Summary of Significant Comments and Task Force Recommendations—Exposure Drafts of Proposed ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements” and Proposed ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”

Introduction

1. The closing date for comments on the exposure draft (ED) of proposed ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements,” (ED-ISA 220) and proposed ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,” (ED-ISQC 1) was December 31, 2007. A total of forty-seven comment letters have been received. A list of the respondents is included in the Appendix. In addition, a comment letter was received from IOSCO on May 5, 2008. All respondents’ letters can be accessed on the IAASB website at http://www.ifac.org/Guidance/EXD-Comments.php?EDID=0086&Group=All+Responses.

2. Generally, respondents expressed support for the proposed redrafted ISA and ISQC. Many proposed further improvements in addition to providing input on the questions posed in the explanatory memorandum.

3. This paper summarizes the significant issues raised by respondents to the EDs, and how the Task Force proposes they be addressed in the revised drafts. The Task Force has not had an opportunity to fully consider the comments in the late response. Where there is a matter raised by this respondent that relates to an issue addressed in this Issues Paper, the Task Force has included a reference to the respondent’s letter. Issues that the Task Force has not had an opportunity to fully consider are listed at the end of this document in Section N.

4. The significant issues raised are presented as they relate to:
   - Both ISA 220 and ISQC 1
   - Unique to ISA 220 and
   - Unique to ISQC 1.

SIGNIFICANT ISSUES RELATED TO BOTH ED-ISA 220 AND ED-ISQC 1

A. Engagement Quality Control Review

A.1 Date of Completion of Engagement Quality Control Review [Date of Report]

5. The explanatory memorandum issued with the ED explained the IAASB’s proposed change from the term “issuance of the auditor’s reports” to “date of auditor’s report” in proposed ISA 220 (Redrafted) and “date of report” in proposed ISQC 1 (Redrafted). This change was made to align proposed ISA 220 (Redrafted) with ISA 700.1 ISA 700 does not contain a

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definition for “issuance of the auditor’s report,” but the term was in extant ISA 220. Although ISQC 1 applies to reports other than just audit reports, the same change was proposed as these two standards are closely linked.

6. Nearly half of the respondents who specifically commented on this item agreed with the proposed change with no qualifications. The remaining respondents either disagreed with the IAASB’s proposed change or agreed in theory but raised issues regarding the application of the changed term. For example:

- The engagement quality control review may identify matters that need to be further resolved by the engagement team whereby the auditor’s report date may need to be reconsidered.
- There may be matters to be discussed with the entity’s audit committee. In such cases, it would not be practicable (or appropriate) for all aspects of the engagement quality control review to have been completed before the date of approval of the financial statements (and thereby the date of the auditor’s report), as the engagement team would need to report the results of the discussion of issues to the engagement quality control reviewer.
- “Completion” of the activities in the engagement quality control review may not always occur prior to the dating of the auditor’s report, in that the documentation evidencing the review may be finalized after the dating of the report, as the administrative aspects of file assembly are completed.

7. In addition to the comments provided in response to this item in the explanatory memorandum, specific comments were made in regards to paragraphs where the “date of report” is used. The respondents raised concerns that this change may be impractical in practice for events occurring after the date of the auditor’s report and before the report is issued. In these cases, the respondents requested guidance and a short reasonable time after the date of the report and before its release to complete required quality control procedures.

8. As there was no consensus on this issue, the Task Force debated the consequences of reverting to the extant wording in the standards. If the standards revert to the extant wording, ISA 220 (Redrafted) will not align with ISA 700, thereby not achieving the IAASB’s original intent. One possible solution could be to develop a definition for “date of issuance” as suggested by two respondents. The Task Force believes that creating a definition for “date of issuance” that is used only in the quality control standards may potentially lead to significant implications for other ISAs. The Task Force believes this is beyond the clarity mandate. Another option would be to revert to the extant wording and take no further action. The term is not specifically defined but appears to be commonly understood in practice and is currently used in complying with the extant standards. The Task Force’s view is that the responses do not appear to indicate that there is a problem in applying the requirements in the extant standards in the absence of a definition of the term “date of issuance.”

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2 ACCA, APESB, HKICPA, IDW, KPMG
3 AICPA, CICA, CPAB, JICPA
4 EYG, GT, SAICA
5 AICPA, GT
9. The IAASB proposed the change in the belief that it would add clarity. However, given the responses received on exposure, the change appears to have created confusion. As the proposed change did not result in overall improved clarity and there was not an overwhelming majority that indicated a change is required, the Task Force proposes to return to the extant wording that refers to the “issuance of the report” rather than to the “date of the report.”

See:
- Paragraphs 6(b), 16, 18(c), 25(b), A16 and A21 of ISA 220 (Redrafted) in Agenda Item 3-B
- Paragraphs 12(c), 36(d), 43(b), 45(b) and A42 of ISQC 1 (Redrafted) in Agenda Item 3-D

Matter for IAASB Consideration
Does the IAASB agree with the Task Force’s proposal to revert to the extant wording with no further action required?

