to be implemented; and (Ref: Para. A178)</p> <p>(b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A179–A180)</p>	<p>50. Based on the understanding obtained in accordance with paragraph 49, the firm should</p> <p><i>a.</i> determine how the network requirements or network services are relevant to, and are taken into account in, the firm’s system of quality management, including how they are to be implemented. (Ref: par. A196)</p> <p><i>b.</i> evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: par. A197–A199)</p>
<p>Resources Specified Quality Responses</p> <p>.45 In designing and implementing <i>quality responses</i> to address the <i>quality risks</i> in the resources component, the firm should include the specified <i>quality responses</i> in paragraphs .46 -.51. These specified <i>quality responses</i> alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> for this component. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>	<p>N/A</p>	<p>N/A</p>
<p>.46 The firm should design, implement, and maintain policies and procedures for <i>firm personnel</i> to adhere to appropriate standards of conduct, which include:</p> <p><i>a.</i> Fulfilling <i>engagement</i> and QC responsibilities with competence,</p>	<p>N/A</p>	<p>N/A</p>

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<p>integrity, objectivity, and due professional care; and</p> <p>b. Complying with <i>applicable professional and legal requirements</i> and the firm's policies and procedures.</p>		
<p>.47 The firm should design, implement, and maintain policies and procedures for the engagement partner and, commensurate with their responsibilities, other <i>firm personnel</i> participating in an <i>engagement</i> to obtain and maintain the competence to fulfill their respective assigned <i>engagement</i> roles, including an understanding of the following:</p> <p>a. The importance of exercising sound judgment, including the ability to be objective and exercise professional skepticism;</p> <p>b. The role of the firm's QC system in the performance of its <i>engagements</i> (e.g., engagement quality reviews, consultation process);</p> <p>c. Their responsibilities with respect to the performance and supervision of the <i>engagement</i>;</p> <p>d. For attestation <i>engagements</i>, the subject matter of the assertion on which the <i>engagement</i> is based;</p> <p>e. The industry in which the company operates and its relevant characteristics (e.g., applicable standards, industry-</p>	N/A	N/A

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<p>specific risks, and industry-specific estimates);</p> <p>f. The internal control framework used by the company;</p> <p>g. The use of technology by the company in the preparation of its financial statements and related internal controls; and</p> <p>h. The use of technological and intellectual resources in performing <i>engagement</i> procedures, including obtaining and evaluating evidence.</p>		
<p>.48 In addition to the training required under paragraph .36, at least annually, the firm should provide mandatory training, including training on <i>applicable professional and legal requirements</i>, to firm personnel to develop and maintain their competence and enable them to fulfill their assigned QC and <i>engagement</i> roles in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p>	N/A	N/A
<p>.49 The firm’s periodic performance evaluations of the individual(s) assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole should take into account the outcome of the evaluation of the QC system.</p>	<p>56. The firm shall undertake periodic performance evaluations of 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. In doing so, the firm shall take into account the evaluation of the system of quality management. (Ref: Para. A199–A201)</p>	<p>57. The firm should undertake periodic performance evaluations of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management. In doing so, the firm should take into account the evaluation of the system of quality management. (Ref: par. A221–A223)</p>
<p>.50 The firm should design, implement, and maintain policies and procedures regarding licensure</p>	N/A	N/A

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<p>such that the firm and <i>firm personnel</i> hold licenses or other qualifications required by the relevant jurisdiction(s) under <i>applicable professional and legal requirements</i>.</p>		
<p>.51 The firm should design, implement, and maintain policies and procedures so that technological resources have the capacity, integrity, resiliency, availability, reliability, and security necessary to enable the operation of the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>.</p>	N/A	N/A

Information and Communication

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<p>.52 This component addresses the firm’s processes for obtaining, generating, and using information to enable the design, implementation, and operation of the QC system and the performance of its <i>engagements</i>, and for communicating information within the firm and to external parties on a timely basis.</p>	<p>N/A</p>	<p>N/A</p>
<p>Information and Communication Quality Objectives</p> <p>.53 The <i>quality objectives</i> established by the firm with respect to information and communication should include the following:</p> <ul style="list-style-type: none"> a. Information, whether from internal or external sources, is identified, captured, processed, and maintained by the firm’s information system(s) to support the operation of the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>. b. The nature, timing, and extent of information communicated to <i>firm personnel</i> enables them to understand and carry out their responsibilities relating to activities within the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures. c. <i>Firm personnel</i> communicate information to the firm and other <i>firm</i> 	<p>33. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A109)</p> <ul style="list-style-type: none"> (a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A110–A111) (b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112) (c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A112) <ul style="list-style-type: none"> (i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to 	<p>34. The firm should establish the following quality objectives that address obtaining, generating, or using information regarding the system of quality management and communicating information within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the system of quality management: (Ref: par. A116)</p> <ul style="list-style-type: none"> a. The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: par. A117–A119) b. The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: par. A120) c. Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: (Ref: par. A120) <ul style="list-style-type: none"> i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is

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<p><i>personnel</i> to support the operation of the QC system and the performance of the firm’s <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i>.</p> <p>d. Information is communicated to external parties in accordance with <i>applicable professional and legal requirements</i>.</p> <p>Note: External parties may include, for example, company management, audit committees, and boards of directors; the SEC; the PCAOB; and other regulators.³⁷</p> <p>e. If a firm communicates firm-level or <i>engagement</i>-level information with respect to the firm’s audit practice, <i>firm personnel</i>, or <i>engagements</i>, such as firm or <i>engagement</i> metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing, the communication explains in reasonable detail how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.</p> <p>f. If the firm belongs to a network, information is communicated to or obtained from the network to enable the operation of the firm’s QC system and the performance of its <i>engagements</i></p>	<p>performing activities within the system of quality management or engagements; and</p> <p>(ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.</p> <p>(d) Relevant and reliable information is communicated to external parties, including:</p> <p>(i) Information is communicated by the firm to or within the firm’s network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them; and (Ref: Para. A113)</p> <p>(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties’ understanding of the system of quality management. (Ref: Para. A114–A115)</p> <p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <p>(i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)</p>	<p>sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.</p> <p>ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.</p> <p>d. Relevant and reliable information is communicated to external parties, including the following:</p> <p>i. Information is communicated by the firm to or within the firm’s network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. (Ref: par. A121)</p> <p>ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties’ understanding of the system of quality management. (Ref: par. A122–A123)</p> <p>35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)</p> <p>e. The firm establishes policies or procedures that (Ref: par. A134–A137)</p> <p>i. address when it is appropriate to communicate with external parties about the firm’s system of quality management, and (Ref: par. A138–A140)</p> <p>ii. address the information to be provided when communicating externally about the</p>

QC 1000	ISQM 1	SQMS 1
<p>in accordance with <i>applicable professional and legal requirements</i>.</p> <p>g. If <i>other participants</i> are used in the firm’s QC system or <i>engagements</i>:</p> <p>(1) The nature, timing, and extent of information communicated to <i>other participants</i> enables them to understand and carry out their responsibilities relating to activities within the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures; and</p> <p>(2) Information is obtained from the <i>other participants</i>, such that the aspects of the QC system and the <i>engagements</i> in which they are involved can be performed in accordance with <i>applicable professional and legal requirements</i>.³⁸</p> <p>Note: With respect to <i>other participants</i> that are firms, information to be obtained should include the conclusion of the most recent evaluation of the QC system³⁹ of the <i>other participant</i> firm.</p> <p>h. If the firm participates in another firm’s <i>engagement</i>, information is communicated to and obtained from the</p>	<p>(ii) Address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management; and (Ref: Para. A130)</p> <p>(iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)</p> <p>52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A185)</p> <p>(a) Communicate to the network relevant information about the identified deficiency; and</p> <p>(b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A186)</p>	<p>firm’s system of quality management, including the nature, timing, and extent and appropriate form of communication. (Ref: par. A141–A142)</p> <p>53. If the firm identifies a deficiency in the network requirements or network services, the firm should (Ref: par. A204)</p> <p>a. communicate to the network relevant information about the identified deficiency, and</p> <p>b. in accordance with paragraph 43, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: par. A205)</p> <p>56. If the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 55b or 55c, the firm should do the following: (Ref: par. A218)</p> <p>a. Take prompt and appropriate action.</p> <p>b. Communicate to</p> <p>i. engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities, and (Ref: par. A219)</p> <p>ii. external parties in accordance with the firm’s policies or procedures required by paragraph 35e. (Ref: par. A220)</p>

