

### High-Level Summary of the Responses to the Invitation to Comment and Possible Options for the Way Forward

#### Objectives of the Agenda Item

1. The objectives of the agenda item are:
  - (a) To provide a high-level summary of the responses to the Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. (**Part A**)
  - (b) In relation to quality control and group audits:
    - To discuss the Audit Quality Enhancements Coordination Group's (Enhancements Group) considerations of possible options for the way forward, including how respective standard-setting activities could be prioritized and what is needed to achieve the suggested timelines.
    - To obtain CAG Representatives and Observers views in order to help inform the development of project proposals for Quality Control and Group Audits for approval in December 2016. (**Part B**)

#### A. Feedback from the Responses to the ITC

2. Eighty-seven responses to the ITC were received from a broad range of stakeholders (see **Appendix 1**), including eleven who responded to the Overview of the ITC (largely investors and analysts). Included in the responses were four responses from Monitoring Group members.<sup>1</sup>
3. In addition to the responses to the ITC, feedback was also received from numerous outreach activities, including:
  - (a) Roundtables, involving a broad range of over 100 stakeholders, in Amsterdam, Paris and Kuala Lumpur.
  - (b) Country visits to the United Kingdom and United States, involving roundtables or meetings with stakeholders including regulators and audit oversight authorities, national standard setters (NSS), member bodies and other professional organizations, and public sector representatives.
  - (c) Other outreach in various countries and to a range of stakeholders, including regulators and audit oversight authorities, accounting firms and academics.

The comments and input from these various outreach events were generally reflected in, or consistent with, the comment letters received. The IAASB has the view that the outreach activities were very successful in driving stakeholder engagement on the topics addressed in the ITC, and

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<sup>1</sup> The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank. BCBS, IFIAR, IAIS and IOSCO responded to the ITC.

were therefore an effective means of engaging different groups of respondents in constructive dialog and debate. The discussions at the outreach also helped provide additional context to the more formal comment letters.

4. High-level feedback from the responses to the ITC is set out below.<sup>2</sup> This summarized feedback<sup>3</sup> is intended to assist with understanding the Enhancements Group's possible options for the way forward. More detail about the responses and the individual working group's views are set out in other agenda items as follows:
- Professional Skepticism (**Agenda Item J.3**).
  - Quality Control (**Agenda Item G.2**).
  - Group Audits (**Agenda Item G.3**).

Note that the feedback, including as it relates to views on the most appropriate actions by the IAASB on each individual matter, will be further considered by the each of the working groups as they commence standard-setting activities. Summarizations in this paper have not been attributed to individual respondents. More granular feedback including more information about respondents comments (and where relevant the names of individual commenters) will be presented in the more detailed analysis provided in IAASB agenda papers as each matter is progressed by the individual working groups.

5. Across stakeholder groups, a number of themes emerged both generally, and in relation to specific topics. While recognizing that the international standards (ISQC 1<sup>4</sup> and International Standards on Auditing (ISAs)) are not "broken", respondents commented generally as follows:
- That there is the need to keep the standards principles-based, and therefore capable of being adapted to evolving circumstances.
  - Diverse views on many matters, sometimes across stakeholder groups and sometimes within stakeholder groups, as to whether the IAASB's actions would need to focus on enhanced or new requirements, application material or other guidance outside of the standards, or a combination of these. Regulators and audit oversight authorities generally believed there was a need to strengthen the standards through enhanced or new requirements, with application material being developed as appropriate to help with implementation issues. Accounting firms also identified areas where requirements or expectations in particular circumstances could be clarified, noting inconsistencies in practice and highlighting their own efforts to enhance audit quality in response to feedback from audit oversight authorities. Others (including accounting firms) were of the view that the principles underlying the requirements were largely sufficient in many areas, but called for additional guidance to illustrate the application of the principles-based requirements to particular circumstances not currently addressed in the ISAs (either as part of application material or by other means). There was also a call across stakeholder groups

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<sup>2</sup> This agenda item generally presents matters where responses were mixed as to a particular action or respondents did not agree with the possible action. Other areas where there was broad consensus have not necessarily been presented in this agenda item.

<sup>3</sup> It should be noted that not every respondent answered every question, and the summary presented in this paper summarizes the responses of those who did respond.

<sup>4</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

for the IAASB to identify implementation issues and address them accordingly, but not to make changes to the standards where they are already sufficient.

- That there is the need to further consider how the auditor's professional judgments (as well as professional skepticism) can better be reflected in the audit documentation, potentially through the inclusion of strengthened documentation requirements in key areas.

#### *Public Interest Issues*

6. The ITC set out the following public interest issues that the IAASB is seeking to address:<sup>5</sup>

- Fostering an appropriately independent and challenging skeptical mindset of the auditor** – Professional skepticism is a fundamental concept and core to audit quality. Can we better articulate how we and others expect auditors, especially engagement partners, to appropriately apply professional skepticism? Can the concept be reinforced more within the ISAs, or through other activities by us or others?
- Enhancing documentation of the auditor's judgments** – How might an audit file more appropriately demonstrate the auditor's decision-making processes, essential interactions and communications, in order to support the auditor's judgments and the audit opinion overall? How can the application of professional skepticism be better evidenced?
- Keeping ISAs fit for purpose** – Do the ISAs contain robust, yet sufficiently flexible, requirements and guidance to drive appropriate engagement partner and engagement team performance, regardless of the circumstances? Do they promote audit quality at the engagement level in the varied and complex scenarios that arise today, and that are likely to evolve in the future? For example, how can we improve the ISAs to enhance the quality of multi-national audits, considering possible challenges arising from law or regulation (including mandatory auditor rotation) and the use of evolving audit delivery models?
- Encouraging proactive quality management at the firm and engagement level** – Could we improve audit quality by taking a fresh look at our quality control standard for accounting firms? What can be done to encourage a scalable and robust approach to quality that is fostered by proactive firm leadership and management, and enhances this pervasive aspect of a firm's culture and strategy? How can important processes like engagement quality control reviews and processes to respond to internal and external inspection findings be strengthened in our standards?
- Exploring transparency and its role in audit quality** – Transparency reporting is increasing globally. How could investors and other financial statement users obtain greater insights into a firm's system of quality management (e.g., through firm-level transparency reporting or other mechanisms to demonstrate the application of effective quality management at the engagement level)?
- Focusing more on accounting firms (including networks) and their internal and external monitoring and remediation activities** – Should our standards more explicitly address expected actions to remediate audit deficiencies or inspection findings? Would audit quality improve if we enhanced requirements as to how accounting firms communicate internally and

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<sup>5</sup> Extract from paragraph 4 of the ITC.

with other network accounting firms and how they respond to internal and external inspection findings across the network? How can we safeguard against accounting firms relying on network policies and procedures when it is not appropriate to do so?

- (g) **Reinforcing the need for robust communication and interactions during the audit** – Are there opportunities to strengthen our standards in relation to interactions and communication among those involved in an audit? This might affect, for example, interactions between engagement partners, their teams, and others involved in the audit, or between group engagement teams and component auditors – as well as communications with audit committees

7. Respondents generally supported the IAASB's views on the most significant public interest matters, but different stakeholder groups emphasized particular aspects. For example:

- Investors noted the link between audit quality and auditor reporting, and in many cases offered suggestions that could lead to further disclosures in the auditor's report or enhanced communications between auditors and Audit Committees.<sup>6</sup> These respondents noted the importance of auditor judgment and auditor skepticism being appropriately applied in the audit, and suggested the IAASB's focus should be on enhancing the quality and value of the audit for investors, as the primary beneficiaries.
- Regulators and audit oversight authorities urged the IAASB to approach addressing areas of significance and dealing with emerging issues in a manner that is proactive and responsive to the changing business and audit environment. These stakeholders called for an accelerated approach to amendments to standards where the required changes are clearly defined (e.g., group audits) and a focus on changing requirements within the standards to increase consistency in practice. The importance of the principles of appropriate direction, supervision and review at all stages of the audit was highlighted. It was pointed out that these principles were not only relevant to typical or traditional engagement teams, but would also affect the approach to using evolving audit delivery models, and situations in which others are involved in an audit, including group audits. The need to reinforce the value of an audit to those charged with governance (in particular, audit committees and their members), provide transparency for users, and clearly establish firm accountability for quality was also highlighted. A suggestion was provided that the IAASB could consider developing the identified public interest issues into core principles to guide its standard-setting activities, for example "transparency for users" was identified as a recommended core principle.
- NSS also cited the important role of audit committees and regulators in enhancing audit quality, and emphasized management's role in preparing high-quality financial statements – supporting greater responsibility for audit quality across the financial reporting supply chain. This group also acknowledged the pressures on auditors (e.g., with respect to disincentives, time constraints and fee pressures) and encouraged further exploration with regulators and others about how these could be effectively managed or mitigated. Finally, the need for coordination with the International Ethics Standards Board for Accountants (IESBA) and International

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<sup>6</sup> This input from investors, as well as other opportunities for further enhancements to auditor reporting, will also be considered as part of the efforts to support implementation of the auditor reporting standards, and will be taken into account in the planning and development of the process for the post-implementation review.

Accounting Education Standards Board (IAESB) was highlighted, most particularly with respect to professional skepticism.

- Accounting firms cited the importance of the keeping the ISAs “fit for purpose” by determining the relevant principles for each of the areas or topics within the standards; noting that these principles can then be applied on a go-forward basis to a wide range of audits that will continue to vary in structure and circumstances. Accounting firms emphasized the importance of a tailored approach to quality at both the firm and engagement levels and thoughtful application of professional judgment rather than a “tick the box” mentality. Accounting firms also encouraged the IAASB to reconsider how the ISAs are capable of being adapted and applied in a variety of circumstances and also drew attention to the prevailing public interest needs inherent in audits of small and medium-sized entities (SMEs), listed entities, and entities that are not listed but for which similar public interest concerns exist.<sup>7</sup> Like NSS, accounting firms also stressed the varied effects of corporate governance processes, the regulatory environment, the complexity of financial reporting frameworks, and the developments in technology on audit quality and encouraged continued engagement with others in the financial reporting supply chain to achieve the IAASB’s aim to enhance audit quality.
- Member bodies and other professional organizations supported the IAASB’s efforts in many areas, in particular the proposals for a Quality Management Approach (QMA) in seeking to improve audit quality and further consideration of the work of the component auditor in a group audit. This group encouraged the IAASB to carefully consider whether strengthening the requirements would make the standards overly complex and suggested that, in some cases, more prescriptive requirements may not be the most appropriate means to address the issues that have been identified. Rather, they urged the IAASB to consider whether the issues were implementation issues, and therefore whether implementation guidance or another action (e.g. training) may be more appropriate. In particular, concern was expressed about overly burdensome documentation requirements that may not add value to all audits, in particular those of SMEs.
- In respect of other respondents to the ITC, academics largely focused their responses on the considerations around the concept of professional skepticism. Public sector respondents had largely similar views as described above for accounting firms and member bodies and other professional organizations, but with public sector specific concerns around transparency and its role in audit quality also being expressed. Other respondents, including individuals, those charged with governance and preparers did not have different views on the public interest matters from what has been noted above.