A. 2 Definition of Engagement Quality Control Reviewer

10. Paragraphs ED-ISA 220.6(c) and ED-ISQC 1.12(d) contained definitions of “engagement quality control reviewer,” which included the phrase “none of whom is part of the engagement team.” Several respondents were of the view that inclusion of that phrase is inappropriate for small and medium practices (SMPs), especially for sole practitioners. The suggestions include: remove the words from the definition or allow flexibility to smaller practices.

11. Paragraph 60 in extant ISQC 1 stated “the firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report.” ISQC 1 ED paragraph 43 is substantially the same as that in the extant. The extant ISQC 1 did not specifically require (i.e. in bold text) that the engagement quality control reviewer not be part of the engagement team but the Task Force felt that an objective evaluation could not be accomplished if the engagement quality control reviewer was part of the engagement team. The phrase was therefore included in the definition to add clarity to the underlying requirement.

12. However, the insertion of this phrase has clearly created issues not perceived to be in the extant standard as it imposes a requirement that was not perceived to be in the extant. Consequently, the Task Force proposes to revert to the extant wording and remove this phrase from the definition of the “engagement quality control reviewer.”

See:
- Paragraph 6(c) of ISA 220 (Redrafted) in Agenda Item 3-B
- Paragraph 12 (d) of ISQC 1 (Redrafted) in Agenda Item 3-D

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6  CNCC, FEE, ICAEW, IBR-IRE
Matter for IAASB Consideration
Does the IAASB agree with the Task Force’s position to revert to the extant definition of “engagement quality control reviewer?”

A.3 ENGAGEMENT QUALITY CONTROL REVIEW PROCEDURES

13. Paragraph 40 of extant ISA 220 and paragraph 65 of extant ISQC 1 listed considerations for an engagement quality control review for audits of financial statements of listed entities that may also be applied, depending on the circumstances, to other engagements. The IAASB was of the view that the EDs should specify as part of a new requirement three of those considerations that it believed were relevant in all cases for listed entities. These are in paragraphs ED-ISA 220.22 and ED-ISQC 1.45. The remaining considerations were retained as matters that may be considered in any engagement quality control review and not just limited to reviews of listed entities.

14. A respondent\(^7\) was of the view that the proposed elevations departs from a principles-based approach and should be moved to application material as it is the engagement quality control reviewer who defines the scope of the review based on the circumstances of each engagement. Others\(^8\) state that the requirement should apply to all engagements that are subject to an engagement quality control review, and not just for audits of financial statements of listed entities. In addition, one respondent\(^9\) suggests that the IAASB should consider mandating engagement quality control reviews not only for listed entities but, more broadly, for audits of public interest entities. This suggestion would have an impact on all requirements relating to the engagement quality control review.

15. The Task Force believes it has appropriately split the extant material between requirements and Application and Other Explanatory Material. The Task Force does not propose to expand the requirements beyond the three requirements for listed entities as this would be beyond the clarity mandate. However, the Task Force is proposing to add consideration of these three points as an option in the Application and Other Explanatory Material. These changes will align the application material closer to the extant paragraphs.

See:
- Paragraphs 21 and A20 of ISA 220 (Redrafted) in Agenda Item 3-B
- Paragraphs 39 and A41 of ISQC 1 (Redrafted) in Agenda Item 3-D

Matter for IAASB Consideration
Does the IAASB agree with the Task Force’s position (as noted in paragraph 15 above), that:
(a) no changes are required to the elevated material in ISA 220 and ISQC 1 and
(b) the related application material in ISA 220 and ISQC 1 be re-drafted to align more closely with the extant?

\(^7\) DTT
\(^8\) APB, GAO, IRBA
\(^9\) EC
A.4 APPLICATION OF REQUIREMENTS FOR ENGAGEMENT QUALITY CONTROL REVIEWS IN AN SMP ENVIRONMENT

16. The Task Force believes, based on the number and types of comments related to engagement quality control reviews and reviewers, that not all respondents understand that engagement quality control requirements apply, in addition to audits of listed entities, only to applicable engagements specified by a firm. The issue was raised primarily in relation to engagements performed by sole practitioners or other small practices (SMPs). It is the Task Force’s belief that if an SMP is auditing a listed entity or has determined that another engagement warrants an engagement quality control review, then all requirements related to the performance of an engagement quality control review are relevant and should be applied. However, if an SMP undertakes no such engagements, then the engagement quality control review requirements are not relevant and therefore do not apply.

17. The Task Force believes that added guidance to clarify this point would be useful. Accordingly the following changes are proposed:

(a) expand the definition of “engagement quality control review” in paragraph 6(b) of ISA 220 (Redrafted) and 12(c) of ISQC 1 (Redrafted) and slightly amend paragraphs 18 of ISA 220 (Redrafted) and 36 (c) of ISQC 1 (Redrafted), to more clearly indicate that a firm may not have any audits for which the firm has determined that an engagement quality control review is required; and

(b) add application material under the heading “Considerations Specific to Smaller Entities” in paragraph A24 of ISA 220 (Redrafted).