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<p>other firm such that the firm’s work on the <i>engagement</i> is performed in accordance with <i>applicable professional and legal requirements</i>.</p> <p>Note: This communication includes any instances of noncompliance with <i>applicable professional and legal requirements</i> that the firm identifies related to the other firm’s engagements during the firm’s monitoring and remediation procedures.</p> <p>³⁷ See, e.g., AS 1301; PCAOB Rules 3524, 3525, and 3526; Section 10A(b) and (k) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. § 78j-1(b), (k); Regulation S-X Rule 2-07, 17 C.F.R. § 210.2-07; Rule 10A-1 under the Exchange Act, 17 C.F.R. § 240.10A-1.</p> <p>³⁸ See, e.g., AS 1201.08-.13.</p> <p>³⁹ The most recent evaluation of the <i>other participant</i> firm’s QC system refers to that firm’s evaluation under paragraph .77 of this standard as of the most recent “evaluation date” (as defined in paragraph .77), if such an evaluation was performed. If the <i>other participant</i> firm did not evaluate its QC system under paragraph .77 of this standard as of the most recent evaluation date, then this provision refers to the most recent QC evaluation performed by the <i>other participant</i> firm under any professional standard.</p>		
<p>Information and Communication Specified Quality Responses</p>	<p>N/A</p>	<p>N/A</p>

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<p>.54 In designing and implementing <i>quality responses</i> to address the <i>quality risks</i> in the information and communication component, the firm should include the specified <i>quality responses</i> in paragraphs .55 - .57. These specified <i>quality responses</i> alone will not be sufficient to enable the firm to achieve all established <i>quality objectives</i> for this component. Depending on the <i>quality risk</i> being addressed, specified <i>quality responses</i> may need to be combined with other <i>quality responses</i> designed and implemented by the firm.</p>		
<p>.55 The firm should communicate in writing its policies and procedures related to the operation of the firm’s QC system and the performance of its <i>engagements to firm personnel and other participants</i> to the extent and in a manner that is reasonably designed and implemented to enable <i>firm personnel and other participants</i> to understand and carry out their responsibilities relating to activities within the firm’s QC system and the performance of its <i>engagements</i> in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures.</p>	N/A	N/A
<p>.56 The firm should communicate information related to the monitoring and remediation process to <i>firm personnel</i> to enable them to take timely action in accordance with their responsibilities, including, to the extent necessary, a description of:</p> <ul style="list-style-type: none"> a. Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network; b. Identified <i>engagement deficiencies</i> and <i>QC deficiencies</i>, including the nature, 	<p>47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.</p>	<p>48. The firm should communicate the matters described in paragraph 47 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.</p>

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<p>severity, and pervasiveness of such deficiencies; and</p> <p>c. Actions to address the identified <i>engagement deficiencies</i> and <i>QC deficiencies</i>.</p>		
<p>.57 The firm should communicate the result of the annual evaluation of the firm's QC system to the firm's partners, shareholders, members, or other principals, and the firm's board of directors or equivalent.</p>	<p>55. If the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A196)</p> <p>(a) Take prompt and appropriate action; and</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A197)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A198)</p>	<p>56. If the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 55b or 55c, the firm should do the following: (Ref: par. A218)</p> <p>a. Take prompt and appropriate action.</p> <p>b. Communicate to</p> <p>i. engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities, and (Ref: par. A219)</p> <p>ii. external parties in accordance with the firm's policies or procedures required by paragraph 35e. (Ref: par. A220)</p>

Monitoring and Remediation Process

QC 1000	ISQM 1	SQMS 1
<p>.58 The monitoring and remediation process is an integral part of a QC system because it informs the firm’s risk assessment process (i.e., the results of the monitoring and remediation process are taken into account when determining if changes to <i>quality objectives, quality risks, or quality responses</i> are necessary). The monitoring and remediation process applies to all of the components of the QC system, including monitoring and remediation, and provides the basis for evaluating and reporting on the QC system.</p>	<p>N/A</p>	<p>N/A</p>
<p>.59 The firm must design, implement, and operate a monitoring and remediation process to:</p> <ul style="list-style-type: none"> a. Provide relevant, reliable, and timely information about the design, implementation, and operation of the QC system; b. Provide a reasonable basis for timely detection of <i>engagement deficiencies and QC deficiencies</i>; and c. Remediate identified <i>engagement deficiencies and QC deficiencies</i> and take any other required actions in relation to such deficiencies in accordance with <i>applicable professional and legal requirements</i> on a timely basis. 	<p>35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)</p> <ul style="list-style-type: none"> (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management. (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis. <p>36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies</p>	<p>36. The firm should establish a monitoring and remediation process to (Ref: par. A148)</p> <ul style="list-style-type: none"> a. provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management. b. take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis. <p>37. The firm should design and perform monitoring activities to provide a basis for the identification of deficiencies.</p>
<p>.60 The firm’s monitoring and remediation process includes:</p> <ul style="list-style-type: none"> a. Designing and performing activities to monitor <i>engagements</i> and the design, 	<p>N/A</p>	<p>N/A</p>

QC 1000	ISQM 1	SQMS 1
<p>implementation, and operation of the QC system (see paragraphs .62-.66);</p> <ul style="list-style-type: none"> b. Determining whether <i>engagement deficiencies</i> exist and responding to such deficiencies (see paragraphs .67-.70); c. Determining whether <i>QC observations</i> and <i>QC deficiencies</i> exist (see paragraphs .71-.72); d. Performing root cause analysis of <i>QC deficiencies</i> (see paragraphs .73-.74); and e. Designing and implementing remedial actions to address <i>QC deficiencies</i> and determining whether such actions are implemented as designed and operate effectively (see paragraphs .75-.76). 		
<p>.61 The firm’s monitoring activities must include:</p> <ul style="list-style-type: none"> a. “<i>Engagement</i> monitoring activities,” which are directed at individual <i>engagements</i>; and <p>Note: For firms that issued <i>engagement</i> reports with respect to five or fewer <i>engagements</i> for issuers, brokers, and dealers during the prior calendar year, <i>engagement</i> monitoring activities may include monitoring audits not performed under PCAOB auditing standards, provided that such audits are selected taking into account the factors in paragraph .64 and that instances of noncompliance with applicable auditing standards identified through monitoring</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>are treated as if they were “engagement deficiencies” for purposes of paragraph .68d and “QC observations” for purposes of paragraph .72. Audits not performed under PCAOB auditing standards cannot be included in the monitoring required under paragraph .62b.</p> <p>b. “QC system-level monitoring activities,” which are directed at the performance of activities under the requirements of this standard, including requirements relating to the components of the QC system.</p> <p>Note: In accordance with paragraph .44e, it is a <i>quality objective</i> that individuals performing monitoring activities have, among other things, the objectivity needed to perform such activities in accordance with <i>applicable professional and legal requirements</i> and the firm’s policies and procedures. Generally, individuals cannot perform monitoring activities over their own work.</p>		
<p>Engagement Monitoring Activities</p> <p>.62 The firm should:</p> <p>a. Monitor completed <i>engagements</i>; and</p> <p>b. As one element of its <i>engagement</i> monitoring, inspect on a cyclical basis at least one completed <i>engagement</i> for each engagement partner.</p> <p>Note: A firm that uses a cycle longer than three years should</p>	<p>38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)</p> <p>(a) Take into account the matters in paragraph 37;</p> <p>(b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement</p>	<p>39. The firm should include the inspection of completed engagements in its monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should (Ref: par. A150 and A162–A166)</p> <p>a. take into account the matters in paragraph 38;</p> <p>b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement</p>