All matters above have been considered by the Enhancements Group in developing the possible options for the way forward set out in this paper.

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<sup>7</sup> The term “entities of public interest” is used here rather than PIEs because PIEs are defined differently in different jurisdictions and by the IESBA *Code of Ethics for Professional Accountants* (IESBA Code) for independence purposes.

### *Professional Skepticism*

8. There were mixed responses on whether respondents' interpretation of professional skepticism is consistent with the way it is articulated in the ISAs. Many respondents expressed a view that their interpretation of professional skepticism is consistent with the way the concept is defined and articulated in ISA 200.<sup>8</sup> Others believed there is a lack of common understanding of the definition of professional skepticism and suggested potential ways in which the definition could be enhanced, most notably by suggesting auditors should have a more "challenging" mindset. Notwithstanding their views on the definition, many respondents supported enhancements to the ISAs (both in requirements related to the expected work effort in key areas and related documentation requirements and through the provision of additional guidance) to better operationalize the definition and illustrate how to appropriately exercise professional skepticism. From an IAASB perspective, respondents across stakeholder groups specifically suggested a need to focus on elaborating what the phrase "a critical assessment of evidence" in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500<sup>9</sup> and other ISAs) and reconsider requirements related to the auditor's documentation, in particular in relation to significant professional judgments made in planning and performing the audit.
9. Respondents also supported the IAASB's plans to address professional skepticism in the current projects on quality control, group audits, accounting estimates (ISA 540)<sup>10</sup> and risk assessment (ISA 315 (Revised)).<sup>11</sup> In particular, it was noted that a QMA at both the firm and engagement level would be helpful in enhancing professional skepticism, by promoting accountability for quality and "tone at the top", as well as "tone at the middle". In addition, it was noted that further consideration be given to the EQC reviewers' role in challenging professional skepticism. With respect to ISA 600,<sup>12</sup> respondents noted that professional skepticism has links to (i) aspects relating to group audits that influence auditor behavior; (ii) addressing the challenge of different cultures and languages used in audit documentation and their effect on the group auditor's exercise of professional skepticism; and (iii) consideration of threats to professional skepticism at the component level.
10. The ITC also explored the drivers for and impediments to the appropriate application of professional skepticism. Respondents had the view that many different stakeholders have a role to play in mitigating the impediments and enhancing the drivers, and that action by not only the IAASB, but also the IESBA and IAESB, as well as accounting firms and professional bodies, was likely to be necessary to enhance the application of professional skepticism. It was mostly agreed that the impediments identified by the IAASB in the ITC were appropriate, and some additional impediments, e.g., fee pressures for audit accounting firms, performance metrics that do not appropriately encourage professional skepticism, resource constraints, and auditor competencies (or lack thereof),

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<sup>8</sup> ISA 200, *Overall Objectives of the Independent Audit and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>9</sup> ISA 500, *Audit Evidence*

<sup>10</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>11</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>12</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

were identified. In particular, many respondents acknowledge the significance of auditor biases (cognitive) as an important impediment to the appropriate application of professional skepticism.

11. Further details about the responses, including the interactions with the other standard-setting boards, as well as the proposed way forward on professional skepticism can be found in **Agenda Item J.3**.

#### *Crossover Issues*

12. There are a number of discrete topics that have implications for both the revisions of ISQC 1, ISA 220<sup>13</sup> and ISA 600 (and potentially other standards). The Enhancements Group refers to these matters as “crossover issues”, and has the view that these represent fundamental areas within the ISAs. This summary includes responses received in relation to both quality control and group audits questions, as stakeholders had variously responded in the different sections.
13. Generally there was support for many of the possible actions set out in the ITC relating to the matters that are included in this section. However, there were varying views in the responses to individual questions, sometimes both within and across stakeholder groups, on individual aspects. These individual views will be further considered as standard-setting activities commence.

#### *Engagement Partner Roles and Responsibilities*

14. Regulators and audit oversight authorities, including members of the MG, supported actions to provide further clarity on the expected role and responsibilities of the engagement partner, including in group audit situations.<sup>14</sup> This stakeholder group emphasized the need for revisions to the ISAs to:
  - Clarify the requirements and to clearly articulate what is meant by direction, supervision, performance and review in specific circumstances (such as when other auditors are involved in an audit),
  - Address the appropriate level of involvement from the (group) engagement partner in differing circumstances and set forth how this should be evidenced in the audit documentation.

This stakeholder group also highlighted the importance of addressing circumstances where the engagement partner is not located where the majority of audit work is performed.<sup>15</sup>

15. Other respondents, across stakeholder groups, were also largely supportive of clarifying the role and responsibilities of the engagement partner, including in group audit situations. The IAASB was however urged to not introduce prescriptive requirements, but rather to provide application material

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<sup>13</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>14</sup> The ITC notes that the requirements in the ISAs generally refer to the “auditor” and that, in some cases, more specificity about what is expected of the engagement partner may be necessary. This was supported by the responses to the ITC, as the IAASB was encouraged to consider whether particular requirements addressed to the auditor could more clearly delineate who was to undertake the activity (i.e., the engagement partner or members of the engagement team).

<sup>15</sup> Sometimes referred to as audits of “letterbox companies” In August 2014, the IAASB published a Staff Audit Practice Alert, [\*Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed\*](#), as an initial response to concerns raised about situations when engagement partners are not located where the majority of the audit work is performed. The Staff Audit Practice Alert serves to remind auditors of the responsibilities of the engagement partner described in the ISAs.

or guidance about how the principles-based requirements related to performance, direction, supervision and review could be adapted and implemented in a wide variety of circumstances.

16. Although not many respondents explicitly commented on the topic, those that did generally supported the inclusion of an Appendix to ISA 220 that would set out all the responsibilities of the engagement partner that are included throughout the ISAs.
17. Not all respondents commented on the potential need for the IAASB to explore whether to establish a requirement for the engagement partner to sign the auditor's report or to address situations where the report is signed by someone other than the engagement partner.<sup>16</sup> The majority of those commenting on this specific aspect were not supportive of the IAASB addressing this topic as set out in the ITC, in particular if this undermined the responsibility of the engagement partner for the performance of the audit.<sup>17</sup>

#### Others Involved in the Audit

18. In the responses to both the quality control questions and the group audits questions, MG members and others again urged the IAASB to focus on addressing issues relating to situations where the engagement partner is not located where the majority of the audit work is performed (also see paragraph 14).
19. A broad range of respondents supported the IAASB giving further consideration as to how its standards could better address situations involving the use of other auditors (i.e., when they do not meet the definition of a component auditor in accordance with ISA 600). It was noted that ISA 600 currently only provides minimal guidance in this regard).<sup>18</sup> These situations were also identified as being particularly challenging in practice. It was also noted that this area is linked to the direction, supervision and review of work by the engagement partner and the taking of responsibility for the performance of the audit. Furthermore, respondents indicated the need for the IAASB to address issues related to the basis for reliance on network level quality control policies and procedures at the firm and engagement levels when other auditors (including component auditors) are used on an engagement (see paragraphs 26–28).
20. A common theme in the responses to both the group audits and quality control sections was the need for further consideration in the standards related to the use of shared service centers (SSC). In some cases, it was not clear from the responses as to whether commenters were referring to using other auditors at an audit firm's SSC or to the use of other audit delivery models (ADMs) by the firms (ADMs

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<sup>16</sup> Paragraph 46 of ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, requires that "the name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities..." and paragraph 47 requires that the auditor's report shall be signed. With regard to signing the auditor's report, paragraph A64 allows for "the auditor's signature either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction."

<sup>17</sup> *Regulators and Audit Oversight Authorities*: UKFRC; *NSS*: AUASB, CNCC-CSOEC, JICPA, MAASB, NBA; *Accounting Firms*: EYG, GTI, PwC; *Member Bodies and Other Professional Organizations*: ACCA, AICPA, CAANZ, IRE-IBR, SAICA; *Individuals and Others*: SDeViney

<sup>18</sup> Although paragraph 2 of ISA 600 allows the standard to be adapted as necessary to circumstances other than audits of group financial statements, feedback to the IAASB indicates that it is not clear what those circumstances are or how ISA 600 should appropriately be applied.



are discussed further below).<sup>19</sup> In some cases, it was also possible that respondents were referring to use of SSCs by entities being audited. This feedback may therefore be relevant not only to the quality control and group audits projects, but also to the project to revise ISA 315, i.e., through considering the need to address the use of SSC by entities being audited as part of obtaining an understanding of the entity and its environment, and in the risk assessment process.

21. In both the quality control responses and group audits responses, respondents variously called for enhancing the requirements related to understanding the other auditor's competence and capabilities, in particular in group audits situations as it relates to component auditors. However, caution was expressed about developing too many onerous requirements that may not necessarily address the issues that have been identified.

#### The Firm's Role in Supporting Audit Quality—Audit Delivery Models<sup>20</sup>

22. Respondents recognized that traditional engagement structures are evolving, because of a range of factors affecting entities being audited as well as the firms performing the audits, including changing environmental circumstances, increasing use of technology, changing laws and regulations and other factors. It was noted that firms are changing the ways that audit engagements are being performed, including how engagement teams are being structured. Accordingly, respondents across stakeholder groups were generally supportive of the IAASB continuing to explore what more can be done to address the use of ADMs in the international standards, recognizing that the use of and approach to ADMs can and does vary by firm. One respondent also highlighted the importance of considering the use of ADMs when embedding a QMA to firm and engagement level quality control.
23. However, there were stakeholders, in particular firms, who cautioned that any changes made to the ISAs should result in them remaining principles-based, and therefore able to take into account the wide range of ADMs that firms currently use. This approach should also result in the standards being capable of being adapted and applied to different types of ADMs that might evolve in the future.
24. It was also noted that the use of ADMs is linked to the role and responsibilities of the engagement partner (in particular the principles of direction, supervision and review and taking responsibility for the performance of the work), and the IAASB was urged to further consider ADMs as changes were made in that area. Regulators and audit oversight authorities identified specific aspects to be addressed (such as the need for appropriate policies and procedures for ADMs that specifically address independence, training, human resource matters and internal monitoring), but also urged the IAASB to further consider whether the standards need to more directly address the engagement team's considerations about audit procedures that might be carried out through use of an ADM.
25. It was acknowledged by various accounting firms that part of the perceived issues around audit quality relating to the use of ADMs may relate to the documentation about a firm's use of ADMs not being sufficiently robust (e.g., there may be inadequate documentation in the audit file about how the firm's policies and procedures apply to the ADM and how the engagement team has addressed the

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<sup>19</sup> The description of ADMs in the ITC was intended to encompass the wide variety of different delivery models that firms might use; however some respondents used the term SSC to refer to certain centralized firm delivery models, either in addition to or as well as using the term audit delivery models for other delivery models.

<sup>20</sup> As the organization of audit teams evolve for changing client circumstances and other environmental factors, other auditors, who may not be part of the traditional structure of an audit team, may be used. The use of other auditors in these circumstances, and who form part of the engagement team, are referred to as "audit delivery models" in the ITC and in this agenda item.

requirements of such policies and procedures). Accounting firms were also generally of the view that there is not a need for specific requirements for ADMs in ISQC 1 or ISA 220 because, in their view, the personnel at ADMs either fall within the definition of “engagement team,” or are otherwise part of firms that are subject to the requirements of ISQC 1 and therefore addressed by a firm’s quality control policies and procedures. However, these respondents agreed that further guidance on ADMs and how the quality control standards apply to their use would be useful. Other respondents across stakeholder groups also called for more guidance in this area.