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<td>Does the IAASB agree with the Task Force’s proposal to add guidance as assistance to SMPs, related to when requirements for an engagement quality control reviews may not apply?</td>
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B. DEFINITION OF ENGAGEMENT TEAM

18. There was general support from respondents to align the definition of engagement team in ISQC 1 (Redrafted) and ISA 220 (Redrafted) with that in the IFAC Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). A respondent suggested that as this definition is pivotal, issuance of these standards should be deferred until the definition is finalized.

19. The IESBA has finalized their definition. The Task Force proposes to use this definition in the standards. Engagement team is now defined as: “All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or a network firm.”
20. Several respondents\(^{11}\) indicated clarification is required in regards to defining “auditor’s external experts” (which was part of the definition in the ED and will change to “external experts” in the proposed definition), in order to determine when a person is “part of the engagement team.” The Task Force believes that ISA 220 (Redrafted) and ISQC 1 (Redrafted) should provide the requested clarification.

21. In ISA 220 (Redrafted) and in ISQC 1 (Redrafted), the Task Force has expanded the definition of engagement team by adding the definition for “external expert” as issued by the IESBA and is consistent with the principle in the definition contained in proposed ISA 620 (Revised and Redrafted).\(^{12}\) External experts is defined as: “A person or organization possessing specialized skills, knowledge and experience in a field other than accounting or auditing who is engaged, not employed, by the firm, or a network firm, to assist the professional accountant to obtain sufficient appropriate evidence.” In addition, the Task Force has provided examples in ISA 220 (Redrafted) of who may be on the team at the engagement level.

See:
- Paragraphs 6 (d) and A9 of ISA 220 (Redrafted) in Agenda Item 3-B
- Paragraph 12 (e) of ISQC 1 (Redrafted) in Agenda Item 3-D

**Matter for IAASB Consideration**
Does the IAASB agree with the Task Force’s proposal to provide additional guidance and clarification for defining “external experts” as they relate to the engagement team in ISA 220 (Redrafted)?

### C. DEFINITIONS - OTHER

#### C.1 DEFINITION OF “RELEVANT ETHICAL REQUIREMENTS”

22. The definition of “relevant ethical requirements” in paragraphs ED-ISA 220.6(n) and ED-ISQC 1.12(p) contains a reference to the IFAC Code. One respondent\(^{13}\) commented that the IFAC Code of Ethics should not be used as the only possible benchmark. Their view is that ISAs should remain neutral in relation to ethics and independence rules.

23. The definition in the extant standards contained references to the IFAC Code. The Task Force believes that any change would not be specific to these standards and would be beyond the clarity mandate. The Task Force proposes no change to the definition.

**Matter for IAASB Consideration:**
Does the IAASB agree with the Task Force’s position that the definition of “relevant ethical requirements” should not be changed?

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\(^{11}\) CNCC, FEE, IDW, NIVRA, WPK

\(^{12}\) Proposed ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert.” The definition will be conformed to the final ISA.

\(^{13}\) EC
C.2 DEFINITIONS OF “FIRM”, “NETWORK” AND “NETWORK FIRM”

24. In the exposure drafts of ISA 220 (Redrafted) and ISQC 1 (Redrafted), “firm” was defined as: “A sole practitioner, partnership, corporation or other entity of professional accountants” as defined in the IESBA’s Code of Ethics issued in June 2005 and in the extant standards.

There is a revised definition in the IESBA’s Code of Ethics that becomes effective for assurance reports dated on or after December 15, 2008 defining “firm” as follows:

(a) A sole practitioner, partnership or corporation of professional accountants;
(b) An entity that controls such parties through ownership, management or other means; and
(c) An entity controlled by such parties through ownership, management or other means.

The new definition was not in the EDs and therefore there are no comments from respondents that would indicate if there are any unintended consequences in applying the standards with the revised definition. The Task Force believes that for consistency, definitions of terms that are used in both IIAASB and IESBA standards should be aligned and is proposing to change the definition to align with the IESBA’s Code of Ethics. However, the Task Force is concerned that there may be consequences in introducing the new definition for a critical term that is used throughout the quality control standards. The Board’s views on the appropriateness of changing the definition are welcome as input to the Task Force’s further consideration.

25. In the exposure drafts of ISA 220 (Redrafted) and ISQC 1 (Redrafted), the terms “network” and “network firm” were defined following the IESBA’s Code of Ethics revisions made to these terms effective for assurance reports dated on or after December 15, 2008.

26. A respondent\textsuperscript{14} commented that the definition of “network” is not appropriate in the body of the ISAs. As in group audits, a number of varying situations may prevail, depending on the requirements applicable to the group auditor and the component auditors. The suggestion is to remove the definition.

27. The Task Force believes that removing the definition of “network” and “network firm” is beyond the clarity mandate for these standards and proposes to retain them. The Task Force also believes that for consistency, the definitions of “network” and “network firm” should be the same in the standards of both the IESBA and the IIAASB and proposes to use the revised IESBA definitions.