QC 1000	ISQM 1	SQMS 1
<p>demonstrate how that cycle is adequate to provide a reasonable basis for detecting <i>engagement deficiencies</i> and <i>QC deficiencies</i>, taking into account the factors in paragraph .64. Firms should incorporate a level of unpredictability in their selection and monitoring of completed <i>engagements</i>, such that an engagement partner would not be certain of at least one of: (1) which <i>engagement</i> would be selected, (ii) which areas within the <i>engagement</i> would be selected, or (iii) when an <i>engagement</i> would be selected. While some firms may be permitted to perform <i>engagement</i> monitoring activities on audits not performed under PCAOB auditing standards (see Note to paragraph .61a), inspections under this subparagraph b must be of engagements.</p>	<p>partners subject to such monitoring activities; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<p>partners subject to such monitoring activities; (Ref: par. A167–A168) and</p> <p>c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>
<p>.63 In addition to monitoring completed <i>engagements</i>,</p> <p>a. If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm should monitor in-process <i>engagements</i>;</p> <p>b. If the firm issued audit reports with respect to 100 or fewer issuers during</p>	<p>N/A</p>	<p>N/A</p>

QC 1000	ISQM 1	SQMS 1
<p>the prior calendar year, the firm should consider monitoring in-process <i>engagements</i>; and</p> <p>c. If the firm participates at a level below a substantial role in another firm’s <i>engagements</i>, the firm should consider performing monitoring activities on such work.</p>		
<p>.64 In determining the nature, timing, and extent of <i>engagement</i> monitoring activities, including which completed or in-process <i>engagements</i> to select for monitoring, the firm should take into account the following factors:</p> <p>a. <i>Quality risks</i> and the reasons they were assessed to be <i>quality risks</i>;</p> <p>b. <i>Quality responses</i>, including their timing, frequency, scope, and operation;</p> <p>c. The nature, timing, extent, and results of previous monitoring activities undertaken by the firm and, if applicable, a network, including from inspections of completed <i>engagements</i>, monitoring of in-process <i>engagements</i>, monitoring of work performed on other firms’ <i>engagements</i>, and QC system-level monitoring activities;</p> <p>d. Information obtained from oversight activities by regulators, other external inspections or reviews, and, if applicable, monitoring activities performed by a network;</p>	<p>37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)</p> <p>(a) The reasons for the assessments given to the quality risks;</p> <p>(b) The design of the responses;</p> <p>(c) The design of the firm’s risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)</p> <p>(d) Changes in the system of quality management; (Ref: Para. A145)</p> <p>(e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)</p> <p>(f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory</p>	<p>38. In determining the nature, timing, and extent of the monitoring activities, the firm should take the following into account: (Ref: par. A149–A152)</p> <p>a. The reasons for the assessments given to the quality risks</p> <p>b. The design of the responses</p> <p>c. The design of the firm’s risk assessment process and monitoring and remediation process (Ref: par. A153–A155)</p> <p>d. Changes in the system of quality management (Ref: par. A156)</p> <p>e. The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management and whether remedial actions to address previously identified deficiencies were effective (Ref: par. A157–A158)</p> <p>f. Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory</p>

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<p>Note: The firm cannot rely solely on monitoring activities performed by others (e.g., network activities, regulatory inspections, or peer reviews) in lieu of performing its own <i>engagement</i> monitoring activities.</p> <p>e. Characteristics of particular <i>engagements</i>, such as the industry, the type of <i>engagement</i> (e.g., issuer audit, broker-dealer audit, attestation), the location(s) or jurisdiction(s) in which the company is located or the work is to be performed, whether it is a new <i>engagement</i> for the firm, and the experience and competence of the individuals assigned to the <i>engagement</i>;</p> <p>f. Characteristics of particular engagement partners, such as their experience, their competence, the results of internal and external inspections of their work, and the firm’s cycle for inspecting their <i>engagements</i>; and</p> <p>g. Other information relevant to the <i>quality risks</i>, such as emerging developments, changes in economic conditions, new accounting or auditing standards, circumstances in which the firm has withdrawn its <i>engagement</i> report, restatements, complaints and allegations of which the firm is aware,⁴⁰ and other events affecting one or more <i>engagements</i>.</p>	<p>requirements or non-compliance with the firm’s policies or procedures established in accordance with this ISQM, information from external inspections and information from service providers. (Ref: Para. A148–A150)</p> <p>38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)</p> <p>(a) Take into account the matters in paragraph 37;</p> <p>(b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<p>requirements or noncompliance with the firm’s policies or procedures established in accordance with this SQMS, information from external inspections, and information from service providers (Ref: par. A159–A161)</p> <p>39. The firm should include the inspection of completed engagements in its monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should (Ref: par. A150 and A162–A166)</p> <p>a. take into account the matters in paragraph 38;</p> <p>b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; (Ref: par. A167–A168) and</p> <p>c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>

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<p>⁴⁰ With respect to the aspects of the monitoring and remediation process that are based on the firm's awareness, see footnote 26.</p> <p>QC System-Level Monitoring Activities</p> <p>.65 In determining the nature, timing, and extent of QC system-level monitoring activities, the firm should take into account the following factors:</p> <ul style="list-style-type: none"> a. <i>Quality risks</i> and the reasons they were assessed to be <i>quality risks</i>; b. <i>Quality responses</i>, including their timing, frequency, scope, and operation; c. For monitoring activities over the firm's risk assessment process and monitoring and remediation process, the design of those processes (including any metrics the firm may use in its QC system); d. Changes or anticipated changes in the QC system; e. The services or resources provided by <i>other participants</i> or <i>third-party providers</i> in the firm's QC system, when applicable; f. The results of previous monitoring activities and remedial actions taken to address previously identified <i>QC deficiencies</i>; g. Information obtained from oversight activities by regulators, other external inspections or reviews, and, if applicable, 		

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<p>monitoring activities performed by a network;</p> <p>Note: The firm cannot rely solely on monitoring activities performed by others (e.g., network activities, regulatory inspections, or peer reviews) in lieu of performing QC system-level monitoring activities.</p> <p>h. Complaints and allegations of which the firm is aware; and</p> <p>i. Other relevant information of which the firm is aware.</p>		
<p>Monitoring Activities Performed by a Network</p> <p>.66 In circumstances when a network performs monitoring activities relating to the firm’s QC system or its <i>engagements</i>, the firm should:</p> <p>a. Request and, if provided, evaluate:</p> <ol style="list-style-type: none"> (1) Information about the activities performed; (2) Results of such activities; and (3) Planned remedial actions by the network; <p>b. Determine its responsibilities in relation to the monitoring activities of the network, such as assisting with monitoring activities or responding to the</p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm’s System of Quality Management</i></p> <p>50. In circumstances when the network performs monitoring activities relating to the firm’s system of quality management, the firm shall:</p> <p>(a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm’s monitoring activities performed in accordance with paragraphs 36–38;</p> <p>(b) Determine the firm’s responsibilities in relation to the monitoring activities, including any related actions by the firm; and</p> <p>(c) As part of evaluating findings and identifying deficiencies in paragraph 40, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A181)</p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm’s System of Quality Management</i></p> <p>51. For circumstances in which the network performs monitoring activities relating to the firm’s system of quality management, the firm should</p> <p>a. determine the effect of the monitoring activities performed by the network on the nature, timing, and extent of the firm’s monitoring activities performed in accordance with paragraphs 37–39;</p> <p>b. determine the firm’s responsibilities in relation to the monitoring activities, including any related actions by the firm; and</p> <p>c. as part of evaluating findings and identifying deficiencies in paragraph 41, obtain the results</p>

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<p>results of the activities performed by the network, and perform such responsibilities; and</p> <p>c. Adjust its monitoring activities as necessary.</p> <p>Note: Network monitoring activities may include, for example, monitoring the effectiveness of network resources or services that firms in the network are required to or may use in their QC system and monitoring of other aspects of the firm’s QC system and its <i>engagements</i>.</p>	<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>51. The firm shall:</p> <p>(a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;</p> <p>(b) At least annually, obtain information from the network about the overall results of the network’s monitoring activities across the network firms, if applicable, and: (Ref: Para. A182–A184)</p> <p>(i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and</p> <p>(ii) Consider the effect of the information on the firm’s system of quality management.</p> <p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i></p> <p>52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A185)</p>	<p>of the monitoring activities from the network in a timely manner. (Ref: par. A200)</p> <p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>52. The firm should</p> <p>a. understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm.</p> <p>b. at least annually, obtain information from the network about the overall results of the network’s monitoring activities across the network firms, if applicable, and (Ref: par. A201–A203)</p> <p>i. communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities, and</p> <p>ii. consider the effect of the information on the firm’s system of quality management.</p> <p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i></p>

