Meetings:	IESBA and IAASB Meetings	**Agenda Item**
Meeting Locations:	IESBA: New York, United States IAASB: Madrid, Spain	**2C**
Meeting Dates:	IESBA: December 7-10, 2026 IAASB: December 7-10, 2026	

Note to IESBA and IAASB:

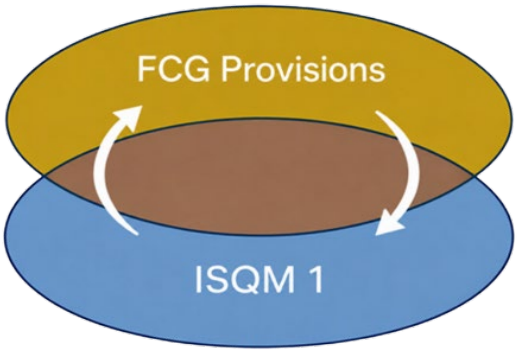
1. This paper has been developed by the Firm Culture and Governance (FCG) project teams and board advisors/members on both Boards.
2. It seeks to respond to calls from stakeholders to clarify the relationship between the proposed FCG Provisions and ISQM 1,[1] especially for firms that have implemented a system of quality management (SOQM) in accordance with ISQM 1.
3. Following feedback on the paper from both Boards at its December meetings and the approval of the Proposed FCG Provisions by the IESBA, this paper will be updated accordingly for release to accompany the Exposure Draft for the Proposed FCG Provisions.
4. Advance comments are welcome and can be shared with KamLeung@ethicsboard.org and JaspervandenHout@iaasb.org.

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

Interaction Between Proposed FCG Provisions (FCG Framework) and ISQM 1

At a Glance

INHERENT RELATIONSHIP



The proposed FCG Provisions focus on articulating the elements of a firmwide ethical culture. ISQM 1 focuses on the firm's responsibilities to design, implement and operate a system of quality management (SOQM) that enables the consistent performance of quality engagements. However, there is an inherent connection between a firm's ethical culture and the firm's SOQM.

As recognized by the IESBA Code, ISQM 1 contributes to an ethical culture within the firm through requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate an SOQM for audits or reviews of financial statements, or other assurance or related services engagements. In this regard, ISQM 1 recognizes that the firm's culture is an important factor in influencing the behavior of personnel. It requires that the firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces, among other matters, the importance of professional ethics, values and attitudes.

Ethical culture and quality management are related, mutually supportive and reinforcing

ISQM 1 also requires that the firm establishes quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements to which the firm and the firm's engagements are subject (i.e., as a component of the firm's SOQM).

When firm personnel understand and fulfill their responsibilities in accordance with relevant ethical requirements, such as the IESBA Code, this contributes to the firm's efforts to build and maintain an ethical culture within the firm.

Therefore, the IESBA and IAASB see the relationship between the proposed FCG Provisions and ISQM 1 as mutually supportive and reinforcing.

KEY DIFFERENCES

ISQM 1 and the FCG framework differ in objectives, scope, output, and granularity of focus on ethical culture. ISQM 1 establishes a premise that a culture exists throughout the firm through which it demonstrates a commitment to quality; the FCG framework addresses specifically how an ethical culture and related governance are established, maintained and upheld that support compliance with the fundamental principles.

The FCG framework and ISQM 1 work together as a holistic package in support of ethical culture and the consistent performance of quality engagements. The FCG framework and ISQM 1 do not compete with each other nor does one substitute for the other. Instead, they complement each other. In addition, the IAASB and IESBA consider that introducing the proposed FCG provisions does not warrant changes to ISQM 1 and that the FCG provisions do not contradict the requirements of ISQM 1.

	Proposed FCG Framework	ISQM 1
Objective	To establish, maintain and uphold an ethical culture throughout the firm that supports compliance with the fundamental principles by its personnel.	To design, implement and operate a SOQM to provide a firm with reasonable assurance that the objectives of the SOQM are achieved, thereby enabling the consistent performance of quality engagements.
Scope	• All service lines of a firm, including audit and assurance, tax, advisory and consulting. • All firms, including firms that perform no engagements within the scope of ISQM 1.	Firms performing audits or reviews of financial statements, or other assurance or related services engagements.
Output	A principles-based framework addressing ethical culture and related governance.	A principles-based framework for applying a risk-based approach to the design, implementation and operation of an SOQM for engagements within the scope of IAASB standards.
Granularity of focus on FCG	Guidance on eight interconnected elements, implementation of which enables a firm to establish, maintain and uphold an ethical culture.	ISQM 1 is focused on the components of a firm's SOQM. Although it may refer to some aspects of the FCG provisions at different levels of detail, it does not address all the elements of the FCG provisions to the same degree of granularity as the IESBA Code, because it has a broader focus.

IMPLEMENTING THE FCG FRAMEWORK FOR FIRMS THAT HAVE IMPLEMENTED ISQM 1

Not all firms are required to implement ISQM 1 because they do not perform audits or reviews of financial statements, or other assurance or related services engagements. For firms subject to ISQM 1, when implementing the FCG framework, each firm should make its own assessment of what more it needs to do in light of its implementation of ISQM 1, taking into account:

Compliance with ISQM 1 may not address all aspects of the proposed FCG provisions

- Its nature and circumstances and its professional services.
- The different objectives, scope and output of the FCG framework and ISQM 1.
- The extent to which it has extended the implementation of ISQM 1 across the whole firm.