See:
- Paragraph 6 (e), (i) and (j) of ISA 220 (Redrafted) in Agenda Item 3-B
- Paragraph 12 (f), (j) and (k) of ISQC 1 (Redrafted) in Agenda Item 3-D

\textbf{Matter for IIAASB Consideration}

Does the IIAASB agree with the Task Force’s proposals that:

\textsuperscript{14} EC
SIGNIFICANT ISSUES RELATED TO ISA 220

D. OBJECTIVE OF ISA 220

28. Twenty-three out of thirty-six respondents were supportive of the proposed objective. Some respondents\(^\text{15}\) were of the view that the objectives for ISA 220 (Redrafted) and ISQC 1 (Redrafted) should be aligned in that ISA 220 (Redrafted) should include a part (b) similar to ISQC 1 (Redrafted) that states “reports issued by the firm or engagement partners are appropriate in the circumstances.” The Task Force agrees that the objectives should be aligned in this regard.

29. Some respondents\(^\text{16}\) questioned using the term “reasonable assurance” in the objective for ISA 220 (Redrafted). One view is that at the engagement level the auditor should implement quality control procedures to ensure the audit complies with professional standards and regulatory requirements. In addition, several respondents\(^\text{17}\) felt that as currently worded, the objective could be confused with the objective of an auditor in obtaining reasonable assurance as it relates to the audit. The respondents believed that the objective should more directly deal with implementing quality control procedures at the engagement level.

30. Although other respondents did not object to using the term “reasonable assurance”, the Task Force has noted that the term as it relates to quality control procedures at the engagement level was not in extant ISA 220. The Task Force believes that the concept of “reasonable assurance” is more appropriate in the context of a system of quality control as addressed by ISQC 1 (Redrafted), than for the responsibilities at the engagement level as addressed in ISA 220 (Redrafted). Having the same “test” for both ISQC 1 (Redrafted) and ISA 220 (Redrafted) runs the risk of the engagement level responsibilities being thought to have diminished. The Task Force agrees that the objective should be revised for clarity and proposes to remove the reference to “reasonable assurance.” With this change, the only remaining references in ISA 220 (Redrafted) to “reasonable assurance” are now in relation to a firm’s system of quality control. The Task Force proposes that the objective be reworded as follows:

“The objective of the auditor is to implement appropriate quality control procedures at the engagement level to establish that:

(a) The audit complies with professional standards and regulatory and legal requirements; and

(b) The auditor’s report issued is appropriate in the circumstances.”

\(^{15}\) AICPA, BDO, CGA-Cda, FEE, IBR-IRE, IDW, WPK
\(^{16}\) APB, EC, IOSCO
\(^{17}\) CEBS, CPAB, CGA-Cda, GT, IOSCO
Matter for IAASB Consideration
Does the IAASB agree with the revised objective?

E. REFERENCES TO ISQC 1 (REDFRADED)
31. Two respondents 18 stated that references to ISQC 1 (Redrafted) in ISA 220 (Redrafted) should be restricted to Application Material as not all jurisdictions that adopt ISAs will be subject to ISQC 1 (Redrafted).

32. Two respondents 19 commented on the fact that ED-ISA 220 paragraph 25’s first sentence describes what ISQC 1 (Redrafted) requires. Their concern is that this sentence placed in the body of requirements of ISA 220 (Redrafted) may create ambiguity between the interrelationships of the two standards. Suggestions were to move the sentence to application material or delete the sentence.

33. The Task Force agrees with these observations and accordingly proposes to move all references to ISQC 1 (Redrafted) to Application and Other Explanatory Material. See paragraphs 2, 3, 23, A1 and A27 of ISA 220 (Redrafted) in Agenda Item 3-B.

Matter for IAASB Consideration
Does the IAASB agree with the Task Force’s approach to move all references to ISQC 1 to Application and Other Explanatory Material?

F. REVIEW OF ELEVATED MATERIAL
F.1 RELEVANT ETHICAL REQUIREMENTS, ED-ISA 220 PARAGRAPHS 8 AND 9
34. Some respondents 20 did not support elevating parts (a) and (b) in paragraph ED-ISA 220.8. They noted this material is too prescriptive and the first sentence of paragraph 8 sufficiently and clearly provides the overall requirement. Regarding the first sentence, two respondents 21 suggested that it be removed. One noted that the requirement to “evaluate whether members of the engagement team have complied with relevant ethical requirements” is a firm level responsibility.

35. The Task Force agrees with these comments and proposes that the text in paragraph ED-ISA220.8(a)-(b), appropriately amended, be returned to application material as guidance on the requirement stated in the first sentence of ED paragraph 8. The first sentence has, however been retained as it is bold text in the extant. In the extant, the auditor’s requirement is to “consider whether members… have complied with relevant ethical requirements.” In drafting the ED, the IAASB felt the term “consider” was not sufficiently descriptive and used.

18 APB, EC
19 IRBA, PWC
20 ACCA, EYG, JICPA
21 AICPA, GT
the term “evaluate” instead. Several commentators thought the term “evaluate” is too definitive. After discussing various options, including “evaluate”, “consider” and “determine,” the Task Force settled on “shall be satisfied that members...have complied with relevant ethical requirements.”