#### The Firm’s Role in Supporting Audit Quality—Network Policies and Procedures

26. Respondents highlighted the importance of the relationship between networks and their member accounting firms and the potential implications of such relationships on audit quality. There was support, across stakeholder groups including members of the MG and accounting firms, for the IAASB to give further consideration to enhancements to the standards to clarify the necessary conditions under which reliance on common policies and procedures can occur, (including the nature and extent of evidence that would be considered necessary and the related documentation requirements). This includes when other firms in the network are used as component auditors or are otherwise supporting the engagement.
27. In addition, there was support from accounting firms for further consideration as to whether the standards could be enhanced to address communicating inspection results across the network (taking into account applicable laws or regulations), in light of the importance of inspection findings as a potential indicator of the firm’s quality control and efforts already undertaken by firms to share this information to the extent practicable.
28. With regard to establishing requirements for network level policies and procedures, respondents acknowledged the practical challenges of establishing policies and procedures for networks in a quality control standard that would be expected to be globally applicable. Respondents noted that different network structures may not always enable the network to enforce certain actions on its members, as well as other limitations such as a lack of consistent monitoring and evaluations and limits imposed by laws and regulations (such as access to workpapers and confidentiality). It was acknowledged that these differences often create difficulties and inconsistencies in the effective application of network-level policies and procedures. Although one MG member<sup>21</sup> supported further requirements at the network firm level, other respondents (including 1 MG members)<sup>22,23</sup> did not support or cautioned the IAASB’s further exploration of this matter.

#### Quality Control

29. There was general support for many of the possible actions set out in the ITC relating to quality control. However, there were varying views in the responses to individual questions, sometimes both within and across stakeholder groups, on individual aspects. These views will be further considered by the Quality Control Working Group (QCWG) as standard-setting activities commence.

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<sup>21</sup> BCBS

<sup>22</sup> IFIAR

<sup>23</sup> Other MG members did not specifically comment on this specific aspect.

30. The following sections summarize, at a very high-level, the discussions and views of the QCWG, as applicable, about the responses to the questions about possible actions in the ITC.

#### Quality Management Approach

31. In principle, respondents, including some members of the Monitoring Group (MG), generally supported the IAASB moving forward and continuing to explore the development of a QMA as the basis for its quality control standards, in particular at the firm level. However, the IAASB was cautioned that the development of a QMA and the approach to incorporating it into the quality control standards would need to be subject to further consideration by stakeholders as the ITC had only provided limited information to support a more detailed assessment. Respondents (including some members of the MG) also indicated that more information about such an approach would be necessary in order for them to be able to fully evaluate its impact and comment accordingly. Input from respondents included the following:
- Respondents agreed with the IAASB's view that a QMA would enhance the scalability of its firm-level quality control standard, in particular for firms that may not perform audits (or audits of listed entities). However, respondents indicated that guidance and examples would be important and necessary to support the implementation of the QMA, particularly for small and medium practices (SMPs).
  - Because the ITC set out the IAASB's view that enhancements to ISQC 1 were likely needed to address particular aspects of the firm's system of quality control (e.g., with respect to monitoring and remediation and firm governance), there was some concern from respondents that revisions to ISQC 1 to incorporate a QMA would simply result in add-ons to the existing requirements in ISQC 1, which in turn would make compliance with the standard more onerous than extant ISQC 1. Certain respondents were therefore unclear as to whether revising ISQC 1 to incorporate a QMA would achieve the intended benefits if the approach was not carefully structured to illustrate how principles-based requirements could be applied in a manner proportionate with the nature of the firm and the types of services it provided. However, feedback from accounting firms during outreach activities indicated that some of the larger firms may already be using approaches similar to a QMA in relation to firm-level systems of quality control.
  - Although some regulators and audit oversight authorities in principle supported the development of a QMA and the revision of ISQC 1 to incorporate the QMA, they emphasized in particular that the robustness of ISQC 1<sup>24</sup> should not be lost in restructuring the standard, in particular with respect to those aspects that would be necessary for firms that audit listed entities and entities that are not listed but for which similar public interest concerns exist. Regulators also expressed strong views about the need to address other issues highlighted in the ITC (see further discussion below), indicating their views that ISQC 1 needs to be even more robust than the current standard.
  - The IAASB was also encouraged to further consider how a QMA could be developed at the engagement level or how the principles of a QMA could be applied (i.e., by ensuring ISA 220 is focused on the "risks to quality" at the engagement level). It was also noted that the

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<sup>24</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Accounting firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*

engagement level approach to quality management would also have relevance for group audit engagements, and other situations when other auditors are involved in the engagement.

#### Governance of the Firm, Including Leadership Responsibilities for Quality

32. Regulators and audit oversight authorities, including members of the MG, believe ISQC 1 needs to more explicitly address firm governance, noting the tone from the top and the culture of the firm are critical in relation to audit quality. These respondents therefore supported the IAASB's possible actions to strengthen the requirements relating to governance of firms and leadership responsibilities, including promoting a culture that supports appropriate professional skepticism, and highlighting the importance of this in a QMA. Investors also generally supported the possible actions in this area. There also was recognition, particularly from regulators, that quality is a team effort and that ISQC 1 should also address the importance of "tone in the middle."
33. Investors called for further consideration of a governance code for audit firms. Respondents from other stakeholder groups were also, in general, supportive of the possible actions to address firm governance and leadership, indicating varying levels of support for the specific proposed actions. However, there was caution that any requirements, particularly in respect of governance, would need to be principles-based, to recognize the varying firm structures and different jurisdictional requirements. Actions relating to addressing governance of firms in ISQC 1 were a particular concern for SMPs because effective governance in smaller firms may differ from what would be appropriate for larger firms, and there was a call for more guidance about how firms may consider whether and how governance principles may apply. The IAASB was urged to further consider how any proposed changes would impact smaller firms, in particular the balance of what would need to be documented to demonstrate compliance with the ISQC 1 requirements.

#### Engagement Quality Control Reviews

34. Regulators and audit oversight authorities generally supported extending the requirements for EQC review beyond audits of listed entities (e.g., to entities that are not listed but for which similar public interest concerns exist), but there were mixed views as to which types of entities the requirements should extend. Other stakeholder groups were less definitive as to whether extending the EQC review beyond listed entities was necessary in all cases, but suggested it may be possible to improve the robustness of the existing requirements in respect of the firm identifying engagements beyond listed entities that should be subject to an EQC review (see further discussion on this matter in Agenda Item G.2).
35. There was general support, across a broad range of stakeholder groups (including MG members), for clarifying the roles and responsibilities of the EQC reviewer, as well as the objective, nature, timing and extent of an EQC review. It was also noted that the EQC reviewer's own application of professional skepticism should be emphasized.
36. Respondents representing SMP views continued to highlight challenges in this area, noting in particular that there is often limited availability of individuals able and suitable to undertake the role of EQC reviewer. Respondents noted that this problem would be exacerbated if the requirements for EQC reviews were to be extended to audits of entities other than listed entities. These respondents urged the IAASB to further consider the scalability of the EQC review requirements in both ISQC 1 and ISA 220.

37. Regulators and audit oversight authorities (including members of the MG) in particular were highly supportive of strengthening the documentation requirements for the EQC review relating to specific aspects of that review.
38. There were not many responses to the possible actions for enhancing the requirements for the selection of the EQC reviewer. Two members of the MG and another audit oversight body were however supportive of more robust requirements to address the selection of the EQC reviewer. Respondents from other stakeholder groups supported enhancing the requirements and guidance in this area, particularly the independence, integrity and objectivity of the reviewer. However, these respondents noted that the requirements addressing the selection of the reviewer should not be too onerous, such that their application would result in limited availability of suitable EQC reviewers, particularly a challenge for SMPs.
39. Responses across a broad range of stakeholder groups had mixed views about whether the IAASB or the IESBA should set out the requirements in relation to the “cooling-off” period for the EQC reviewer. Views were also mixed about how this could be done, for example, by the IAASB (i) establishing a requirement for the firm to define an appropriate cooling-off period; (ii) establishing an explicit cooling-off period, or (ii) establishing a range for a cooling-off period. Currently, the ISAs and ISQC 1 do not address the matter of rotation of senior personnel, including the engagement partner. The IESBA is finalizing its provisions on Long Association of Senior Personnel; while this project sets out more specific requirements and time periods in which senior personnel can serve in particular capacities, the establishment of a cooling-off period from an engagement partner for an EQC reviewer is not contemplated within its scope. This matter will need to be further considered by the IAASB, and in collaboration with the IESBA. It may for example, be appropriate for the IAASB to address this matter by including “cooling-off” as a consideration when determining whether an individual can serve as an EQC reviewer (see further discussion in Agenda Item G.2).
40. There were mixed views about whether a separate standard was needed to address EQC reviews, with respondents across stakeholder groups less concerned with the ‘geography’ of requirements and instead emphasizing the need to enhance both ISQC 1 and ISA 220 in this area. However, regardless of where the requirements and guidance for the EQC review were situated, the importance of maintaining an appropriate balance between the respective roles and responsibilities of the EQC reviewer and engagement partner was noted.
41. Respondents were in general not supportive of providing transparency in the auditor’s report on whether an EQC review was performed, noting that this may create the misconception that audits not subject to an EQC review are of poorer quality or that those engagements having an EQC review were higher risk. Furthermore, they did not believe it would be appropriate to require or otherwise address interactions between the EQC reviewer and those charged with governance, emphasizing the importance of the role of the EQC reviewer to be independent from the engagement team.

#### Monitoring and Remediation

42. Many respondents acknowledged the IAASB’s view that the external environment has changed significantly since ISQC 1 was issued, and that further attention needs to be given in the standard to heightened expectations with regard to firms’ monitoring and remediation of both internal and external inspection findings.

43. Regulators and audit oversight authorities, including members of the MG, and other stakeholders across a broad range of stakeholder groups, were generally supportive of the possible actions outlined in the ITC to strengthen the requirements relating to monitoring and remediation. The interaction of enhanced requirements in this area with a QMA approach was highlighted by several respondents, with a caution that enhancing the standards should not create a 'tick-box' mindset but should rather focus on requiring substantive reviews of the quality of the work performed and remediation processes.
44. In particular, regulators and audit oversight authorities were supportive of strengthening the requirements relating to understanding the causal factors of audit deficiencies identified by inspections and practice reviews, both internal and external. In particular, this stakeholder group encouraged the IAASB to further focus on highlighting expectations that internal inspections should be appropriately robust.
45. Regulators and audit oversight authorities suggested that a requirement for firms to also understand causal factors of the attributes of high-quality audits could help firms identify whether there are innovations that could be replicated across an audit practice. In addition, the IAASB was urged to also focus on the use of internal monitoring by firms of individual engagements as being relevant to the assessment of the effectiveness of "firm-wide" controls.
46. On the other hand, respondents providing SMP and SME views again urged the IAASB to consider the effects on this stakeholder group when considering more prescriptive requirements related to monitoring and remediation. With respect to internal monitoring, it was again noted that smaller firms may find it difficult to identify resources able to conduct internal monitoring or peer reviews, and any new requirements related to external monitoring (i.e., by audit oversight authorities) may not apply if the entities being audited by the firm are not listed entities or entities that are not listed but for which similar public interest concerns exist.

