Quality Control - Discussion

Decision Summary – December IAASB Meeting

Summary of the IAASB’s Discussions at Its December 2014 Meeting

The Board generally supported consideration of the topics outlined in the agenda item for inclusion in the project proposal for quality control. However, concern was expressed around the relative importance of the topics as outlined in the agenda item, and that these topics were being considered on a segmented basis and not as part of a holistic approach to the project. The Board also raised various matters and concerns to the Working Group (WG) for further consideration as the scope of the project is developed:

- The need for a definitive objective for the project. It was noted that the initial scoping discussion in the agenda item was based on the topics as identified in The IAASB’s Work Plan for 2015—2016 (the Work Plan). The Board questioned if the project was bound by this scoping or if it was possible or appropriate to revisit.

- The consideration of incorporation of governance issues into the project scoping, given its relative importance. Specifically, how a firm compensates and rewards its personnel is a key aspect of the “tone at the top” and the attitude to audit quality throughout the firm.

- The consideration of addressing the topics highlighted in the agenda paper through methods other than amendments to the International Standards on Auditing (ISAs), such as an International Practice Note (IPN) or Staff guidance.

Engagement Quality Control Reviews (EQCRs)

The Board reiterated its view on maintaining an appropriate balance of responsibilities between the engagement partner and the engagement reviewer and counseled the WG to deliberate if consideration of engagement partner responsibilities should become part of the project. The Board also expressed concern around extending the scope of engagements requiring an EQCR and that additional requirements in respect of EQCRs would make the guidance more “rules based.” In light of these concerns, the Board counseled the WG to consider the appropriateness of developing practical implementation and application guidance.

The Board expressed support for the inclusion of remediation within the scope of the project proposal, specifically with respect to the extension of ISQC 1 to external reviews and the consideration of root cause analysis. However, the view was also expressed that the existing requirements in ISQC 1 on this topic were sufficient. The WG was encouraged to consider if implementation guidance would be more appropriate.

1 International Standard on Quality Control (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

Prepared by: Sara Ashton (February 2015)
OUTSOURCING

The Board agreed that this topic should be further explored by the WG, however counseled that there should be no preconceived notion that any further research would automatically lead to updates to ISQC 1 or other ISAs.

PROPORTIONATE APPLICATION OF ISQC 1

The Board expressed concern over the WG’s recommendation that promotion of existing guidance on the proportionate application of ISQC 1 might be sufficient. It was the Board’s view that much concern had been expressed and continues to be expressed by the small- and medium-sized practices (SMPs) that ISQC 1 could not be proportionately applied. The Board advised the WG to consider if any practical help could be given to SMPs on its proportionate application.

The Board further counseled the WG to continue its research, including understanding the current practices of the firms and more broadly the views of the regulators.

IAASB Chairman’s Remarks

Ms. de Beer noted that the issue of proportionality has been raised many times with the CAG and not just with regard to quality control, so it was clear that action is needed in this area. With regard to the scope of the project proposal, Ms. de Beer suggested that a good understanding of the issues is needed before commencing the project to avoid “scope creep” in later phases of the project. She also noted that the project should not be restricted to the topics identified in the Work Plan.

Objectives of the Discussion

The following are the objectives of the IAASB discussion at its March 2015 meeting:

- Obtain approval from the Board for the Quality Control Working Group’s (the WG) proposed way forward with the project, to proceed with a Discussion Paper.
- Obtain confirmation from the Board that the WG has identified the right topics for inclusion in the Discussion Paper.

Discussion of Approach

1. The WG considered each of the Board’s recommendations as included in the Decision Summary above.

2. To identify issues with respect to quality control, the WG revisited findings and comments received from the ISA Implementation Monitoring Project and the Framework for Audit Quality. The WG also considered issues identified through other outreach, including a teleconference with the International Forum of Independent Audit Regulators (IFIAR), other offline discussions with regulators and feedback from firms (with respect to outsourcing) and small-and medium-sized practices.
3. Based on this research, the WG’s overall interpretation of the issues with ISQC1 include that:

- Due to significant changes in the environment in which the standard operates, it needs to be updated to reflect the current audit environment;
- Different to the ISAs, it is not a risk based standard and that users do not believe that ISQC 1 is scalable.

The WG did not identify any additional topics within the project other than those previously identified and discussed. 

4. The WG determined that to obtain a more broad range of views of the issues with, and the application of, ISQC 1, a two-pronged approach would be appropriate. The first being to solicit views through a Discussion Paper from a broad range of the stakeholders and the second being a survey targeting the small- and medium-sized practices to better understand their specific issues. The WG determined that it was appropriate to target small- and medium-sized practices through a survey, to try to solicit a higher rate of response from this group than previously received on discussion papers.

5. In the Discussion Paper, the WG intends to highlight the issues identified to date and the potential short-term and a long-term actions that could address the issues. The WG will also seek input to identify other issues relative to quality control and their relative importance, and views as to the most appropriate methods to address these issues (for example, amendments to the standards or guidance issued by Staff). The WG will use the comments from the Discussion Paper and will continue to consider those previously received from the ISA Implementation Monitoring project to define the scope of the project proposal.

6. The table presented in Agenda Item 3-B outlines the specific quality control topic, the WG’s understanding of these issues relative to each topic and the potential actions to address the issue. The actions have generally been classified into those that can be achieved in the short-term and those that can be achieved in the long-term. The WG proposes that the short-term and long-term solutions would commence in parallel. The WG intends the content of this table to form the basis of the Discussion Paper.

**Proposed Timing of the Discussion Paper**

7. Subject to the Board’s approval of the proposed approach, the WG believes that it is important to move forward on a timely basis with the Discussion Paper and therefore intends to table a draft Discussion Paper at the June 2015 Board meeting. The WG will incorporate comments and edits provided by the Board into an updated version of the Discussion Paper to be issued in the second half of July, with a 90 day comment period ending in the second half of October.

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2 For detail of previous Board agenda items discussing these issues, see June 2014 Board Meeting Agenda Item 6 [http://www.ifac.org/auditing-assurance/meetings/new-york-usa-6](http://www.ifac.org/auditing-assurance/meetings/new-york-usa-6) and December 2014 Board Meeting Agenda Item 4 [http://www.ifac.org/auditing-assurance/meetings/new-york-usa-8](http://www.ifac.org/auditing-assurance/meetings/new-york-usa-8)
## Matters for IAASB Consideration

1. The IAASB is asked whether it agrees with the WG’s approach to:
   - Obtain further information from the small- and medium-sized practices via a targeted survey to better inform the project proposal;
   - Obtain additional information on the issues and views on the proposed actions from other stakeholder groups through a Discussion Paper, exposed for public comment.

2. The IAASB is asked whether it agrees that:
   - The issues with respect to each of the topics are sufficiently reflected;
   - The approach to the topics as presented in Agenda Item 3-B is appropriate.