See paragraphs 8 and A4 of ISA 220 (Redrafted) in Agenda Item 3-B.

36. Some respondents\(^2\) did not support the elevation of ED paragraph 9, suggesting that it seemed unnecessarily detailed and that it duplicated other existing requirements (for example independence in ED paragraph 10 and compliance with professional standards in ED paragraph 13).

37. The Task Force believes that the requirement in ED paragraph 9 provides a clear, next logical step to ED paragraph 8. The Task Force does not believe that it is adequately covered in other requirements. ED paragraph 10 does not cover all ethical requirements and ED paragraph 13 is very broad. Accordingly, the Task Force proposes to retain the requirement.

**Matter for IAASB Consideration**

Does the IAASB agree with the Task Force’s proposals to:
(a) move ED paragraph 8 parts (a) and (b) to Application and Other Explanatory Material and use the term “shall be satisfied that” to describe the required action; and
(b) retain ED paragraph 9 as a requirement?

**F.2 ENGAGEMENT PERFORMANCE- REVIEW, ED-ISA 220 PARAGRAPHS 15 AND 17:**

38. Twelve respondents\(^2\) commented on ED paragraph 15 regarding review responsibilities. A few respondents\(^4\) were of the view that the paragraph should be moved to Application and Other Explanatory Material. Others\(^5\) did not specifically object to the elevation but raised concerns that it is procedural, does not follow a risk based approach and creates a requirement that was not in the extant. The interpretation of some respondents is that a review of all audit work is now required including for example, documentation that is administrative in nature, inconsequential to the audit opinion, or is prepared by a senior member of the engagement team.

39. The Task Force proposes to retain the requirement but agrees that clarity is required and accordingly has redrafted the requirement to be less procedural in nature. See paragraph 15 of ISA 220 (Redrafted) in Agenda Item 3-B.

40. Five respondents commented on ED paragraph 17. One respondent\(^6\) questioned the value of including this requirement as it overlaps the requirement in ED paragraph 16. Others\(^7\) requested guidance to support this requirement as to the extent of the review required.

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22 ACCA, APB, EC
23 ACCA, AICPA, APB, EC, FEE, GT, IBR-IRE, ICAEW, ICAS, JICPA, PwC, SAICA
24 ACCA, APB, JICPA
25 IBR-IRE, FEE, ICAEW, ICAS, PwC
26 ACCA
27 APB, EYG KPMG, SAICA
41. The Task Force agrees that the requirement is adequately covered in ED paragraph 16 and proposes that the text of ED paragraph 17, appropriately amended, be moved to application material to support ED paragraph 16. The Task Force has not defined the extent of the review as it believes this is a matter of professional judgment.

See paragraph A17 of ISA 220 (Redrafted) in Agenda Item 3-B.

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<td>(a) redraft ED paragraph 15 to be less procedural in nature; and</td>
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<td>(b) move ED paragraph 17 to Application and Other Explanatory Material?</td>
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F.3 ENGAGEMENT QUALITY CONTROL REVIEWER, ED-ISA 220 PARAGRAPH 23

42. ED paragraph 23 states: “The engagement partner shall remain responsible for the audit engagement and its performance, notwithstanding the involvement of the engagement quality control reviewer.”

43. One respondent (EC) suggested that the requirement be deleted as it does not add to or reduce the auditor’s responsibilities in any situation.

44. The Task Force agrees that this is adequately covered in other requirements but rather than delete it, proposes to move the text with appropriate amendments to application material.

See paragraph A22 of ISA 220 (Redrafted) in Agenda Item 3-B.

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G. RESPONSIBILITIES IN ISA 220

45. A respondent28 suggested that ISA 220 (Redrafted) should seek to better distinguish between the firm’s and partner’s responsibilities and staff’s duties. The suggestion is that the word “responsibility” not be associated with the words “personnel,” “engagement team” or that the responsibilities should be more clearly separated. Suggestions were provided for changes to a number of requirement paragraphs to clarify the responsibilities. The Task Force believes that the proposed changes would go beyond the clarity mandate and should not be considered at this stage.

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<td>Does the IAASB agree with the Task Force’s proposal that the suggestions to provide a clearer distinction of responsibilities is beyond the clarity mandate and should therefore not be considered at this stage?</td>
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28 EC
SIGNIFICANT ISSUES RELATED TO ISQC 1 (REDAFTED)

H. OBJECTIVE OF ISQC 1 (REDAFTED)

46. Almost all of the respondents who commented on this item were supportive of the objective. A few respondents suggested that ISQC 1 (Redrafted) covers more than “establishing a system of quality control” and suggested that the objective be expanded to cover the concepts of “designing and operating”, “maintaining” or “operating effectively.” The Task Force is of the view that the term “establish” is appropriate as it encompasses the elements of the system, one of which is monitoring which would ensure the system is operating effectively. The Task Force does not believe it is necessary to add these elements into the objective to add clarity. See paragraph 11 of ISQC 1 (Redrafted) in Agenda Item 3-D.