#### Transparency Reporting

47. In response to the proposal by the IAASB to further consider what, if anything, needed to be done in this area, respondents (including members of the MG) generally supported the IAASB taking some further action to increase its understanding of the nature and scope of transparency reporting globally, with further consideration about whether enhancements to the standards should be made to further contribute to audit quality. Although supporting transparency reporting, others had the view that transparency reporting in itself did not enhance audit quality and therefore suggested that no action was needed from the IAASB.
48. There were suggestions from investors to develop requirements for transparency reporting, while other stakeholder groups cautioned that transparency reporting was in varied stages of development across the world and the IAASB should not prematurely seek to establish requirements around transparency reporting.
49. Respondents also suggested the IAASB might look to work done by the International Organization of Securities Commissions (IOSCO)<sup>25</sup> and others, including in the United Kingdom, in relation to

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<sup>25</sup> In November 2015, IOSCO published a report on the [Transparency of Accounting Firms that Audit Public Companies](#), which considered the practices employed by audit accounting firms to be transparency in their own reporting to investors and other stakeholders about the firm itself, with respect to firm governance and elements of their system of quality control for their financial statement audits.

principles for transparency reporting and consider whether transparency reporting could be highlighted in ISQC 1 in some way (e.g., to note that law or regulation may require transparency reporting or other communications related to audit quality, and develop application guidance, and possibly principles, to promote consistency for those firms that prepare a transparency report).

#### Other Areas Related to Quality Control

50. On other areas of quality control, there were varying views from stakeholders on different aspects of the possible actions set out in the ITC. In particular, respondents expressed support for further consideration being given to the possible actions described in the ITC in relation to:
- Policies and procedures relating to engagement partner performance and the rewards system, with an appropriate link to audit quality, and further consideration about how this may effect SMPs.
  - Possible actions relating to human resources and engagement partner competency, in particular the influence on audit quality (although this area was not specifically addressed by many stakeholders responding to the ITC).

#### Group Audits

51. Respondents to the ITC agreed that the issues that had been identified relating to group audits were the correct ones, and generally supported the possible actions. However, there were varying views in the responses to individual questions, sometimes both within and across stakeholder groups, on individual aspects. These views will be further considered by the Group Audits Working Group (GAWG) as standard-setting activities commence.
52. The following section summarizes, at a very high-level, the discussions and views of the GAWG, as applicable, about the responses to the questions about possible actions in the ITC.
53. There was broad agreement by respondents that the right issues had been identified in the ITC, but varying views on the specific IAASB actions to address these issues (e.g., there were mixed views about how the issues could be addressed, whether through enhanced or clarified requirements, enhanced and clarified application material or other types of guidance). In some cases, respondents were supportive of the IAASB addressing the issues, but they did not specifically indicate whether or not the possible actions were seen as being appropriate.
54. There was acknowledgement across a broad range of stakeholder groups that many of the issues in group audits may be implementation issues, with a caution that new or enhanced requirements may not always be the best solution to addressing these issues. It was also acknowledged that some practical challenges are not capable of being addressed through standard setting (e.g., certain issues related to working paper access.)
55. In addition to those issues addressed in the crossover section above that would directly affect a revision of ISA 600 (including the interaction of ISA 600 with ISA 220), areas that respondents generally agreed with the IAASB on the matters set out in the ITC included:
- (a) Considering the most appropriate approach to scoping a group audit, including the focus of the group engagement team's (GET) efforts, including relating to sub-consolidations, and work to be done on those components that are not significant. There was also strong support for clarifying the nature of work or types of procedures that might be performed at a component

level (e.g., audit of component financial information using component materiality, audit of one or more account balances, specified audit procedures, reviews or specified procedures), including as to the circumstances when different types of procedures might be most appropriate.

- (b) Considering the need for clarified requirements or more guidance to address the impact of access issues when deciding to accept or continue the audit engagement, and in the planning and performance of the group audit (including issues relating to access to information and entity personnel, as well as to component auditors and component auditor documentation). Respondents however acknowledged that it would not be possible for the ISAs to address or resolve all issues that might arise in practice.
- (c) Strengthening the requirements around the involvement of the group engagement partner and GET in the group audit, with feedback in particular from regulators and audit oversight authorities who had noted significant variation in practice.
- (d) Developing more robust requirements for two-way communication between the GET and the component auditors, including emphasizing that the communication needs to be iterative throughout the audit process.
- (e) Clarifying the link in ISA 600 to other ISAs, including in particular, the understanding of the entity and the identification of risks of material misstatement in ISA 315 (Revised), responding to identified risks of material misstatement in ISA 330<sup>26</sup> (including fraud risks as addressed by ISA 240)<sup>27</sup> and related documentation in ISA 230.<sup>28</sup>
- (f) Developing more guidance relating to component materiality. Respondents generally agreed on the need for more guidance on component materiality, noting diversity in practice as it relates to this area. Respondents however acknowledged that any revisions and clarifications would need to be made in the context of ISA 320<sup>29</sup>, and agreed that some of the challenges related to materiality in a group audit context would not be able to be addressed until a more holistic project on ISA 320 is undertaken. Respondents also called for more focus on, and a better explanation of the concept of aggregation risk, and how this should be considered and addressed in the context of a group audit.
- (g) Further specifying the documentation requirements within ISA 600 to better demonstrate how the group audit had been planned and performed, including how the direction, supervision and review of the work of the component auditors by the group engagement team or group engagement partner is evidenced.

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<sup>26</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>27</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>28</sup> ISA 230, *Audit Documentation*

<sup>29</sup> ISA 320, *Materiality in Planning and Performing an Audit*



56. With regard to increasing transparency in the auditor's report about the use of other auditors:
- (a) Notwithstanding that the IAASB did not have support for doing so in the recently completed Auditor Reporting project,<sup>30</sup> there have been calls for the IAASB to consider requiring transparency in the auditor's report about how the audit has been performed and who has been involved (including component auditors). Respondents highlighted developments in other jurisdictions in this regard, including the UK<sup>31</sup> and the US.<sup>32</sup>
  - (b) In relation to making reference to the report of another auditor in the auditor's report (or "dividing responsibility"), not all respondents commented specifically on this aspect. Some of those who did comment (including some accounting firm respondents) expressed support for further exploration by the IAASB about whether it may be appropriate in very limited specific circumstances to provide for the ability of an auditor to make reference to the report of another auditor in the auditor's report. Other respondents who commented on this aspect expressed their continuing lack of support for this option.

In relation to both of these matters, the Enhancements Group has agreed that, in light of the comments in the responses to the ITC, further consideration of both these matters is warranted. However, before having more fulsome discussions with the IAASB Consultative Advisory Group (CAG) and Board, the Enhancements Group is of the view that more detailed analysis and information gathering by the Group Audits Working Group is necessary.

57. There was little support for a separate standard to address the responsibilities and required work effort of component auditors. However, there were varying levels of support for addressing responsibilities of component auditors in the standard (in particular from accounting firms and those representing views from SMPs). These respondents indicated that it would be helpful to highlight the implications for and expectations of component auditors of some of the other work undertaken in respect of quality control and group audits (e.g., requirements for a more robust two-way communication) so as to be clear as to what would be expected of component auditors under the revised standards.

## **B. Enhancements Group Views on a Possible Way Forward**

### *Enhancements Group's Considerations in Developing a Possible Way Forward*

58. The IAASB has been urged to commence standard-setting with regard to quality control and group audits as a matter of priority, in particular in light of the robust consultations on these topics (in both the ISA Implementation Monitoring Project and the ITC), and the extensive outreach that has taken place. Respondents to the ITC also highlighted the interaction of professional skepticism to quality control and group audits (as well as other IAASB projects) in their responses and encouraged the IAASB to continue its efforts to determine the way forward on professional skepticism.

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<sup>30</sup> The upcoming IAASB post-implementation review of the new and revised auditor reporting standards may also identify this as a potential area for further consideration.

<sup>31</sup> UK auditor's reports include an overview of the scope of the audit, including an explanation of how the scope addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality.

<sup>32</sup> The PCAOB recently approved a new rule that will require firms to provide information about other accounting firm participants on a new form that will be required to be filed with the PCAOB.

59. The individual working groups for professional skepticism, quality control and group audits all met prior to the Enhancements Group and conducted their detailed discussions about the responses to the ITC for their respective topics. The views of these working groups served as input for the Enhancements Group's further consideration about the possible way forward.<sup>33</sup> The Enhancements Group, which had coordinated the development of the combined ITC, subsequently met and discussed the feedback from the ITC, including the individual Working Groups' preliminary discussions about the diverse views that had been identified in relation to many of the issues.
60. The Enhancements Group then considered how the IAASB could most effectively proceed with the individual projects, taking account of making the most efficient use of available resources (including Board members, technical advisors and IAASB Staff) and the objective of meeting the expectations of stakeholders on a timely basis. The Enhancements Group's views on a possible way forward are set forth below.
61. These views on a possible way forward have been briefly discussed with the Steering Committee, and with the Quality Control and Group Audit working groups. Varying concerns have been raised by some members of the Quality Control and Group Audits working groups regarding the suggestions and about potential implications of the possible actions. The description of the possible way forward set forth in this paper has been further refined in light of input from these discussions.<sup>34</sup>
62. In discussing the responses to the ITC, and in thinking about the most appropriate way forward, the Enhancements Group was mindful of the need to consider:
- (a) The scalability of its standards and in particular ISQC 1, in light of the consistent message that the standard is too rigid, not scalable and therefore challenging to apply in practice, especially for firms not performing audits. These views were expressed in particular from the SMP Committee, stakeholders representing SMPs, and SMP organizations represented on the CAG.
  - (b) The crossover issues between the quality control and group audits projects, and the need to prioritize efforts related to these issues as appropriate, in order to enable effective progress and the timely completion of the work on the individual projects.
  - (c) The interaction of projects on quality control and group audits with other current IAASB projects, such as the project to revise ISA 315 (Revised) and professional skepticism.
  - (d) The interests of the various stakeholder groups of the IAASB, and in some cases, their divergent views on important issues and how to address them.
  - (e) How the public interest might best be achieved in response to these divergent views and the IAASB's overall goal of enhancing audit quality, including the benefits and implications of different courses of action.

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<sup>33</sup> The Enhancements Group includes the chairs of the Group Audits, Quality Control and Professional Skepticism working groups, as well as additional members from these groups.

<sup>34</sup> Additional and more detailed discussions have not taken place at the Quality Control and Group Audits working group level.

