Quality Control Project–Initial Scoping

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Quality Control Working Group

- Karin French (Chair)
- Sue Almond
- Jennifer Burns
- Maria Manasses
- Stefan Schmidt (supported by Wolf Böhm)
Key Topics For Discussion

- Engagement Quality Control Reviews (EQCR)
- Quality Control (QC) Processes Addressing Remediation
- Outsourcing and Shared Service Centers
- Modernization of ISQC 1
- Proportionality and Application of ISQC 1 to Assurance Engagements
Objective

To discuss the initial scoping of the quality control project proposal
EQCR – Key Differences

- Comparison of ISQC 1 / ISA 220, the EU Regulation and AS 7 highlighted differences for audit engagements in the following areas:
  - Scope
  - Objective
  - Independence requirements
  - Performance requirements
    - Specific areas of the engagement
    - Significant engagement deficiency
    - Concurring approval of issuance
  - Documentation requirements
EQCR – Other Challenges and Matters

• Issues with performance of EQCR identified in inspections
  – Insufficient time allocated to the engagement reviewer
  – Engagement reviewer becomes involved too late in the process
  – Insufficient depth of review procedures performed
  – Insufficient relevant experience of reviewer

• Other Issues
  – Clarification of guidance for engagement selection
  – Other types of reviews
QC Processes Addressing Remediation

• Initial findings of issues with the guidance in ISQC 1 include
  – ISQC 1 only considers remediation with respect to deficiencies from internal reviews
  – Lack of specificity resulting in inconsistencies in how firms address inspection findings
  – Insufficient emphasis to ensure appropriate evaluation and corrective action with identified deficiencies

• Consider incorporation of monitoring procedures over network firms

• Consider requirement to incorporate a root cause analysis in QC systems
Outsourcing and Shared Service Centers

- Defining Off-shoring / On-shoring and Centers of Excellence
- Increase in volume of outsourcing suggests need for guidance on QC procedures (up to 15% experienced)
- Varying methodologies and approaches adopted by firms
  - ISA 600 Staff Survey
- Establishing requirements for QC procedures in this area is the highest priority of some regulators
Modernization of ISQC 1

• Comparison of ISQC 1 and the Framework for Audit Quality
  – Areas compared were at the firm level as follows
    – Values, Ethics and Attitudes
    – Knowledge, Time and Experience
    – Audit Processes and Quality Control Procedures
  – Comparison identified a number of differences

• More extensive update of ISQC 1 needed to become a risk based standard
Proportionality and Application to Assurance Engagements

• Feedback from SMPC has not yet identified specific issues with the application of ISQC 1

• WG will continue to explore if specific areas of concern exist that can be addressed in this project

• Sufficient application guidance already written
  – SMPC
  – NSS
WG Recommendations for the Way Forward

• The WG proposes updates ISQC 1 / ISA 220 to provide further guidance in respect of
  – EQCRs
  – Remediation
  – Outsourcing and shared service centers
  – Improved alignment with the Framework for Audit Quality

• The WG proposes raising awareness of existing guidance developed on the proportionate application of ISQC 1

• The WG proposes a more extensive modernization of ISQC 1 as a longer term project