I. APPLICATION OF ISQC 1 (REDAFTED) TO ALL FIRMS

47. In the Explanatory Memorandum, the IAASB explained that it proposed that the authority of ISQC 1 (Redrafted) be described within the Introduction section of ISQC 1 (Redrafted). Five respondents agreed with the approach taken by the IAASB. Seven respondents have issues with the fact that the standard permits no departure from a requirement thereby making compliance with the requirements an absolute, even for SMPs. The view is that there is a need for flexibility in complying with the requirements of ISQC 1 (Redrafted), especially for SMPs.

48. The comments quote the Preface and propose that ISA 200 (Revised and Redrafted), that permit auditors to depart from a relevant requirement in exceptional circumstances and suggest that ISQC 1 (Redrafted) take a similar approach. There appears to be a misinterpretation of the exemption allowed in proposed ISA 200 (Revised and Redrafted) as it relates to ISQC 1 (Redrafted). Proposed ISA 200 (Revised and Redrafted) states: “In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.” Departures are expected only in “exceptional circumstances” and even in those circumstances, the aim of the requirement must still be complied with. This does not provide for the flexibility in compliance with the actual intent of the requirement itself. For example, the monitoring requirements in ISQC 1 (Redrafted) are intended to be applicable for firms of all sizes. The size of the firm does not itself give rise to an exceptional circumstance permitting a departure from an ISQC 1 (Redrafted) requirement.

49. The Explanatory Memorandum explained that no provision was made for departure from a requirement. The IAASB reconfirmed this position in approving the ED since the generally principled nature of the requirements are not expected to give rise to circumstances in which

29 APB, CEBS, GT, IOSCO
30 CICA, CPAB, GT, HKICPA, KPMG
31 ACCA, CNCC, FEE, IBR-IRE, ICAEW, IDW, WPK
32 Quoted from the most recent draft of proposed ISA 200 (Revised and Redrafted), subject to change upon finalization.
departure would be appropriate. A respondent noted that ISQC 1 (Redrafted) relates to establishing policies and procedures and high level actions and so a provision for departure, as discussed in proposed ISA 200 (Revised and Redrafted) is not necessary. In addressing other comments by respondents, the Task Force has noted that in a few cases, the newly elevated requirements were not of a generally principled nature or a high level action and consequently has redrafted or moved them to application material (refer to Issues J.1, J.2 and J.4). With these changes, the Task Force continues to hold the view that the requirements in ISQC 1 (Redrafted) are generally principled in nature and therefore does not propose permitting a departure from a requirement in the authority of ISQC 1 (Redrafted).

50. In addition to responding directly to this question posed in the Explanatory Memorandum, several respondents expressed a general concern at the number of elevated requirements in both standards. The view is that the new requirements will place an unreasonable burden on sole practitioners and other SMPs. In addition to requesting flexibility in compliance with the requirements and a provision for departure from compliance with requirements, the respondents made the following suggestions to assist smaller practitioners in applying the standards:

(a) Provide additional practical guidance in the standards on how to apply the requirements in the context of a smaller practice.

(b) Produce the proposed IFAC guide to quality control for smaller practitioners on a timely basis.

(c) Limit the scope of ISQC 1 (Redrafted) to assurance engagements and develop a separate standard for other types of engagements.

51. The Task Force believes compliance with the requirements in ISQC 1 (Redrafted) applies to all firms regardless of size, as it did in the extant. ED paragraphs 4 and 14 acknowledge that ISQC 1 (Redrafted) is applied taking into account the circumstances of the firm and ED paragraph 4 provides flexibility based on the size and operating characteristics of the firm. ED paragraph 14 explains that compliance need only be with requirements that are relevant in the circumstances of the firm.

52. The Task Force is of the view that there is sufficient flexibility for SMPs provided in ED paragraphs 4 and 14. One respondent suggests that guidance on how to apply these two paragraphs would be helpful. The Task Force agrees. As these paragraphs are new material and in response to the comments, the Task Force proposes the following:

(a) Add application material referenced to paragraphs 4 and 14, under “Considerations Specific to Smaller Practices” that provides examples of where requirements may not be relevant and therefore compliance not required.

(b) Amend the phrase “nature of the policies and procedures” in paragraph 4 to read “nature and extent of policies and procedures” and added application material that provides an example.

33 KPMG
34 ACCA, FEE, IBR-IRE, ICAEW, ICJCE, NIVRA
35 NIVRA
(c) No redrafting of the standards by the addition of implementation guidance on the application of requirements for SMPs. This is considered by the Task Force to go beyond the clarity mandate. Consideration should be given to a future IAASB project to develop this implementation guidance.

See paragraphs 4, 14, A1, and A2 of ISQC 1 (Redrafted) in Agenda Item 3-D.

Matter for IAASB Consideration

Does the IAASB agree:
(a) that no change be made to the Authority of this ISQC 1 to permit a departure from a requirement;
(b) with the addition of application material to assist SMPs; and
(c) that providing implementation guidance specific to SMPs on the application of the requirements would be beyond the clarity mandate?