QC 1000	ISQM 1	SQMS 1
	<p>(a) Communicate to the network relevant information about the identified deficiency; and</p> <p>(b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A186)</p>	<p>53. If the firm identifies a deficiency in the network requirements or network services, the firm should (Ref: par. A204)</p> <p><i>a.</i> communicate to the network relevant information about the identified deficiency, and</p> <p><i>b.</i> in accordance with paragraph 43, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: par. A205)</p>
<p>Determining Whether Engagement Deficiencies Exist</p> <p>.67 The firm must, on a timely basis, evaluate the following information and determine whether <i>engagement deficiencies</i> exist:</p> <ul style="list-style-type: none"> a. Information from <i>engagement</i> monitoring activities; b. <i>QC deficiencies</i> identified by QC system-level monitoring activities, as provided in paragraph .72; c. Information from monitoring activities performed by a network, if applicable; d. Information from oversight activities by regulators and other external inspections or reviews; and e. Other relevant information of which the firm becomes aware. <p>Note: The firm may become aware of other relevant information through, for</p>	<p>N/A</p>	<p>N/A</p>

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<p>example: (1) documentation being assembled for retention; (2) procedures performed on the subsequent year's <i>engagement</i>; (3) post-balance sheet review activities in connection with a securities offering; (4) whistleblower or other complaints regarding either a company or the firm; and (5) restatements.</p>		
<p>Responding to Engagement Deficiencies</p> <p>.68 When an <i>engagement deficiency</i> exists, the firm should:</p> <ul style="list-style-type: none"> a. For <i>engagement deficiencies</i> relating to in-process <i>engagements</i>, take action to address the deficiency in accordance with <i>applicable professional and legal requirements</i>, (to the extent necessary, before the issuance of the related <i>engagement</i> report(s)), such that the <i>engagement</i> report(s) are appropriate in the circumstances; b. For <i>engagement deficiencies</i> relating to completed <i>engagements</i>, take action to address the deficiency in accordance with <i>applicable professional and legal requirements</i>,⁴¹ unless it is probable that the <i>engagement</i> report(s) are not being relied upon;⁴² <p>Note: In the absence of circumstances indicating that reliance is impossible or</p>	<p>Findings About a Particular Engagement</p> <p>45. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A173)</p> <ul style="list-style-type: none"> (a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and (b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice. 	<p>Findings About a Particular Engagement</p> <p>46. The firm should respond to circumstances in which findings indicate that there is an engagement for which required procedures were omitted during the performance of the engagement, or that the report issued may be inappropriate. The firm's response should include the following: (Ref: par. A189)</p> <ul style="list-style-type: none"> a. Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements b. When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.

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<p>unreasonable (e.g., cessation of a trading market for issuer securities), inclusion of an <i>engagement</i> report (either directly or through incorporation by reference) in the most recent filing on an SEC form that requires inclusion of such an <i>engagement</i> report evidences that the report is being relied upon.</p> <p>c. For <i>engagement deficiencies</i> relating to work performed on other firms' <i>engagements</i>, communicate the <i>engagement deficiency</i> to the other firm and take such action as the other firm determines is necessary; and</p> <p>d. Evaluate whether similar <i>engagement deficiencies</i> exist on:</p> <ul style="list-style-type: none"> (1) Other in-process <i>engagements</i>, or would arise if remedial action is not taken; (2) Other completed <i>engagements</i>, unless it is probable that the <i>engagement</i> report(s) are not being relied upon; and (3) Work performed by the firm on other firms' <i>engagements</i>; <p>and if so, take actions described in paragraphs .68a-c. above, as applicable.</p>		

QC 1000	ISQM 1	SQMS 1
<p>⁴¹ See paragraph .70.</p> <p>⁴² The term “probable” has the same meaning as used in the FASB Accounting Standards Codification, Contingencies Topic, paragraph 450-20-25-1.</p>		
<p>.69 The firm should take action pursuant to paragraph .68 taking into account the nature and severity of the <i>engagement deficiency</i>.</p> <p>Note: As appropriate, actions a firm may take include preventive or corrective actions, or a combination, such as actions: (1) on in-process <i>engagements</i> to address <i>engagement deficiencies</i> before the issuance of the <i>engagement</i> report; (2) to address <i>engagement deficiencies</i> on completed <i>engagements</i>; and (3) to deter future <i>engagement deficiencies</i>.</p>	N/A	N/A
<p>.70 For each <i>engagement deficiency</i> relating to a completed <i>engagement</i>, the firm should comply with paragraphs .98-.99 of AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>; AS 2901 <i>Responding to Engagement Deficiencies After Issuance of the Auditor’s Report</i>; AS 2905, <i>Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report</i>; paragraphs 39.-42. of AT No. 1, <i>Examination Engagements Regarding Compliance Reports of Brokers and Dealers</i>; and paragraphs 21.-24. of AT No. 2, <i>Review Engagements Regarding Exemption Reports of Brokers and Dealers</i>, as applicable.</p>	N/A	N/A
<p>Determining Whether QC Observations Exist</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>.71 The firm must, on a timely basis, evaluate the following information and determine whether <i>QC observations</i> exist:</p> <ul style="list-style-type: none"> a. Information from <i>engagement</i> monitoring activities and QC system-level monitoring activities (including, if applicable, those performed by a network); b. Information from oversight activities by regulators and other external inspections or reviews; and c. Other relevant information of which the firm becomes aware. 		
<p>Determining Whether QC Deficiencies Exist</p> <p>.72 The firm must, on a timely basis, evaluate <i>QC observations</i> and determine whether <i>QC deficiencies</i> exist. The firm’s determination should be based on:</p> <ul style="list-style-type: none"> a. The nature, severity, and pervasiveness of the matter(s) that gave rise to the <i>QC observation</i>, which includes: <ul style="list-style-type: none"> (1) The component(s) of the QC system, <i>quality objective(s)</i>, or <i>quality risk(s)</i> to which the <i>QC observation</i> relates; (2) Whether the <i>QC observation</i> is in the design, implementation, or operation of the QC system; 	<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A157–A162)</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>41. The firm should evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: par. A174–A178)</p>

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<p>(3) The frequency with which the <i>QC observation</i> occurred; and</p> <p>(4) The duration of time that the <i>QC observation</i> existed; and</p> <p>b. The likelihood that the matter(s) that gave rise to the <i>QC observation</i> could affect other components of the QC system, other <i>engagements</i> (including in-process <i>engagements</i> and completed <i>engagements</i>), <i>engagements</i> to be performed in the future, or work performed on other firms' <i>engagements</i>, and the severity of such an effect if it were to occur.</p>		
<p>Responding to QC Deficiencies</p> <p>.73 The firm should perform root cause analysis of all <i>QC deficiencies</i>. Root cause analysis involves identifying and evaluating the causal factors that led to each <i>QC deficiency</i>. The firm may perform root cause analysis of <i>QC deficiencies</i> individually or may group similar <i>QC deficiencies</i> together.</p> <p>.74 The nature, timing, and extent of the root cause analysis should be commensurate with the nature, severity, and pervasiveness of the <i>QC deficiency</i>.</p>	<p><i>Evaluating Identified Deficiencies</i></p> <p>41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A161, A163–A164)</p> <p>(a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity. (Ref: Para. A165–A169)</p> <p>(b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.</p>	<p><i>Evaluating Identified Deficiencies</i></p> <p>42. The firm should evaluate the severity and pervasiveness of identified deficiencies by (Ref: par. A177 and A179–A180)</p> <p>a. investigating the root causes of the identified deficiencies. In determining the nature, timing, and extent of the procedures to investigate the root causes, the firm should take into account the nature of the identified deficiencies and their possible severity. (Ref: par. A181–A185)</p> <p>b. evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.</p>
<p>.75 For each <i>QC deficiency</i>, the firm should design and implement timely remedial actions, taking into account the results of its root cause analysis and the</p>	<p><i>Responding to Identified Deficiencies</i></p>	<p><i>Responding to Identified Deficiencies</i></p>