63. In further considering the responses to the ITC and taking into account of the input from the Quality Control and Group Audits Working Groups, the Enhancements Group identified two significant yet potentially contrasting perspectives:
- (a) The call from regulators and audit oversight authorities for enhanced and more robust requirements and, in relation to ISQC 1, for any revision of the standard to incorporate a QMA that would not result in less robust quality management by firms. The focus of these respondents is primarily on audits of financial statements of listed entities and other entities that are not listed but for which similar public interest concerns exist.
  - (b) Concerns about the ability to apply the International Standards across the spectrum of different types of firms and their practices. In particular, various respondents highlighted the need for scalability, in particular in relation to ISQC 1, for those firms that do not perform audits of listed entities or other entities that are not listed but for which similar public interest concerns exist, or who do not perform audits at all.
64. The Enhancements Group acknowledges that some of the possible actions described as part of the possible way forward would represent a substantial change to the International Standards. The Enhancements Group believes it is therefore important to get the views of the IAASB at this time, in order to inform further consideration of a way forward. The Enhancements Group also believes that it will be helpful to have a discussion with the CAG at its September meeting and obtain its input.<sup>35</sup> In light of the expectations for addressing diverse stakeholder needs in a timely manner, directional input from both the CAG and IAASB will be important to facilitate the further progression of the work of the respective working groups. This feedback will inform further discussions of the Quality Control and Group Audits Working Groups, as well as serving as input into the Enhancements Group's development of the project proposal that will be presented to the IAASB for approval in December 2016 to address the plans for standard-setting. The challenging timelines set forth later in this paper are also premised upon obtaining this feedback at this stage.
65. On balance, the Enhancements Group has the view that the possible options that follow would demonstrate the IAASB's responsiveness in designing an approach that has the appropriate focus to address the many fulsome and varied responses to the ITC, and that the benefits will outweigh the challenges. The Enhancements Group notes that there are many open questions and potential implications that will require further consideration; however, the Enhancements Group believes that the possible options outlined below take into account the divergent needs of the many IAASB stakeholders and are therefore actions that would be effective in serving the public interest.

#### *Summary of a Possible Way Forward*

*The following provides a summary of the possible way forward as considered by the Enhancements Group. Further context for these possible actions is provided in the more detailed explanations that follows.*

<sup>35</sup> The background to this CAG discussion at its September meeting (which will take place before the IAASB discussion) will emphasize that the possible way forward described in this paper has not been discussed in detail by the respective working groups and the IAASB, and as such is subject to change based on IAASB input and further deliberations by the respective working groups.

## Overall Recommendations

- Moving ahead with the development of a project proposal for standard-setting activities in relation to quality control and group audits - targeted for approval by the IAASB in December 2016.
- Considering the most appropriate actions in relation to professional skepticism. The way forward on professional skepticism is covered in more detail in **Agenda Item J.3**.

## Quality Control

- *Addressing issues identified relating to quality control at the engagement level:* accelerating work on the “crossover issues” by immediately reconstituting the Enhancements Group into a new Task Force (and supplementing its membership). This new Task Force would be charged with developing the public interest response to the issues identified in the ITC and to move forward in considering and drafting revisions to ISA 220. In considering the overall feedback to the ITC and the broad call for the ISAs to address the application of ISA 220 to the varied and evolving situations involving “other auditors” (that is, those that do not meet the definition of component auditors) including situations when the engagement partner is not located where the majority of the audit work is performed, the Enhancements Group is also proposing that the new Task Force would be responsible for developing a new overarching standard that would address the application of the foundational principles of ISA 220 when “other auditors” are involved in the audit engagement (new ISA 221). In drafting ISA 220 and ISA 221, the Task Force would also consider the linkage to ISA 315 (Revised) and the requirements to understand the entity, and would also consider how to embed, as appropriate, the principles of a quality management approach at the engagement level. ISA 220 and ISA 221 would then form the basis for ISA 600, which in turn would address the application of the principles in these standards to group audit situations. This is further explained in paragraphs 92–104.<sup>36</sup>
- *Addressing issues identified relating to quality control at the firm level:* Focusing efforts on the development of a QMA to be used as the basis for revising the requirements and guidance related to quality control at the firm level. In addition, and based on further reflection on the many and varied comments about the challenges of applying extant ISQC1 in a wide variety of circumstances, the Enhancements Group recommends consideration be given to developing three separate ISQCs whose applicability would be a function of the nature of engagements undertaken by a firm (i.e., non-assurance, assurance/audit, audits of listed entities). Each of the ISQC standards would be drafted to incorporate a QMA and would place the necessary emphasis on the firm’s evaluation of its quality objectives, its assessment of the risks to quality and the development of appropriate responses, taking into account the public interest considerations relative to the different types of services that a firm might perform. This is further explained in paragraphs 66–91.

## Group Audits

- Retaining ISA 600 for group audit engagements but, as discussed above under Quality Control, aligning the requirements and guidance in ISA 600 with the principles of ISA 220 and ISA 221, in particular as they relate to responsibilities of the engagement partner for the performance,

<sup>36</sup> This proposal assumes that ISA 600 remains focused on the special considerations in applying the ISAs to group audit situations. New ISA 221 would apply in situations where the other auditors are involved but do not meet the definition of component auditors in ISA 600.

direction, supervision and review of the audit engagement. It should be noted that this approach might result in streamlining of the requirements and guidance in ISA 600; however, work on ISA 220 and ISA 221 will need to be substantially progressed before further advancement in some areas can be made on ISA 600. This is further explained in paragraphs 105–106.

- In addition to taking into account changes necessary to align with ISA 220 and ISA 221, considering the structure of ISA 600 in light of evolving and increasingly complex group structures. This would include exploring a stronger linkage to the requirements for identifying and assessing the risks of material misstatement in ISA 315 (Revised). It would also include consideration of the incorporation of a more top-down risk-based approach that would include emphasis on evaluating scoping and sufficiency of work both vertically (i.e., based on identification of components) and horizontally (across line items of the group financial statements). See further discussion in Agenda Item G.3.

### **Professional Skepticism**

- Bifurcating the Professional Skepticism work to focus on (i) certain aspects immediately relevant to the IAASB (e.g., audit evidence and documentation) and (ii) the longer-term consideration of other matters relevant across the three standard-setting boards, including potentially developing a common description of professional skepticism (see further discussion in Agenda Item J.3).

### **Other Relevant Considerations**

- Concurrent with working on the possible actions described above, continuing with the discussion of the discrete quality control and group audit issues, as discussed in Agenda Items G.2 and G.3 respectively.
- Reconstituting certain Working Groups to bring the necessary perspectives in the development of the standards and rebalance commitments.
- Exploring the ability to make greater use of Technical Advisors and others to analyze and progress discrete issues within projects, including conducting research, evaluating alternatives, and drafting of related aspects of revised standards or developing other outputs.
- Considering IAASB staffing needs in 2017 and beyond, in light of challenging and in some cases accelerated timelines of these and other ongoing IAASB projects.

## *Detailed Discussion on the Proposed Approach to the Projects*

### **Quality Control at the Firm Level**

66. To address the diverse perspectives and needs of the IAASB's stakeholders as described in paragraph 63, the Enhancements Group recommends consideration of a new approach to address firms' quality control systems by setting out the requirements and guidance for firms' quality control policies and procedures. The applicable requirements and guidance would depend on the types of engagements undertaken by the firm. This approach would result in three ISQC standards. The decision as to which quality control standard would apply to a particular firm would then be based on the types of engagements the firm undertakes overall, rather than on an engagement by engagement basis, with the decision based on the 'highest' level of assurance engagement being performed by a firm. The following table and paragraphs 68–81 set out the types of engagements performed using the IAASB standards and a preliminary view as to which types of engagements would be covered by

the respective proposed ISQCs (with further explanation for each below). Paragraphs 82–91 set forth additional context about the rationale underpinning this proposal.

67. The Enhancements Group believes this approach would best serve the public interest as the quality control standards would clearly delineate what is expected from a quality perspective, with the approach to firms who audit listed entities being the most robust in terms of detailed requirements (ISQC 3). If a firm performed *any* audits of listed entities, ISQC 3 would apply.<sup>37</sup> Similarly, if a firm performed audits of non-listed entities in addition to reviews and compilations, ISQC 2 would apply. In both cases, through the use of a QMA approach that would be embodied in each ISQC standard, a firm would have the ability to tailor its policies and procedures to address the range of services and the risks to quality underlying those services. The following chart sets forth some initial thinking about the possible scope of the three ISQC standards. The Enhancements Group notes the need for more input and debate about these suggestions.

ISQC 1	ISQC 2	ISQC 3
<i>Each of these ISQCs would be developed or revised to incorporate a QMA, thus facilitating, in each standard, a differentiated identification, assessment and response to the quality risks identified (i.e., based on the size, complexity and nature of services being undertaken by the firm and the related quality objectives. This approach would further allow for scalability within each standard).</i>		
Reviews performed under ISRE 2400 <sup>38,39</sup>	Audits performed using the ISAs (non-listed entities), with additional considerations for audits of entities that are not listed but for which public interest concerns exist (see paragraph 75)	Audits of listed entities
Compilations performed under ISRS 4410 <sup>40</sup>	Assurance engagements performed under ISAE 3000 (Revised) <sup>41</sup>	
Agreed-upon procedures engagements performed under ISRS 4400 <sup>42</sup>	Examination of prospective financial information under ISAE 3400 <sup>43</sup>	

<sup>37</sup> However, discrete aspects of ISQC 3 might only apply to the audits of listed entities and not to audits of non-listed entities and other engagements performed by the firm.

<sup>38</sup> International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*

<sup>39</sup> See paragraph 70 below for how ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* fits into this framework.

<sup>40</sup> International Standard on Related Services (ISRS) 4410, *Compilation Engagements*

<sup>41</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>42</sup> ISRS 4400, *Engagements to Perform Agreed-Up Procedures Regarding Financial Information*

<sup>43</sup> ISAE 3400, *The Examination of Prospective Financial Information*

ISQC 1	ISQC 2	ISQC 3
	Assurance reports on controls at a service organization under ISAE 3402 <sup>44</sup>	
	Assurance engagements on greenhouse gas statements under ISAE 3410 <sup>45</sup>	
	Assurance engagements to report on the compilation of pro forma financial information <sup>46</sup>	

The development of these new standards and revisions would also incorporate any changes to respond to the discrete quality control issues identified in the ITC.

#### ISQC 1

68. It is envisioned that ISQC 1 would be developed as a standalone standard (using a QMA), and would be applicable to firms that did not perform services that would cause them to be in the scope of ISQC 2 or ISQC 3.
69. The Enhancements Group has discussed whether ISRE 2400 should be included with other assurance engagements under ISQC 2, or with other services relevant to smaller entities in ISQC 1. The Enhancements Group was of the preliminary view that ISRE 2400 engagements may generally be simpler than those performed under the ISAE 3000-series (including that the subject matter of ISAE 3000 series engagements would likely be more complex), and accordingly proposes that ISRE 2400 of engagements be addressed by ISQC 1. The Enhancements Group also notes that if the risk-based approach under a QMA is appropriately applied by a firm is performing ISRE 2400 engagements, the resultant quality control policies and procedures implemented by that firm as it relates to those particular engagements would be similar to some of the responses that a firm applying ISQC 2 would design and implement.
70. Engagements under ISRE 2410<sup>47</sup> are required to be performed by the independent auditor of the financial statements of the entity – that is, these engagements could not be performed unless an audit was also being performed by the same practitioner. Accordingly, instead of being explicitly grouped with ISRE 2400, ISRE 2410 engagements would be allocated to the same category as the underlying audit i.e., into ISQC 2 or ISQC 3 as appropriate.
71. In developing this standard to incorporate a QMA, the IAASB would carefully consider the need for explicit incorporation of all of the requirements in extant ISQC 1, i.e., taking account of the proposed scope of this standard as being applicable to firms who undertake review, compilation or agreed-

<sup>44</sup> ISAE 3402, *Assurance Reports on Controls at a Service Organization*

<sup>45</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>46</sup> ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

<sup>47</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*,

upon procedures engagements and not audit engagements. Consideration would be given as to whether existing requirements could be better articulated in line with a QMA (i.e., with a focus on higher-level principles that would be more specific to the nature of these types of engagements and the related quality objectives). It will also be important to recognize the need to keep ISQC 1 sufficiently principles-based and therefore effectively scalable and appropriate for the services performed by those firms to whom ISQC 1 would apply.