J. REVIEW OF ELEVATED MATERIAL

J.1 ELEMENTS OF A SYSTEM OF QUALITY CONTROL, ED-ISQC 1 PARAGRAPHS 17-18

53. Several respondents\(^\text{36}\) questioned the newly elevated material in these paragraphs (the last sentence in ED paragraph 17 and all of ED paragraph 18) stating that they are overly prescriptive. Another view is that these requirements now do not benefit from guidance. The respondents\(^\text{37}\) requested application guidance on how SMPs would comply.

54. The Task Force agreed that the newly elevated material is procedural in nature that supports the requirement in the first part of ED paragraph 17. Rather than retaining them as requirements and adding even more detailed guidance, the Task Force has moved the last sentence in ED paragraph 17 and ED paragraph 18, appropriately amended to application material.

See paragraph A3 of ISQC 1 (Redrafted) in Agenda Item 3-D.

Matter for IAASB Consideration

Does the IAASB agree with the Task Force’s proposal (as noted in paragraph 54 above) to move the elevated material to Application and Other Explanatory Material?

J.2 LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM, ED-ISQC 1, PARAGRAPHS 20-22

55. Comments received indicate that there is an issue with how the material in the extant was redrafted in the ED. The extant paragraph was split between application material and these three requirements. The respondents felt the material is unclear. One view\(^\text{38}\) stated that the relationship of these paragraphs to the sub-heading is not clear. Another view\(^\text{39}\) indicated it may have resulted in a change of emphasis. Others\(^\text{40}\) requested guidance. One respondent\(^\text{41}\)

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\(^36\) AICPA, APB, GT, PwC
\(^37\) APESB, FEE, IBR-IRE, ICAEW, IDW, SAICA, WPK
\(^38\) JICPA
\(^39\) EYG
\(^40\) FEE, ICAEW, IDW
notes that the requirements relate to policies and procedures designed to support the requirement in ED paragraph 19 and therefore should be moved to application material.

56. The Task Force agrees that greater clarity is required. The Task Force also agrees that the ED paragraph 19 is sufficient and clearly provides the overall requirement. Accordingly, the Task Force proposes to move the text from ED paragraphs 20-22, with appropriate amendments to application material as supporting guidance to ED paragraph 19. The material will revert to its extant wording.

See paragraph A5 of ISQC 1 (Redrafted) in Agenda Item 3-D.

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<td>Does the IAASB agree with the Task Force’s proposal to move the material in ED-ISQC 1 paragraphs 20 to 22 to Application and Other Explanatory Material?</td>
</tr>
</tbody>
</table>

J.3 MONITORING: ED-ISQC 1 PARAGRAPHS 55 AND 64

57. Some respondents were of the view that the elevated material in ED paragraph 55 (b)-(c) and ED paragraph 64 will be too onerous for small practices. This requires sole practitioners to use external parties both for inspecting engagements and investigating complaints and allegations as covered under “monitoring” in the standard.

58. The Task Force continues to believe the intent of the extant is that in all cases, those involved in inspecting the engagements not be involved in either performing the engagement or the engagement quality control review. The Task Force proposes no change to ED paragraph 55 (b) and (c). However, on further review, the Task Force believes that a partner who is otherwise not involved in performing the engagement may, where practicable, supervise the investigation of complaints and allegations. Accordingly, the text of ED paragraph 64, appropriately amended has been moved to application material.

See paragraph A69 of ISQC 1 (Redrafted) in Agenda Item 3-D.

<table>
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<tbody>
<tr>
<td>Does the IAASB agree with the Task Force’s proposal to retain paragraphs ED 55 (b) and (c) as requirements and to move ED paragraph 64 to Application and Other Explanatory Material?</td>
</tr>
</tbody>
</table>

J.4 OTHER

59. Changes to the following paragraphs were made in ISQC 1 (Redrafted) to align to the proposed changes made in the equivalent paragraphs of ISA 220 (Redrafted):

(a) ED paragraph 39 aligned with the treatment of ED paragraph 15 in ISA 220 (Redrafted) (ISSUE F.2)

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41 APB
42 AICPA, APAB, CNCC, IBR-IRE, ICAEW, IDW, WPK
43 APAB, APB, CICA, ICABC, ICAEW
(b) ED paragraph 42 aligned with the treatment of ED paragraph 23 in ISA 220 (Redrafted) (ISSUE F.3)

**Matter for IAASB Consideration:**
Does the IAASB agree with the Task Force proposals to make changes in ISQC 1 (Redrafted) to align with the proposed changes in the equivalent paragraphs in ISA 220 (Redrafted)?

**K. APPLICATION AND OTHER EXPLANATORY MATERIAL**

60. Several respondents\(^44\) expressed concern that replacing the phrase “the firm considers” in the extant grey text with “may” or “may consider” in the application material in the ED, has now weakened the standard. The opinion is that this indicates that all the proposed firm actions in these paragraphs are optional.

61. ED-ISQC 1 paragraph 8 provides the authority to application material. It was aligned with material in the Exposure Draft of proposed ISA 200 (Revised and Redrafted). The following authority to application material is drawn from the most recent draft of proposed ISA 200\(^45\) (shading added for emphasis):

> “Where necessary, the application and other explanatory material provides further explanation of, the requirements and guidance for carrying them out. In particular, it may:

> • Explain more precisely what a requirement means or is intended to cover.