QC 1000	ISQM 1	SQMS 1
<p>nature, severity, and pervasiveness of the <i>QC deficiency</i>.</p> <p>Note: When performing root cause analysis and identifying potential remedial actions for a <i>QC deficiency</i>, it may be beneficial for firms to consider actions, behaviors, or conditions that resulted in positive outcomes, such as where aspects of its QC system operate effectively or where no <i>engagement deficiencies</i> were identified for individual <i>engagements</i>. This information could provide useful insights when evaluating situations where <i>QC deficiencies</i> were identified and such actions, behaviors, or conditions were not present or were not present to the same degree.</p>	<p>42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A170–A172)</p> <p>55. If the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A196)</p> <p>(a) Take prompt and appropriate action; and</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A197)</p> <p>(ii) External parties in accordance with the firm’s policies or procedures required by paragraph 34(e). (Ref: Para. A198)</p>	<p>43. The firm should design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: par. A186–A188)</p> <p>56. If the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 55b or 55c, the firm should do the following: (Ref: par. A218)</p> <p>a. Take prompt and appropriate action.</p> <p>b. Communicate to</p> <p>i. engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities, and (Ref: par. A219)</p> <p>ii. external parties in accordance with the firm’s policies or procedures required by paragraph 35e. (Ref: par. A220)</p>
<p>.76 The firm should monitor the implementation and operating effectiveness of remedial actions to address the <i>QC deficiency</i> and determine whether such actions are implemented as designed and operate effectively to remediate the <i>QC deficiency</i>. If those actions do not remediate the <i>QC deficiency</i>, the firm should take timely action until the <i>QC deficiency</i> is remediated.⁴³</p> <p>⁴³ See paragraphs .64 and .65 when determining the nature, timing, and extent of monitoring activities for remedial actions.</p>	<p>43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:</p> <p>(a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and</p> <p>(b) Implemented to address previously identified deficiencies are effective.</p> <p>44. If the evaluation indicates that the remedial actions are not appropriately designed and</p>	<p>44. The individual or individuals assigned operational responsibility for the monitoring and remediation process should evaluate whether the remedial actions</p> <p>a. are appropriately designed to address the identified deficiencies and their related root causes and determine that they have been implemented.</p> <p>b. implemented to address previously identified deficiencies are effective.</p>

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	<p>implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.</p>	<p>45. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual or individuals assigned operational responsibility for the monitoring and remediation process should take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.</p>

Evaluation of and Reporting on the QC System

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<p>Annual Evaluation of the QC System</p> <p>.77 Annually, the firm must evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of September 30 (the “evaluation date”), that its QC system:</p> <ul style="list-style-type: none"> a. Is effective with no unremediated <i>QC deficiencies</i>; or b. Is effective except for one or more unremediated <i>QC deficiencies</i> that are not <i>major QC deficiencies</i>; or c. Is not effective (one or more <i>major QC deficiencies</i> exists). <p>Note: An unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective.</p>	<p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A187–A189)</p> <p>54. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude, on behalf of the firm, one of the following: (Ref: Para. A190, A195)</p> <ul style="list-style-type: none"> (a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. A191) (b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A192) (c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A192–A194) 	<p>54. The individual or individuals assigned ultimate responsibility and accountability for the system of quality management should evaluate, on behalf of the firm, the system of quality management. The evaluation should be undertaken as of a point in time and performed at least annually. (Ref: par. A206–A209)</p> <p>55. Based on the evaluation, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management should conclude, on behalf of the firm, one of the following: (Ref: par. A210 and A217)</p> <ul style="list-style-type: none"> a. The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A2011) b. Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A212) c. The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A212–A216)

<p>Determining Whether Major QC Deficiencies Exist</p> <p>.78 As of the evaluation date, the firm must evaluate unremediated <i>QC deficiencies</i> to determine whether <i>major QC deficiencies</i> exist. The firm’s determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.</p> <p>a. A <i>major QC deficiency</i> would be presumed to exist if there is an unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i> that:</p> <p>(1) Relates to the firm’s governance and leadership that affect the overall environment supporting the operation of the QC system; or</p> <p>(2) Results in or is likely to result in one or more significant engagement deficiencies⁴⁴ in <i>engagements</i> that, taken together, are significant in relation to the firm’s total portfolio of <i>engagements</i> (for example, because of the number of <i>engagements</i> or <i>firm personnel</i> affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).</p> <p>Note: A firm may rebut the presumption that a <i>major QC deficiency</i> exists only if the firm demonstrates, taking into account both factors listed in paragraph</p>	<p>N/A</p>	<p>N/A</p>
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QC 1000	ISQM 1	SQMS 1
<p>.78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i> does not constitute a <i>major QC deficiency</i>.</p> <p>b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated <i>QC deficiencies</i> that do not give rise to a presumption under paragraph .78a., in determining whether a <i>major QC deficiency</i> exists:</p> <p>(1) The severity and pervasiveness of the unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i>, which may be evidenced by, for example:</p> <p>(a) The number of components or <i>quality objectives</i> directly or indirectly affected;</p> <p>(b) The extent to which the unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i> relate to a component, <i>quality objective</i>, or <i>quality response</i> that affects the design or operation of other aspects of the QC system;</p> <p>(c) The number and pervasiveness of root causes;</p>		

QC 1000	ISQM 1	SQMS 1
<p>(d) The persistence of the unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i> over time;</p> <p>(e) The number of <i>engagements</i> that are affected by the unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i> or are likely to be affected in the future if the <i>QC deficiencies</i> are not remediated;</p> <p>(f) The number of <i>engagements</i> that may have unsupported opinions unless additional procedures are performed; and</p> <p>(g) The number of <i>engagements</i> for which the firm revised and reissued its <i>engagement report(s)</i> because, after additional procedures were performed, the financial statements or management’s report on internal control over financial reporting was restated or revised; and</p> <p>Note: In evaluating each unremediated <i>QC deficiency</i> or combination of unremediated <i>QC deficiencies</i>, the firm would consider both</p>		

QC 1000	ISQM 1	SQMS 1
<p>quantitative and qualitative implications.</p> <p>(2) The extent to which remedial actions have been implemented, tested, and found to be effective.</p> <p>⁴⁴ A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. <i>See, e.g.,</i> Notes to AS 1220.12, .17, .18B.</p>		
<p>Reporting to the PCAOB</p> <p>.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system not later than November 30.</p>	N/A	N/A
<p>.80 The contents of the firm's reporting to the PCAOB must include the following:</p> <p>a. The firm's conclusion that, as of the evaluation date, the firm's QC system:</p> <p>(1) Is effective with no unremediated <i>QC deficiencies</i>;</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>(2) Is effective, except for one or more unremediated <i>QC deficiencies</i> that are not <i>major QC deficiencies</i>; or</p> <p>(3) Is not effective (one or more <i>major QC deficiencies</i> exists).</p> <p>b. If the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3), a description of each unremediated <i>QC deficiency</i>, including each <i>major QC deficiency</i>, consisting of:</p> <p>(1) The requirements of this standard or the <i>quality objective(s)</i> to which it relates;</p> <p>(2) The firm’s basis for determining it was a <i>QC deficiency</i> as of the evaluation date; and</p> <p>(3) A summary of the remedial actions taken and planned to be taken to address the <i>QC deficiency</i>, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the <i>QC deficiency</i> resulted or could result in the issuance of unsupported engagement reports.</p> <p>c. If a <i>major QC deficiency</i> is presumed to exist but the determination was made that there is no <i>major QC deficiency</i>, the basis for such determination.</p>		

Documentation

QC 1000	ISQM 1	SQMS 1
<p>.81 The firm must prepare and retain documentation of the design, implementation, and operation of the QC system and of the annual evaluation of the QC system.</p>	<p>57. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A202–A204)</p> <p>(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 system of quality management and the performance of engagements;</p> <p>(b) Support the consistent implementation and operation of the responses; and</p> <p>(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	<p>58. The firm should prepare documentation of its system of quality management that is sufficient to (Ref: par. A224–A226)</p> <p>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 system of quality management and performing engagements.</p> <p>b. support the consistent implementation and operation of the responses.</p> <p>c. provide evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.</p>
<p>.82 Documentation must include descriptions of the following matters:</p> <p>a. Lines of responsibility and supervision within the firm’s QC system at successive senior levels up to and including the principal executive officer(s) or equivalent, as required by paragraph .27.</p> <p>b. Regarding the firm’s risk assessment process:</p>	<p>58. In preparing documentation, the firm shall include:</p> <p>(a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management;</p> <p>(b) The firm’s quality objectives and quality risks; (Ref: Para. A205)</p>	<p>59. In preparing documentation, the firm should include the following:</p> <p>a. Identification of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management</p> <p>b. The firm’s quality objectives and quality risks (Ref: par. A227)</p>