72. The application material in this standard could be specifically tailored to be appropriate for the types of engagements contemplated within the scope of the standard – for example, to show what a quality management system might look like for smaller firms that conduct only compilations. The Enhancements Group believes that this would largely obviate the need for extensive guidance to be developed outside of the IAASB's quality control standards about how to implement quality control policies and procedures commensurate with the types of engagements being undertaken.<sup>48</sup>

## ISQC 2

73. It is envisioned that ISQC 2 would be developed, using a QMA, based on the requirements and guidance in extant ISQC 1, enhanced or modified as appropriate to address the issues that have been identified relating to the extant standard and taking into account the responses to the ITC on these matters. The intention would be to maintain the robust framework that currently exists, but the use of a QMA would allow for enhanced scalability and flexibility based on the quality objectives and the nature of the risks to quality associated with the firm's engagements. The Enhancements Group has the view this would be particularly useful for non-accounting firms that might perform only assurance engagements (e.g., consulting firms providing assurance on greenhouse gas statements under ISAE 3410) – who are required to have a system of quality control but would likely benefit from a better understanding of what such a system would entail.
74. The Enhancements Group also considered that different types of assurance engagements might be performed under ISAE 3000, including limited assurance engagements. The Enhancements Group however decided to propose that all engagements performed under ISAE 3000 be included within the scope of ISQC 2 given the likely increased complexity of the related subject matter of these engagements, and the view that firms performing these types of engagements would likely have service offerings with different levels of assurance. The Enhancements Group notes, however, that an alternative would be to include reasonable assurance engagements within the scope of ISQC 2 and limited assurance engagements within the scope of ISQC 1.
75. In developing ISQC 2, and consistent with a risk-based approach, the IAASB would also give consideration to incorporating specific direction for firms to take account of the relevant public interest considerations applicable to its audit engagements, and to consider the quality objectives and related quality risks related to these engagements. ISQC 2 would foster critical thinking by firms about the nature of the audits or other engagements undertaken in identifying and assessing risks to quality and could indicate that the expected responses should be more aligned with the requirements of ISQC 3 as it relates to certain engagements, i.e., ISQC 2 would provide a steer to firms to consider the need for “doing more” in relation to certain types of engagements.

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<sup>48</sup> There was a strong call from some stakeholder groups, including those representing views of SMPs, for more to assist them with implementing this standard.



76. For example, ISQC 2 could set forth requirements to specifically consider the need for engagement quality control reviews and could also indicate that the approach to monitoring and remediation may be more aligned with that which would be applicable to firms that audit listed entities. The types of engagements that firms could be encouraged to consider in this way could include audits of entities that are not listed entities, but which are characterized in law or regulation as public interest entities, or for which similar public interest concerns exist (e.g., because they have a large number and wide range of stakeholders and considering the nature and size of their businesses). Examples of such entities may include some financial institutions (such as banks that accept deposits from the general public, or insurance companies that enter into insurance contracts with the general public) and other entities that might be identified based on further analysis and discussion. It should be noted however that the Enhancements Group is not proposing that performing these types of audits would always cause a firm to fall within the scope of ISQC 3, but rather that ISQC 2 would call for firms to carefully consider the nature of these kinds of engagements and the related quality objectives in making a determination as to whether the more robust requirements of ISQC 3 would be appropriate.
77. If a firm performed services that would be applicable for ISQC 1 and ISQC 2 (for example, the firm undertakes compilation engagements and audits of non-listed entities) then the firm would only need to apply ISQC 2 – the requirements and guidance in ISQC 1 would be covered by complying with the requirements and guidance in ISQC 2.

### ISQC 3

78. New ISQC 3 is expected to demonstrate the IAASB's commitment to sufficiently enhancing its quality control standards in light of external inspection findings relevant to audits of listed entities. It is envisioned that this standard would expand upon the principles-based requirements in ISQC 2,<sup>49</sup> establishing more specific requirements and guidance for listed entities. For example, this may be achieved by setting forth presumed risks and the related responses that would be expected or required to address them. The approach to be taken would of course be subject to further discussion and analysis as the concept and related principles of the QMA are developed. As noted above, ISQC 2 would prompt firms to consider, given the nature of the audit engagements they perform, whether the related quality objectives and quality risks necessitate the more robust policies and procedures set forth in ISQC 3 (e.g., for entities that are not listed entities or for which similar public interest concerns exist). For example, it is envisioned that ISQC 2 could set out high-level principles in relation to monitoring and remediation, whereas ISQC 3 could set out more specific requirements and expectations related to root-cause analysis related to findings from external inspections and more detailed policies addressing remuneration based on quality / consequences of inspection findings.
79. If a firm audits listed entities, then both ISQC 2 and ISQC 3 (containing the incremental requirements for listed entities) would need to be applied. The Enhancements Group considered whether ISQC 3 should be a “standalone” standard, but concluded that the overlap with ISQC 2 would be substantial and also that it would be less clear what the specific incremental requirements were in ISQC 3. Those firms that do not audit listed entities would not need to comply with ISQC 3 (unless it is determined that the risks to quality related to its audit engagements are such that compliance with the more robust requirements in ISQC 3 would be appropriate in the circumstances—see discussion in

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<sup>49</sup> The IAASB has already employed a similar approach in the development of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, in that this standard applies only to audits of listed entities and the standard builds on the requirements and guidance in ISA 700 (Revised) for audits of financial statements of listed entities.

paragraph 74). The incremental requirements and guidance specific to listed entities would be contained in one standard (ISQC 3), and would help in clearly describing the robustness of the quality control policies and procedures that would be specific to firms that perform audits of listed entities. This approach would facilitate a collective understanding by all stakeholders of these requirements (which the Enhancements Group believes would be in the public interest), but would also clearly demonstrate to firms the additional investment in quality management that is necessary and expected when auditing listed entities.

80. The Enhancements Group also notes that firms that would be required to comply with ISQC 3 might also perform a large number of other services. Having separate identification of those requirements that would apply only to the performance of audits of listed entities would be helpful to those firms in designing their approach to quality management to take account of their diverse services, i.e., not all aspects of ISQC 3 might be relevant to supporting engagements other than audits of listed entities.
81. The Enhancements Group also notes that having three standards would necessitate the development of three objectives. However, the Group is of the view that the individual objectives within each standard would likely be largely identical, with the only differentiation being to take account of the different scopes of each standard.

#### Why This Approach to the Quality Control Standards?

82. Taking into account the responses to the ITC and the initial discussions of the Quality Control Working Group, the Enhancements Group considered whether an alternative solution to the one standard approach to ISQC 1 might be more responsive to the varied concerns and issues that have been raised in relation to standard.
83. In thinking about the three standard approach, as summarized above, the Enhancements Group challenged the feasibility of a one standard approach, i.e., of making changes to extant ISQC 1 to incorporate a QMA, and also dealing with the discrete issues. The Enhancements Group ultimately concluded that, given the contrasting views from stakeholders on what needed to be done, attempting to develop one standard that would be effective in meeting the needs of all would likely exacerbate the issues and challenges for some stakeholder groups and therefore not improve its usefulness across various scenarios. At the same time, a one standard approach would likely also not meet the expectations of those calling for more stringent requirements for firms that audit listed entities and other entities that may be of significant public interest (including public interest entities as defined by law or regulation.) For example, strengthening the standard to include more robust requirements for audits of listed entities would make the standard even longer and more complex than current ISQC 1 and therefore would likely serve to further detract from its scalability for firms that only perform services other than audit or assurance, or who only perform audits of non-listed entities and entities of less significant public interest. The Enhancements Group was also of the view that, notwithstanding the principles of a QMA, it might be more difficult for one standard to clearly articulate the different types of risks and responses that might be expected or required to address firms performing different types of engagements. The Enhancements Group was of the view therefore that it was in the public interest for the expectations of firms performing different types of engagements to be clearly set forth in the IAASB's quality control standards.
84. The Enhancements Group was also of the view that it might be more difficult to succinctly and clearly illustrate how to apply high-level principles that would apply to the entire suite of possible engagements that a firm might perform (i.e., ranging from compilations to audits of listed entities) and

to do so in a manner such that the standard would clearly articulate the different types of risks and responses that might be expected or required to address firms performing different types of engagements. The Enhancements Group also noted the need for conditional requirements for firms performing audits of listed entities; as well as the calls for guidance on how to apply the standards in different circumstances, and noted that reacting to these would result in a much lengthier standard with more requirements. As a result, the Enhancements Group was of the view that using a one-standard approach might result in the standard becoming even more cumbersome. The Enhancements Group was of the view that it was in the public interest for the expectations of firms performing different types of engagements to be clearly set forth in the IAASB's quality control standards.

85. The Enhancements Group also noted the calls by respondents for incremental guidance to be provided to better illustrate the application of the QMA to firms with different business models, and therefore also took into account that using a single standard approach would likely necessitate additional guidance having to be developed outside of the standard. The Enhancements Group therefore explored alternative ways of meeting the needs of the diverse stakeholders of the IAASB, and ultimately concluded to propose the three standard approach described in paragraphs 66–81 for further consideration by the IAASB and the CAG. The Enhancements Group also notes that each standard would be developed to incorporate a QMA, and as such, the approach would also support scalability within each standard.
86. The three-standard approach, while facilitating the scalability of the quality control standards in line with the types of engagements performed by a firm, as well as the size and complexity of those audit engagements and the related public interest considerations, has, in the view of the Enhancements Group, the following additional benefits:
  - (a) ISQC 3 will clearly illustrate the robustness of the incremental requirements for firms that audit listed entities.
  - (b) There will be a more clear differentiation between the expectations for firms that perform different types of engagements, including a distinction between the expectations for firms that do audits from those that do not, as well as for firms that do audits of listed entities as opposed to those that do not. This differentiation will also demonstrate, for those firms that may only audit a few listed entities, the increased expectations regarding certain policies and procedures required to be included within the firm's QMA in order to support the performance of audits of listed entities.
  - (c) Each standard would be more targeted, making it possible to include more targeted and relevant application guidance in each standard. The Enhancements Group believes that this would likely enhance the ability of firms performing different types of engagements to more effectively and efficiently design and implement their QMAs. For example, those accounting firms that do not perform any audits or other engagements within the proposed scope of ISQC 2 would only need to consider ISQC 1 (which when designed to incorporate a QMA would be simplified or streamlined relative to the extant standard). The ability to include more targeted guidance within the standards would also be preferable to having to develop guidance outside of the standards.