For example, in assessing to what extent existing processes, policies and procedures arising from the implementation of ISQM 1 support the implementation of the FCG framework, a firm might consider how those processes, policies and procedures shape its ethical culture and related governance in practice.

The ***Appendix*** provides a guide to help firms identify relevant ISQM 1 provisions as a starting point to reflect on the actions they need to take in implementing the FCG framework.

The implementation and application of both the FCG framework and ISQM 1 are designed to be scalable and proportionate.

Appendix: Guide to Assist Firms in Identifying Relevant ISQM 1 Provisions as a Starting Point When Implementing the Interconnected Elements of FCG Framework

Note:

- Interconnected elements of FCG framework – see dark shading in table
- Relevant ISQM 1 provisions – see lighter shading in table

Ethical leadership: The firm's leadership setting the tone at the top and every leader at all levels within the firm demonstrating ethical behavior in their judgments, decisions and actions, thereby setting the expectation for all personnel to act ethically.	***Governance:*** The firm's leadership establishing and maintaining arrangements to effectively oversee and monitor the ethical culture throughout the firm and embed ethics in conduct and decision-making.
ISQM 1 Touchpoints • Commitment to quality through a culture that exists throughout the firm; leadership's commitment, responsibility and accountability to quality; (Para. 30(a)(i), (ii), (iv), 30(b), 30(c), A61, A63) • Fulfilling responsibilities under relevant ethical requirements (Para. 31(a)) • Priorities in making appropriate judgements about client acceptance and continuance (Para. 32(b))	**ISQM 1 Touchpoints** • Ultimate responsibility and accountability; operational responsibilities; assigning roles (Para. 22(a), 22(c),23(a), 23(b), 24, A41) • Commitment to quality through a culture that exists throughout the firm; organizational structure and assignment of roles, responsibilities and authority for the firm's SOQM (Para. 30(a), 30(d)) • Compliance with, and breaches of, relevant ethical requirements (Para. (36(a)(i), (ii)) • Monitoring and remediation process for the firm's SOQM (Para 37(a), 37(b), A143)
Accountability across the firm: Setting clear expectations for all personnel to act ethically and holding all personnel responsible for meeting those expectations.	***Independent input:*** For significant strategic, governance and business decisions of the firm on matters involving the public interest, considering obtaining input from individual(s) or other sources that are impartial and free from actual or perceived conflicts of interest with respect to such matters.
ISQM Touchpoints • Responsibilities beyond ISQM 1, including relevant ethical requirements (para. 4, A2) • Commitment to quality through a culture that exist throughout the firm; responsibility of all personnel for quality; leadership's accountability for quality; (Para. 30(a)(ii), (iii), 30(b), A62) • Fulfilling responsibilities under relevant ethical requirements (Para. 31(a)(i), (ii)) • Personnel held accountable for their commitment to quality through incentives (Para. 34(b), A98)	**ISQM Touchpoints** • No direct links are identified
Incentives and Disincentives: Designing and implementing performance evaluation and compensation practices that reinforce ethical behavior	***Open discussion and challenge:*** Fostering an environment where personnel feel safe to discuss ethics-related matters, raise concerns or challenge

alongside financial and non-financial targets and do not inadvertently lead personnel to act unethically. Deterring unethical behavior and responding to it in a consistent and timely manner with appropriate communications, measures and consequences.	decisions from an ethical perspective without fear of adverse consequences.
ISQM 1 Touchpoints • Personnel held accountable for their commitment to quality through incentives (Para. 34(b), A96, A97, A98) • Breaches of relevant ethical requirements (Para (36(a)(ii), A124)	**ISQM 1 Touchpoints** • Consultation on difficult or contentious matters and differences of opinion regarding the performance of quality engagements (Para 33(d), 33(e), A87)
Internal and external transparency: Having regard to the principle of confidentiality, sharing ethics-related learnings and experiences within the firm to reinforce ethical behavior. Considering publicly disclosing relevant information on how the firm demonstrates its commitment to establishing, maintaining and upholding an ethical culture and related governance throughout the firm.	***Education and training:*** Regularly educating and training personnel to develop an ethical mindset and professional judgment that help them identify and address ethical dilemmas when performing their professional activities.
ISQM 1 Touchpoints • The firm's information system; personnel's responsibility to exchange information with the firm and with one another; exchange of relevant and reliable information; communication of relevant and reliable information to external parties (Para 35(a), 35(b), 35(c), 35(d), A118, A120) • Communicating breaches of the relevant ethical requirements and communications with TCWG and external parties (Para 36(a), (e), A129)	**ISQM 1 Touchpoints** • Fulfilling responsibilities under relevant ethical requirements (Para. 31(a)(i)) • Personnel are developed and have competence and capabilities to consistently perform quality engagements or perform activities relating to the operation of the SOQM (Para. 34(a), A93, A94, A95)