QC 1000	ISQM 1	SQMS 1
<p>(1) <i>Quality objectives</i>;</p> <p>(2) <i>Quality risks</i> related to the established <i>quality objectives</i> and the basis for the assessment of <i>quality risks</i>; and</p> <p>(3) <i>Quality responses</i> and how the firm's <i>quality responses</i> are designed to address the <i>quality risks</i>.</p> <p>c. Regarding the monitoring and remediation process:</p> <p>(1) The <i>engagement</i> and QC system-level monitoring activities performed, including, if applicable, monitoring activities performed by a network;</p> <p>(2) If a firm determines an <i>engagement deficiency</i> exists but that there is sufficient appropriate audit evidence to support the auditor's opinion, the basis to support the firm's determination;</p> <p>(3) Actions taken to address <i>engagement deficiencies</i> pursuant to paragraphs .68 and .69;⁴⁵</p> <p>(4) The evaluation of <i>QC observations</i> to determine whether <i>QC deficiencies</i> exist and the basis for each determination;⁴⁶ and</p>	<p>(c) A description of the responses and how the firm's responses address the quality risks;</p> <p>(d) Regarding the monitoring and remediation process:</p> <p>(i) Evidence of the monitoring activities performed;</p> <p>(ii) The evaluation of findings, and identified deficiencies and their related root cause(s);</p> <p>(iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(e) The basis for the conclusion reached pursuant to paragraph 54.</p> <p>59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A206)</p>	<p>c. A description of the responses and how the firm's responses address the quality risks</p> <p>d. Regarding the monitoring and remediation process,</p> <p>i. evidence of the monitoring activities performed;</p> <p>ii. the evaluation of findings, and identified deficiencies and their related root causes; and</p> <p>iii. remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions</p> <p>iv. communications about monitoring and remediation</p> <p>e. The conclusion reached pursuant to paragraph 55 and the basis for that conclusion.</p> <p>60. The firm should document the matters in paragraph 59 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 50b. (Ref: par. A228)</p>

QC 1000	ISQM 1	SQMS 1
<p>(5) Root cause analysis and remedial actions to address identified <i>QC deficiencies</i> and the monitoring activities performed to evaluate the implementation and operating effectiveness of such remedial actions.⁴⁷</p> <p>d. Regarding the evaluation of the firm’s QC system, the basis for the conclusion reached pursuant to paragraph .77.</p> <p>e. If the firm belongs to a network that provides or requires the use of resources or services in the firm’s QC system or the performance of the firm’s <i>engagements</i>, or uses resources or services obtained from a <i>third-party provider</i>:</p> <p>(1) The firm’s understanding of how the resources or services used by the firm are developed and maintained;</p> <p>(2) If the firm supplemented or adapted such resources or services, how and why they were supplemented or adapted; and</p> <p>(3) How the firm implemented and operated such resources or services.</p> <p>⁴⁵ See AS 1215.16 for documentation requirements regarding actions taken to address <i>engagement deficiencies</i> on completed audit <i>engagements</i>.</p>		

QC 1000	ISQM 1	SQMS 1
<p>⁴⁶ See paragraph.72.</p> <p>⁴⁷ See paragraphs .73-.76.</p>		
<p>.83 The documentation must be in sufficient detail to:</p> <ul style="list-style-type: none"> a. Support a consistent understanding of the QC system by <i>firm personnel</i>, including an understanding of their roles and responsibilities with respect to the firm’s QC system; and b. Enable an experienced auditor that understands QC systems, but has no experience with the design, implementation, and operation of the firm’s QC system, to understand the design, implementation, and operation of the QC system, including the <i>quality objectives, quality risks, quality responses</i>, monitoring activities, remedial actions, and basis for the conclusions reached in the evaluation of the QC system. <p>Note: With respect to the operation of the QC system, the documentation must include documentation that enables an experienced auditor to evaluate the operation of the <i>quality responses</i>.</p>	N/A	N/A
<p>.84 A complete and final set of documentation as required by paragraphs .81-.83 with respect to the 12-month⁴⁸ period ended the prior September 30 and any evaluation required as of that date should be</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>assembled for retention not later than December 14 (“QC documentation completion date”).</p> <p>⁴⁸ In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.</p>		
<p>.85 Circumstances may require additions to documentation after the QC documentation completion date. Documentation must not be deleted or discarded after the QC documentation completion date; however, information may be added. Any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.</p>	N/A	
<p>.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for seven years from the QC documentation completion date, unless a longer period of time is required by law.</p>	<p>60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm’s system of quality management, or for a longer period if required by law or regulation.</p>	<p>61. The firm should establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm and its peer reviewer to monitor the design, implementation, and operation of the firm’s system of quality management or for a longer period if required by law or regulation.</p>

APPENDIX A – Definitions

QC 1000	ISQM 1	SQMS 1
<p>.A1 For purposes of this standard, the terms listed below are defined as follows:</p>	<p>16. For purposes of this ISQM, the following terms have the meanings attributed below:</p>	<p>17. For purposes of the SQMSs, the following terms have the meanings attributed as follows:</p>
<p>.A2 Applicable professional and legal requirements –</p> <ol style="list-style-type: none"> (1) Professional standards, as defined in PCAOB Rule 1001(p)(vi); (2) Rules of the PCAOB that are not professional standards; and (3) To the extent related to the obligations and responsibilities of accountants or auditors in the conduct of <i>engagements</i> or in relation to the QC system, rules of the SEC, other provisions of U.S. federal securities law, ethics laws and regulations, and other applicable statutory, regulatory, and other legal requirements. 	<p>(p) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i>, and relevant ethical requirements.</p> <p>(t) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)</p>	<p>Professional standards. Standards promulgated by the ASB or ARSC under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.</p> <p>Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the firm, engagement team, engagement quality reviewer, and other firm personnel are subject when undertaking engagements in the firm’s accounting and auditing practice that consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive. (Ref: par. A23–A24 and A64)</p>
<p>.A3 Engagement – Any audit, attestation, review, or other engagement performed under PCAOB standards:</p> <ol style="list-style-type: none"> (1) Led by a firm; or (2) In which a firm “play[s] a substantial role in the preparation or furnishing of an audit report” as defined in PCAOB Rule 1001(p)(ii). 	<p>N/A</p>	<p>N/A</p>

QC 1000	ISQM 1	SQMS 1
<p>.A4 Engagement deficiency – An instance of noncompliance with <i>applicable professional and legal requirements</i> by the firm, <i>firm personnel</i>, or <i>other participants</i> with respect to an <i>engagement</i> of the firm, or by the firm or <i>firm personnel</i> with respect to an <i>engagement</i> of another firm.</p>	<p>N/A</p>	<p>N/A</p>
<p>.A5 Firm personnel – Individual proprietors, partners, shareholders, members or other principals, accountants, and professional staff of a registered public accounting firm whose responsibilities include assisting with:</p> <ul style="list-style-type: none"> (1) The performance of the firm’s <i>engagements</i>; or (2) The design, implementation, or operation of the firm’s QC system, including engagement quality reviews. <p>Professional staff includes employees as well as individuals, such as non-employee contractors and consultants, who work under the firm’s supervision or direction and control and function as the firm’s employees. These individuals include, for example, secondees and leased staff who work under the supervision or direction and control of the firm. Professional staff does not include persons engaged only in clerical or ministerial tasks.</p>	<p>(n) Personnel – Partners and staff in the firm. (Ref: Para. A20–A21)</p> <p>(c) Engagement partner³ – The partner or other individual, appointed 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.</p> <p>³“Engagement partner” and “partner” is to be read as referring to their public sector equivalents where relevant.</p> <p>(f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert⁴ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)</p> <p>⁴ISA 620, <i>Using the Work of an Auditor’s Expert</i>, paragraph 6(a), defines the term “auditor’s expert.”</p> <p>(m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	<p>Personnel. Partners and staff in the firm. (Ref: par. A21–A22)</p> <p>Engagement partner. The partner or other individual appointed 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, when required, has the appropriate authority from a professional, legal, or regulatory body.</p> <p>Engagement team. All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist¹ and internal auditors who provide direct assistance on an engagement. (Ref: par. A14)</p> <p>¹ Paragraph .06 of AU-C section 620, <i>Using the Work of an Auditor’s Specialist</i>, defines the term <i>auditor’s specialist</i>.</p> <p>Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.</p>