87. Potential drawbacks of the three-standard approach, include:
- (a) Potential confusion about the interaction of ISQCs 2 and 3, and possibly an element of duplication between these standards. For example, firms subject to both ISQC 2 and 3 may find it easier to have all relevant requirements in one standard, i.e., under the proposed approach, they would be required to consider both ISQC 2 and 3 in designing and implementing their QMA.
  - (b) Potential tension between the approach of having three separate standards with clearly delineated scopes and the keeping the resulting standards principles-based and scalable, i.e., it may be hard to demonstrate how to apply the QMA and the potential for scalability based on risk may instead be limited given significant transition impacts that would be imposed in moving from one standard to the next.
  - (c) Possible perception that quality could be viewed as less important for firms subject to ISQC 1 and therefore the standard might be less effective in enhancing engagement quality in a meaningful way.
  - (d) Possible perception that it is not possible for firms that perform a wide range of engagements to effectively apply a QMA that would incorporate separate consideration of quality objectives, and quality risks and responses for each type of engagement.
  - (e) Additional effort to develop and maintain three separate standards. For example, when these standards are updated or when conforming changes are necessary as a result of other projects, changes will need to be considered across all three standards instead of only one.
88. However, the Enhancements Group acknowledges that consideration could be given to whether a single standard would be more effective than the three standard approach being put forward as a possible option. A view has been expressed by a member of the Quality Control Working Group that, while a single standard may be longer, embedding additional conditional requirements and sliding scales into such a standard may more clearly draw a link between the underlying principles and those requirements for all types of engagements. Those firms not performing the engagements to which the conditional requirements would not apply need not consider those requirements, therefore allowing scalability in a single standard.
89. However, in considering the benefits and considering the drawbacks the Enhancements Group agreed that, on balance, the benefits of a three standards approach would outweigh the drawbacks, and had the view that it would be in the public interest to further explore this with the IAASB. The Enhancements Group was also of the view that it was important to obtain the input of both the CAG and the IAASB about possible options set out above at this stage, so that the input can be taken into account in developing the quality control related aspects of the project proposal that is scheduled for approval by the Board in December. However, as noted above the Enhancements Group notes that the possible actions have only been briefly discussed by the Quality Control Working Group.
90. If the IAASB agrees with the possible options for the way forward, the Enhancements Group believes that the focus of the working group's efforts and the discussion of the QMA at the December 2016 IAASB meeting should be on:
- Developing and agreeing on the principles within a QMA; and

- Deliberating the nature of the requirements needed across the 3 ISQCs to demonstrate application of those principles, taking into account the different types of engagements within the scope of each standard.

91. The Enhancements Group therefore recommends a dedicated working group focus on accelerating the thinking on the QMA and begin developing initial outlines or drafts of the three standards. Additionally, the Enhancements Group notes that some of the topics where discrete issues have been identified and where further consideration for standard-setting action is needed, such as governance and firm leadership, and monitoring and remediation, are closely linked to a QMA. As such, the consideration of these issues should therefore be included as part of the activities of this working group. At the same time and in order to continue to progress all the responses to quality control issues identified, the Enhancements Group also recommends that a separate working group be established to progress discrete quality control issues, i.e., in parallel to the development of the three ISQCs using a QMA. These groups will have crossover membership to ensure that the progress of each group is aligned, and that the work of both can be combined in an effective and efficient manner. Once both groups are sufficiently progressed the work will need to be combined to be able to present exposure drafts of the three standards to the IAASB for approval in the planned timelines (see paragraphs 108–113).

#### **Matters for IAASB CAG Consideration**

1. Considering the diverse views and needs of the IAASB's stakeholders and in light of the expected benefits and possible drawbacks of the proposed three-standard approach, CAG Representatives and Observers are asked whether:
  - (a) They agree with the possible options to use the three-standard approach (i.e., develop ISQC 1, 2 and 3 to address quality control at the firm level)? If not, why not?
  - (b) The proposed applicability of ISQC 1, 2 and 3 as set out in paragraph 67 above is appropriate? If not, why not?
  - (c) There are any other benefits or possible drawbacks not considered by the Enhancements Group and how these could be taken into account?
  - (d) There any other matters that should be considered before the recommendation is included in the project proposal to understand standard-setting activities with respect to quality control?

#### **Quality control at the engagement level**

92. In considering revisions to ISA 220, both the QCWG and the Enhancements Group agreed that further consideration would also be needed as to how ISA 220 could incorporate the principles of quality management, but at the engagement level. Various respondents to the ITC provided input, but there were calls for ISA 220 to have improved focus on the identification, assessment and development of responses to the risks to audit quality at the engagement level.
93. There are a number of crossover issues between group audits and quality controls that were identified in the ITC and which have implications for both ISA 220 and ISA 600. A notable crossover issue is the role and responsibilities of the engagement partner (which then carries over to the roles and responsibilities of the group engagement partner). Because of the interaction of the crossover issues

between ISA 220 and ISA 600, it is the view of the Enhancements Group that the crossover issues should be focused on as a matter of priority, considering first the implications for quality control at the engagement level with the resultant principles being carried over to ISA 600.

94. The responses to the ITC confirmed respondents' views that there is a lack of specificity in the IAASB's standards relating to situations when other auditors are involved in an audit engagement, but such other auditors are not component auditors and therefore not covered by ISA 600. Paragraph 2 of ISA 600 notes that an auditor may find ISA 600, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. However, it is not clear how the requirements and guidance are expected to be applied. As a result, there is diversity in the way that this paragraph is applied in practice. In light of the increasingly complex structures of entities being audited and also the evolving ways in which firms are organizing themselves and putting together engagement teams (e.g., including through the use of ADMs). The Enhancements Group is of the view that it is in the public interest to address these situations more explicitly in the standards. Increased clarity as to the how the principles of ISA 220 (related to taking responsibility for the performance, direction, supervision and review of the work) are to be applied in situations where other auditors are involved, but the audit is not within the scope of ISA 600 is expected to result in more consistency in the application of the IAASB's standards in the variety of circumstances in which other auditors are used.<sup>50</sup>
95. The Enhancements Group also noted and agreed that many of the crossover issues related to using other auditors are grounded in aspects of ISA 220, but may not be directly addressed or may need to be reconsidered in order to take a consistent approach (e.g., in relation to circumstances where the engagement partner is not located where the majority of the audit work is performed or where ADMs are used). There was a strong push in the responses to the ITC to address these issues, while also being mindful that the external environment will continue to evolve and the standards need to set out robust principles that can be applied to changing circumstances.
96. In considering the most effective way to introduce requirements and guidance for the use of other auditors that are not component auditors into the standards, the Enhancements Group reflected specifically on the interim efforts undertaken by IAASB to address audit regulatory authorities' and others concerns about the quality of audits where the engagement partner is not located where the majority of the work is being performed,<sup>51</sup> as well as the IAASB's commitment to specifically address these circumstances more directly in the projects addressed by the ITC. With this backdrop and considering the additional input received from respondents to the ITC, the Enhancements Group believes that ISA 600 should be retained (see further discussion about ISA 600 in the following section). However, the Enhancements Group also believes that the best way to address the issues and to be responsive to the feedback to the ITC is for a new standard to be developed to demonstrate

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<sup>50</sup> The Enhancements Group also took note of the US Public Company Accounting Oversight Board (PCAOB)'s [proposal](#), [Proposed Amendments Related to the Supervision of Audits Involving Other Auditors](#), which proposal is expected to strengthen existing requirements and impose a more uniform approach to a lead auditor's supervision of other auditors. The PCAOB's comment period closed on July 29, 2016. The Enhancements Group will continue to monitor developments in this area, including giving further consideration of the PCAOB's proposals and related commentary from respondents to the PCAOB's proposals as changes to the ISAs are contemplated.

<sup>51</sup> See Staff Audit Practice Alert, [Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed](#)

how to apply the principles of ISA 220 to those audits that involve other auditors, but which do not fall within the scope of ISA 600.

97. Therefore, the Enhancements Group suggests that this new standard (i.e., ISA 221) would be based on ISA 220 (which would be restructured to incorporate the principles of quality management at the engagement level). More specifically, ISA 221 would build upon the principles in ISA 220 for situations when others are used in an audit, and specifically address expectations regarding performance, direction, supervision and review in those situations, including specifically addressing situations where the engagement partner is not located where the majority of the audit work is performed, use of ADMs and some of the other challenging situations highlighted in the ITC and also the related responses. The Enhancements Group also notes the importance of ISA 221 being a principles-based standard because it would need to be capable of being applied to evolving and likely increasingly complex situations in the future.
98. The existing principles in ISA 600 could also be considered and included in ISA 221 as appropriate, as well as feedback to the ITC about certain aspects of ISA 600 that require improvement (for example, feedback about the need to address and strengthen the communications requirements to drive more frequent and two-way communication between component auditors and the auditors of the group financial statements). ISA 600 would continue to address special considerations for audits of group financial statements (when other auditors meet the definition of component auditors), amended as appropriate in line with the principles in ISA 220 and 221. The Enhancements Group believes that such amendments would likely result in streamlining of ISA 600, as well as providing for opportunities to improve linkage between ISA 600 and ISA 220 (and ISA 221).
99. Respondents have suggested these issues need priority attention, and it will be essential and in the public interest that the IAASB agrees on the principles that underlie the requirements. The Enhancements Group is of the view that, if ISA 221 appropriately sets out the principles relating to the use of other auditors in a wide variety of situations, this new standard should be able to continue to be applied to the evolving corporate structures, and will also be capable of being applied as firm structures continue to evolve.
100. The Enhancements Group gave consideration to whether it would be more appropriate to address issues relating to involvement of other auditors in the revision of ISA 220 (i.e., instead of developing a separate standard), and also considered whether there was merit in changing the scope of ISA 600 to be a standard that would deal with all other auditors and not be focused only on situations involving component auditors (i.e., audits of group financial statements).
  - *With respect to dealing with the issues in ISA 220*—The Enhancements Group concluded that including more in ISA 220 would likely make that standard long and likely overly complicated. The Enhancements Group also noted the strong need for ISA 221 to be principles-based and capable of being adapted and applied to evolving circumstances, including those that will develop in the future. The Enhancements Group therefore concluded that it would be better for ISA 220 to be retained as the foundational principles-based standard, revised as necessary to better articulate the roles and responsibilities of the engagement partner for quality at the engagement level (including consideration of how to incorporate the use of a QMA). The Enhancements Group also saw value in the separate standard (ISA 221), which would clearly demonstrate the application of the principles in ISA 220 to situations when other auditors are involved. This approach would be more scalable, in that ISA 221 would not apply to relatively simple audits in which other auditors were not used. The Enhancements Group also noted that

having the appropriate framework in ISA 220 and ISA 221 would also provide the basis for the development of guidance at a later stage as to how to apply the principles to new and evolving circumstances if considered necessary.