> • Include examples of policies and procedures that may be appropriate in the circumstances.

> While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements.”

62. The Task Force has reviewed all application paragraphs where the above phrases have been used and has redrafted some of them to strengthen the tone. However, it is the Task Force’s position that these actions are not requirements and are optional based on the judgment of the firm as to whether they are appropriate in the circumstances. The Task Force feels that these are examples or guidance in support of the related requirement. To elevate these paragraphs would render the standard too prescriptive.

63. The Task Force continues to believe that consistency in the authority attached to application and other explanatory material between this ISQC and proposed ISA 200 (Revised and Redrafted) is desirable. Consequently, any change in this material would be dependent on changes to proposed ISA 200 (Revised and Redrafted) and would be beyond the clarity mandate of redrafting ISQC 1 (Redrafted). **Changes made to paragraphs A12 and A23 of ISQC 1 (Redrafted) in Agenda Item 3-D.**

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\(^{44}\) APB, CEBS, Basel, CPAB

\(^{45}\) Subject to change on finalization of proposed ISA 200 (Revised and Redrafted).
Matter for IAASB Consideration:
Does the IAASB agree with the Task Force:
(a) that the authority attached to application and other explanatory material in ISQC 1 (Redrafted) should be aligned with that in proposed ISA 200 (Revised and Redrafted)?
(b) approach and proposed drafting changes to the cited paragraphs?

L. Elimination of Present Tense Statements

64. Two respondents 46 noted that some present tense statements remain in application material.
65. The Task Force has reviewed the cited paragraphs and determined that they are examples or guidance in support of related requirements and as such are appropriately placed in application or other explanatory material. Accordingly, the present tense statements have been eliminated.

See paragraphs A17, A30, A35, A40, A45, and A57 of ISQC 1 (Redrafted) in Agenda Item 3-D.

Matter for IAASB Consideration:
Does the IAASB agree with the Task Force’s position that these paragraphs are not requirements and accordingly should be redrafted to eliminate the present tense?

M. Clarifying Wording

66. Comments were received regarding a number of paragraphs in which the wording was modified from the extant with the intent of adding clarity. The views expressed were that the modifications created confusion or could lead to ambiguity and the respondents suggested either clarifying what was intended or reverting to wording closer to the extant.
67. The Task Force reviewed each of the paragraphs cited and determined that the extant wording was appropriate. Rather than adding more new material, the Task Force has re-drafted the paragraphs using wording closer to the extant.

See paragraphs 30, 33, 35, 57, 58 and A46 of ISQC 1 (Redrafted) in Agenda Item 3-D.
(Also applies to paragraph 23 of ISA 220 (Redrafted) in Agenda Item 3-B).

Matter for IAASB Consideration
Does the IAASB agree with the Task Force to revert to wording that is closer to the extant wording for the cited paragraphs?

N. Additional Issues

68. The following lists issues from the IOSCO comment letter that the Task Force has not had an opportunity to fully consider. The Task Force requests the IAASB’s preliminary views on these matters.

(a) The concept of “reasonable assurance”, which has a widely used and understood meaning in audits, is not suitable for describing the audit firm and engagement partner quality

46 AICPA, GT
control obligations. Use of the term "reasonable assurance" in the objective ISQC 1 (Redrafted) is inappropriate.

(b) Terms such as "take responsibility for" and "be satisfied" are too vague and subjective to be useful as statements of obligation.

One of the suggestions provided is to replace paragraph 7 in ED-ISA 220 with: “The engagement partner shall supervise and control the audit so that the audit is delivered in a high quality manner that complies with professional standards and regulatory and legal requirements.”

(c) There should be additional coverage of the conditions under which engagement teams can rely on systems of quality control in network and individual firms and stronger links as to firm and engagement partner responsibilities for quality control.

(d) It is important to ensure that there is consistency between the IFAC Code of Ethics and the ISA in key definitions such as “engagement team” and “network firm.”

- The definition of engagement team should be amended to specifically exclude the engagement quality control reviewer; and
- The definition of “network” should be expanded to include paragraphs 210-221 of the Ethics code or a reference should be made to Section 290.
## Appendix

### List of Respondents

<table>
<thead>
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<th>Category</th>
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<td><strong>Professional Organizations</strong></td>
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<tr>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>AIA</td>
<td>The Association of International Accountants</td>
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>APAB</td>
<td>Australian Professional Accounting Bodies</td>
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<td>Certified General Accountants Association of Canada</td>
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<tr>
<td>CIPFA</td>
<td>Chartered Institute of Public Finance and Accountancy</td>
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<tr>
<td>CNCC</td>
<td>Compagnie Nationale des Commissaires aux Comptes + Conseil Superieur de l’Ordre des Experts-Comptables</td>
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<td>FEE</td>
<td>Federation des Experts Comptables Europeens</td>
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<td>HKICPA</td>
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<td>Institut der Bedrijfsrevisoren/Institut des Reviseurs d'Entreprises</td>
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