QC 1000	ISQM 1	SQMS 1
	(w) Staff – Professionals, other than partners, including any experts the firm employs.	Staff. Professionals, other than partners, including any specialists the firm employs.
.A6 Major QC deficiency – An unremediated QC deficiency or combination of unremediated QC deficiencies, based on the evaluation under paragraph .78, that severely reduces the likelihood of the firm achieving the reasonable assurance objective or one or more <i>quality objectives</i> .	N/A	N/A
.A7 Other participants – With respect to work performed in connection with the firm’s QC system or the performance of its <i>engagements</i> , <i>other participants</i> are accounting firms (foreign or domestic, registered or unregistered), accountants, and other professionals or organizations, other than <i>firm personnel</i> , whose responsibilities include assisting with: <ul style="list-style-type: none"> (1) The performance of the firm’s <i>engagements</i>; or (2) The design, implementation, or operation of the firm’s QC system, including engagement quality reviews. 	(k) Network firm – A firm or entity that belongs to the firm’s network.	Network firm. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, a firm or other entity that belongs to a network. References to a <i>network firm</i> are to be read hereafter as “another firm or entity that belongs to the same network as the firm.”
.A8 QC deficiency – A QC observation that, based on the evaluation under paragraph .72, individually or in combination with one or more other QC observations, evidences: <ul style="list-style-type: none"> (1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more <i>quality objectives</i> has not been reduced to an acceptably low level; 	(a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ISQM) – This exists when: (Ref: Para. A10, A159–A160) <ul style="list-style-type: none"> (i) A quality objective required to achieve the objective of the system of quality management is not established; 	Deficiency in the firm’s system of quality management (referred to as <i>deficiency</i> in this SQMS). This exists when (Ref: par. A10 and A174–A175) <ul style="list-style-type: none"> • a quality objective required to achieve the objective of the system of quality management is not established;

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<p>Note: The likelihood of not achieving the reasonable assurance objective or one or more <i>quality objectives</i> would be above an acceptably low level if, for example, a <i>quality objective</i> is not established, a <i>quality risk</i> is not properly identified or assessed, or a <i>quality response</i> is not properly designed or implemented or is not operating effectively.</p> <p>(2) Noncompliance with requirements of this standard, other than those under “Documentation”; or</p> <p>(3) Noncompliance with requirements of this standard under “Documentation” that adversely affects the firm’s ability to comply with any of the other requirements of this standard.</p>	<p>(ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)</p> <p>(iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or</p> <p>(iv) An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this ISQM has not been addressed. (Ref: Para. A12)</p>	<ul style="list-style-type: none"> • a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: par. A11) • a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or • another aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this SQMS has not been addressed. (Ref: par. A12–A13)
<p>.A9 QC observation –</p> <p>(1) An engagement deficiency; or</p> <p>(2) Any other observation about the design, implementation, or operation of the firm’s QC system that may indicate one or more QC deficiencies exist.</p>	<p>(h) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: Para. A15–A17)</p>	<p>Findings (in relation to a system of quality management). Information about the design, implementation, and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections, and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: par. A16–A18)</p>
<p>.A10 Quality objectives – The desired outcomes in relation to the components of the QC system to be achieved by the firm.</p>	<p>(q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.</p>	<p>Quality objectives. The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.</p>

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<p>.A11 Quality responses – Policies and procedures designed and implemented by the firm to address <i>quality risks</i>:</p> <ol style="list-style-type: none"> (1) Policies are statements of what should, or should not, be done to address an assessed <i>quality risk</i>. (2) Procedures are actions to implement and comply with policies. 	<p>(u) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s): (Ref: Para. A25–A27, A50)</p> <ol style="list-style-type: none"> (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions. (ii) Procedures are actions to implement policies. 	<p>Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks. (Ref: par. A25–A27 and A52)</p> <ul style="list-style-type: none"> • <i>Policies</i> are statements of what should, or should not, be done to address quality risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions. • <i>Procedures</i> are actions to implement policies.
<p>.A12 Quality risks – Risks (whether or not related to intentional acts by <i>firm personnel</i> or <i>other participants</i> to deceive or to violate <i>applicable professional and legal requirements</i>) that, individually or in combination with other risks, have a reasonable possibility of occurring and, if they were to occur, a reasonable possibility of adversely affecting the firm’s achievement of one or more <i>quality objectives</i>.</p>	<p>(r) Quality risk – A risk that has a reasonable possibility of:</p> <ol style="list-style-type: none"> (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. 	<p>Quality risk. A risk that has a reasonable possibility of</p> <ul style="list-style-type: none"> • occurring, and • individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
<p>.A13 Third-party providers – Individuals or organizations, other than <i>other participants</i>, that provide resources or services to the firm that are designed specifically for use in the performance of <i>engagements</i> (e.g., purchased methodologies, related templates, and IT applications) or to assist with the operation of its QC system (e.g., broker and dealer monitoring systems to track personal financial interests of <i>firm personnel</i>).</p>	<p>(v) Service provider (in the context of this ISQM) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organizations in the network. (Ref: Para. A28, A105)</p>	<p>Service provider (in the context of this SQMS). An individual or organization external to the firm that provides a resource that is used in the system of quality management or in performing engagements. Service providers exclude the firm’s network, other network firms, or other structures or organizations in the network. (Ref: par. A28 and A110)</p>
<p>N/A</p>	<p>N/A</p>	<p>Accounting and auditing practice. A practice that performs engagements covered by this SQMS, which are audit, attestation, review, compilation, and any other services for which standards have been promulgated by the AICPA Auditing</p>

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		<p>Standards Board (ASB) or the AICPA Accounting and Review Services Committee (ARSC) under the “General Standards Rule” (ET sec. 1.300.001)† or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code. (Ref: par. A9)</p> <p>† All ET sections can be found in AICPA <i>Professional Standards</i>.</p>
N/A	(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).	Engagement documentation. The record of work performed, results obtained, and conclusions the practitioner reached (terms such as <i>working papers</i> or <i>work papers</i> are sometimes used).
N/A	(d) Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.	Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon performed by the engagement quality reviewer and completed on or before the date of the engagement report.
N/A	(g) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A14)	External inspections. Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm. (Ref: par. A15)
N/A	(i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A18)	Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in public practice. (Ref: par. A19)
N/A	N/A	Inspection. Inspection is an evaluation of the adequacy of aspects of the firm’s quality management policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them.

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N/A	(j) 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.	N/A
N/A	(l) Network – A larger structure: (Ref: Para. A19) (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 management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.	Network. As defined in “Definitions” (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. A20)
N/A	(o) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.	Professional judgment. The application of relevant training, knowledge, and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation, and operation of the firm’s system of quality management.
N/A	(s) Reasonable assurance – In the context of the ISQMs, a high, but not absolute, level of assurance.	Reasonable assurance. In the context of the SQMSs, a high, but not absolute, level of assurance.
N/A	(x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that: (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal	System of quality management. A system designed, implemented, and operated by a firm to provide the firm with reasonable assurance that <i>α.</i> the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal

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	<p>and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p>(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	<p>and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p><i>b.</i> engagement reports issued by the firm are appropriate in the circumstances.</p>

APPENDIX B – Examples Relevant to Obtaining an Understanding of the Nature and Circumstances of the Firm and its Engagements

QC 1000	ISQM 1	SQMS 1
<p>.B1 This appendix provides examples related to paragraphs .20a.(1) and .20a.(2). Whether a particular example is relevant, whether it results in one or more <i>quality risks</i>, or how it affects the assessment of <i>quality risks</i> will depend upon the nature and circumstances of the firm and its <i>engagements</i>.</p>	N/A	N/A
<p>.B2 <u>The complexity and operating characteristics of the firm</u> (.20a.(1)(a)). This includes the size of the firm, the geographical distribution of the firm’s operations, how the firm is structured, and the extent to which the firm concentrates or centralizes its processes or activities. Examples include:</p> <ul style="list-style-type: none"> a. Complexity of the organizational structure, including the number of managerial levels; b. Structure of reporting lines, including overlapping or interconnected reporting lines; c. Centralized or decentralized nature of the firm; d. Changes in firm structure and firm ownership (e.g., reorganizations, mergers and acquisitions, divestitures, or extent of non-CPA ownership); e. Internal or external factors limiting the availability or use of resources, including 	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>financial resources, for the firm’s QC system or its <i>engagements</i>;</p> <p>f. The nature and extent of use or involvement of shared service centers and whether these are internal or external to the firm; and</p> <p>g. The existence and extent of governance structures providing oversight of leadership.</p>		
<p>.B3 <u>The firm’s business processes and strategic and operational decisions and actions</u> (.20a.(1)(b)). This includes decisions about financial and operational matters, including the firm’s strategic goals. Examples include:</p> <p>a. Pressure to meet financial targets and commercial goals that could affect resource availability or other aspects of the firm’s QC system;</p> <p>b. Changes in firm business strategy or goals affecting the firm’s audit practice; and</p> <p>c. Mergers, acquisitions, and divestitures.</p>	N/A	N/A
<p>.B4 <u>The characteristics and management style of leadership</u> (.20a.(1)(c)). This includes the composition of firm leadership, leadership tenure, distribution of authority among leadership, and how leadership motivates and encourages <i>firm personnel</i>. Examples include:</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<ul style="list-style-type: none"> a. Changes in firm leadership (e.g., senior leadership turnover); b. The extent to which senior leadership consists of individuals without experience in auditing; c. Highly concentrated or distributed management authority, particularly for the size of the firm; d. Leadership tone or conduct; e. Actions or inactions that result in a history of recurring <i>QC deficiencies</i> or <i>engagement deficiencies</i> (regardless of whether identified internally or externally); f. Timing of actions in response to identified <i>QC deficiencies</i> or <i>engagement deficiencies</i>; g. The extent to which <i>firm personnel</i> are held accountable for violations of <i>applicable professional and legal requirements</i> or of the firm’s policies and procedures; and h. The extent of focus on commercial goals (e.g., revenue generation of business development) compared to the quality of the firm’s engagements. 		
<p>.B5 <u>The extent to which a culture of integrity and a commitment to audit quality, including ethics and independence, is promoted within the firm and embraced by <i>firm personnel</i> across all levels</u></p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>(20a.(1)(d)). This includes how a commitment to quality is embedded in the firm’s culture and exists throughout the firm. Examples include:</p> <ul style="list-style-type: none"> a. Recognizing the firm’s fundamental obligation to protect investors through the preparation and issuance of informative, accurate, and independent auditor’s reports; b. Emphasizing the importance of professional ethics, values and attitudes; c. Emphasizing the responsibility of all <i>firm personnel</i> for quality relating to the performance of engagements or activities within the QC system, and their expected behavior; d. Establishing and adhering to a code of conduct; e. Defining and communicating how quality will be measured and incorporating quality-related measures in personnel evaluations, with associated effects on compensation and promotion; f. Establishing developmental opportunities for personnel that reinforce quality; and g. Defining the purpose and values of the firm, and ensuring that these recognize quality. 		

QC 1000	ISQM 1	SQMS 1
<p>.B6 <u>The resources of the firm</u> (.20a.(1)(e)). This includes people, financial, technological, and intellectual resources and the characteristics and availability of such resources. Examples include:</p> <ul style="list-style-type: none"> a. Availability of skilled individuals; b. Availability of financial, technological, and intellectual resources; c. Highly centralized or decentralized environments to manage resources; d. Dependency on, and complexity of, technology used by the firm; e. The firm’s ability to obtain and use technological resources in performing <i>engagements</i> that are commensurate with the technology risk profiles of the companies for which the firm performs <i>engagements</i> and the risks associated with such technological resources, including their susceptibility to cybersecurity breaches; and f. Nature of technology development and resources to maintain the technology (e.g., internally developed versus purchased). 	N/A	N/A
<p>.B7 <u>The environment in which the firm operates, including applicable professional and legal requirements</u> (.20a.(1)(f)). This includes economic stability; social and technological factors; laws and regulations directly relevant to the firm; and <i>applicable professional and</i></p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p><i>legal requirements</i> affecting <i>engagements</i> performed by the firm. Examples include:</p> <ul style="list-style-type: none"> a. Changes to the external environment (e.g., economic, political, or technological) affecting the firm and its QC system; b. Economic conditions or other external factors limiting the availability of resources; and c. Changes to <i>applicable professional and legal requirements</i> relevant to the firm, including its QC system and <i>firm personnel</i>. 		
<p>.B8 <u>If the firm belongs to a network, the characteristics of the network and the network's resources and services and the nature and extent of resources and services used by the firm (.20a.(1)(g)).</u> This includes the nature of the network, the nature and extent of the requirements established by the network, and the resources and services provided by the network. Examples include:</p> <ul style="list-style-type: none"> a. How the network is organized and operates; b. The extent and frequency of communication from the network to the firm related to resources and services provided by the network; c. The extent to which network requirements or network services are or 	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>should be supplemented or adapted for the firm's use;</p> <p>d. The process used to develop technological and intellectual resources provided by the network; and</p> <p>e. Observations from monitoring activities regarding the design of network resources and services and their use by the firm.</p>		
<p>.B9 <u>If the firm uses <i>other participants</i>, the nature and extent of their involvement (.20a.(1)(h))</u>. This includes the types of and extent to which the firm uses <i>other participants</i> and the characteristics of such <i>other participants</i>. Examples include:</p> <p>a. The extent of reliance by the firm on <i>other participants</i>;</p> <p>b. Information regarding the reliability and quality of the services performed and the experience and competence of the individuals performing those services; and</p> <p>c. Whether the <i>other participants</i> belong to the same network as the firm.</p>	N/A	N/A
<p>.B10 <u>If the firm participates in other firms' engagements, the nature and extent of the firm's participation (.20a.(1)(i))</u>. This includes the nature of the procedures performed, the extent of participation, and other characteristics, including characteristics of the other firms. Examples include:</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<ul style="list-style-type: none"> a. The type of work performed by the firm on the other firms' <i>engagements</i>; b. The extent of participation in the other firms' <i>engagements</i>; c. Prior experience in participating in the other firms' <i>engagements</i>; and d. The reputation of the other firms. 		
<p>.B11 If the firm uses resources or services obtained from <i>third-party providers</i>, the nature and extent of those resources or services (.20a.(1)(j)). This includes the types of and extent to which the firm uses <i>third-party providers</i> and the characteristics of such <i>third-party providers</i>. Examples include:</p> <ul style="list-style-type: none"> a. The extent of usage by the firm of <i>third-party providers</i>; b. The extent of alignment of the <i>third-party providers</i>' standards of conduct, if any, with those of the firm; c. Observations from monitoring activities regarding the design of the services performed and their use by the firm; and d. Information regarding the experience, reliability, and quality of the services performed and the experience and competence of the individuals performing those services. 	N/A	N/A
<p>.B12 The nature and circumstances of the firm's <i>engagements</i> (.20a.(2)). This includes the types of <i>engagements</i> performed by the firm and the types of</p>	N/A	N/A

QC 1000	ISQM 1	SQMS 1
<p>companies for which such <i>engagements</i> are undertaken. Examples include:</p> <ul style="list-style-type: none"> a. Size, industry, complexity, and risk profile of the companies for which the firm’s <i>engagements</i> are performed (e.g., the laws and regulations to which the companies are subject), including the potential need for external resources (e.g., specialists, valuation reports, analyst or short-seller reports); b. Complexity of or changes to <i>applicable professional and legal requirements</i> and the firm’s policies and procedures relevant to the firm’s <i>engagements</i>; c. The extent of the firm’s and its personnel’s experience with the relevant types of <i>engagements</i> (e.g., audits of internal control over financial reporting or attestation <i>engagements</i> of brokers and dealers) or industries; d. Complexity of technology used by the company and used by the firm when performing <i>engagements</i>; e. Changes in the external environment affecting the firm’s <i>engagements</i>; f. Impediments to the firm’s ability to perform the required <i>engagement</i> procedures, whether due to lack of available evidence or otherwise; and 		

QC 1000	ISQM 1	SQMS 1
g. Information obtained from external inspections or reviews and oversight activities by regulators.		