- *With respect to dealing with the issues by revisiting the scope of ISA 600*—As indicated above, the Enhancements Group sees value in a separate standard to address special considerations for audits of group financial statements. Based on feedback from the ITC and notwithstanding the identified issues related to ISA 600, respondents expressed support for ISA 600. The Enhancements Group is of the view that ISA 600 provides a useful framework for planning and performing audits of group financial statements and that, since it has been effective, it has been instrumental in improving the quality of such audits.

101. Similar to the recommendation to use a three-standard approach in considering revisions to ISQC 1, the Enhancements Group was also of the view that it was important to obtain the input of both the CAG and the IAASB about these possible actions regarding ISA 220 and ISA 221 at this stage, so that the input can be taken into account in developing the project proposal that is scheduled for approval by the Board in December. The Enhancements Group however notes that possible action set out in this paper in relation to ISA 221 has only been briefly discussed by the Quality Control Working Group and the Group Audits Working Group.
102. If the IAASB agrees with the preliminary recommendation of the Enhancements Group, the Enhancements Group is of the view that a separate working group is therefore needed to focus on the crossover issues and the revisions to ISA 220 and 221 in a timely manner. The Enhancements Group recommends that this working group comprise the chairs of both the Quality Control and Group Audits working groups, other members from these groups and others as appropriate, in order to most effectively address these crossover issues in parallel to the work being done on quality control at the firm level as well as on group audits.
103. It is expected that this working group would also deal with issues related to networks, i.e., in relation to addressing the basis for reliance on network policies and procedures. It will also be important for this working group (and the Group Audits Working Group) to consider progress being made by the PCAOB with its similar project.
104. The Enhancements Group also noted the importance of considering how the concepts in ISA 315 (Revised) relating to understanding the entity and identifying and assessing risks need to be better be reflected in ISA 220 and ISA 221 (and also ISA 600 – see section below.) Having the right understanding of the nature and structure of the entity is foundational to the proper assessment of risks to quality at the engagement level and forms the basis for how the audit will be planned and performed. This includes how the engagement team will be structured, and for determining how effective performance, direction, supervision and review will be achieved.



### **Matters for IAASB CAG Consideration**

2. CAG Representatives and Observers are asked whether:
- (a) They agree with the further consideration of the development of a new standard (i.e., ISA 221) to address situations where other auditors, that are not component auditors, are used on an audit.
  - (b) There any other matters that need to be considered before the development of this new standard is included in the project proposal on quality control.

### **Group audits**

105. The revisions to ISA 600 will be affected by the possible actions described above and Board deliberations in relation to the crossover issues and other revisions of various standards as follows:

- (a) ISA 220—Once proposals have been developed sufficiently, the GAWG can use that as a basis for its deliberation of the impact on ISA 600.
- (b) ISA 221—Consideration will need to be given to the interrelationship between revisions to ISA 220 and the development of ISA 221, and the impact on the structure and content of ISA 600.
- (c) ISA 315 (Revised) —In recognition of the calls to enhance the interlinkage of ISA 600 and ISA 315, the work on ISA 315 will also need to be sufficiently progressed for the revised principles to be built into ISA 600, for example as they relate to identification, assessment and responding to significant risks as well as additional clarity around the role of internal control in risk assessment and the necessary understanding that is required.

The Enhancements Group recommends that some of the work explained above be sufficiently progressed before specific consideration is given in ISA 600 to these matters. As noted above, the Enhancements Group is of the view that the ability to build on ISA 221 will allow for streamlining of ISA 600.

106. In the meantime, the Enhancements Group believes that the Group Audits Working Group could still continue to progress on the matters that are discrete to ISA 600. This would include exploring the incorporation of a top-down risk-based approach to the planning and performance of an audit of group financial statements that would include planning and evaluating scoping and sufficiency of work both vertically (i.e., based on identification of components) and horizontally (across line items of the group financial statements) (See further discussion in Agenda Item G.3). Other discrete issues, such as more guidance relating to the determination and application of component materiality, could also be progressed in parallel and in order to be able to deliver on the expected timelines.

### **Professional Skepticism**

107. The recommendations in relation to professional skepticism arise from a need for the IAASB to not only coordinate with the other standard-setting boards on the matters of mutual interest, but also to be seen as progressing standard-setting activities in response to feedback to the ITC. The focus on evidence and documentation has been mentioned across a number of topics, including accounting estimates and data analytics. The Enhancements Group was therefore of the view that information-gathering and initial discussions should commence in early 2017 on these topics, so it is

recommended that a Working Group be formed after the December 2016 meeting to focus on these matters. See further discussion in Agenda Item J.3.

#### **Matters for IAASB CAG Consideration**

3. In addition to the possible options for new and revised standards relating to quality control at the firm and engagement levels, CAG Representatives and Observers are asked whether they agree with the other proposed actions set out in paragraphs 105–107 above? If a specific action is not agreed with, why not?
4. Are there any other actions that should be considered in moving forward in relation to professional skepticism, quality control and group audits?

#### **Project Milestones and Timelines**

108. The final survey for the [Work Plan for 2017–2018](#) indicated the following:

- A project proposal for Quality Control in December 2016 and Exposure Drafts in the second half of 2017.
- A project proposal for Group Audits in December 2016 and an Exposure Draft in mid-2018.

109. In light of the possible actions set out above, the Enhancements Group recommends timing of the publication of the exposure drafts as follows:

- ISQC 1, 2 and 3 in October 2017 (out for consultation for 120 days) (first read needs to be in March 2017, and a second read in June 2017).
- ISA 220 (Revised) and ISA 221 in January 2018 (out for consultation for 120 days) (first read needs to be in June 2017, and a second read in September 2017)
- ISA 315 (Revised) in April 2018 (out for consultation for 120 days) (first read needs to be in September 2017, and a second read in December 2017)
- ISA 600 (Revised) in July 2018 (out for consultation for 120 days) (first read needs to be in December 2017, and a second read in March 2018)

This timing takes into account the interconnected nature of the projects and represents the Enhancements Group's view about how the various deliberations need to be structured to maximize the time available to the Board and its Task Forces for proper deliberation of the many complex issues in the various projects. In particular, the Enhancements Group believes it is necessary for the IAASB to agree the principles in ISA 220 and ISA 221, as well as ISA 315 (Revised),<sup>52</sup> before exposing ISA 600, as ISA 600 is intended to build upon these principles. The timelines will allow for overlap between interconnected projects to allow stakeholders to understand the impacts of the changes on the proposed standards. Issues within the relevant projects will be prioritized and discussed giving consideration to key principles that need to be agreed. For example, the ISA 315 (Revised) project will explore key issues related to risk assessment that may have an impact on how an engagement is resourced (a topic that is addressed in ISA 220).

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<sup>52</sup> The same will apply that certain concepts in ISA 315 (Revised) will need to be discussed and certain principles finalized before the finalization of ISA 220 and ISA 221.

110. **Although feedback from the ITC will be helpful in moving forward productively and as expeditiously as possible, this proposed timeline is nevertheless very challenging, given the nature of the issues and complexities of the standards involved. It should be noted also that this timeline anticipates a significant commitment of Board, staff and TA resources to accomplish the desired outcomes within a relatively short period of time.** It also envisages exposure drafts will be discussed on two separate occasions before the Board will be asked to approve them for issuance – which seems reasonable given the length and depth of the issues being explored.
111. To enable sufficient Board discussion on each of the projects and taking account of other ongoing projects, in addition to the scheduled four IAASB meetings in 2017, the Enhancements Group also recommends that:
- (a) Two Board teleconferences will be scheduled for each of quarters 1 and 2 in 2017, with one in the third quarter. The dates will be communicated in the near future.
  - (b) A fifth (3 day) Board meeting be scheduled for October 2017.<sup>53</sup> This would be needed primarily to enable ISA 540 (Revised) to be finalized at the end of 2017. The scheduling of this meeting would be confirmed after the discussions at the December 2016 IAASB meeting.
  - (c) Consideration be given to how to most effectively obtain the necessary input from the CAG, including the need for additional CAG teleconferences (note a CAG teleconference is already planned in advance of the December 2016 IAASB meeting to consider the standard-setting project proposal).
112. The Enhancements Group's initial view is that the Working Groups' efforts should be first focused on the key foundational issues, in order to obtain Board and CAG feedback on a timely basis about the principles in question and then further develop specific approaches as needed (e.g., key foundational issues include the design of the QMA (which will in turn form the basis for the development of ISQC 1,2 and 3) and the principles of ISA 220 and ISA 221 (which will then form the basis for the related principles in ISA 600). However, in order to be able to meet the proposed timelines, discussions both by the task forces and the IAASB will need to be efficient and effective. Accordingly, concurrent with the broader focus on key foundational issues, different subgroups will need to focus on discrete aspects. All of this will require that the various work streams are adequately resourced (and which is discussed separately below under Task Force and Working Group Compositions).
113. Taking into account resources and available Board time, **Appendix 2** sets out the forward timetable for IAASB meetings to be able to meet the timelines as proposed above. Should any of the proposed discussions not take place as scheduled, it may result in the need for a revision in the timing of one or more of the planned exposure drafts.<sup>54</sup>

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<sup>53</sup> If a fifth meeting is scheduled, it is likely the timing of the December 2017 IAASB meeting would need to be pushed out by a week.

<sup>54</sup> It should also be noted that more time might be needed by Task Forces and the Board to properly discuss the issues and reach appropriate resolution. A more detailed roadmap has been developed by the Enhancements Group that supports this forward timetable.

**Matter for IAASB CAG Consideration**

5. CAG Representatives and Observers are asked to for their views on the projected timelines, including the proposed timing for the issuance of the related exposure drafts.

*Task Force and Working Group Compositions*

114. Discussions during the June 2016 IAASB meeting and the June and August IAASB Steering Committee meetings have highlighted the need to carefully consider how the various Task Forces and Working Groups should be structured, and how Staff support should be allocated, in order to:
- Reach anticipated milestones on key projects in light of growing stakeholder demands and the acknowledged interconnectivity between these projects;
  - Utilize available Board, TA and external resources in an efficient and effective manner; and
  - Be mindful of the budgetary implications of task force and working group activity and expected continued pressure to manage travel and meetings costs.
115. It is expected that to meet the timelines proposed above, resources other than Staff may be needed. For example, to be able to progress the discrete issues relating to quality control, support from one or more Technical Advisor to act in a staff capacity would be needed. In addition, other areas may be identified as the projects progress, at which time appropriate resources will need to be identified.
116. To respond to the possible actions above, Staff are working with IAASB leadership and Task Force and Working Group chairs to reconstitute the working groups and task forces to include appropriate representation on these groups. This effort includes the reconstitution of the Enhancements Group into a working group to address crossover issues (including changes to ISA 220 and developing ISA 221), allocating the members of the quality control working group into two groups: one to develop ISQC 1, 2 and 3 using a QMA, and the other to work on the more discrete quality control issues.
117. Other changes to the working groups will be made as appropriate as working groups become task forces (i.e., when the project proposal is approved by the IAASB.) This effort will also consider rotations of Board members and new appointees, and will also focus on achieving appropriate diversity and balance between practitioner and non-practitioner members and appropriate involvement of public members.

## Appendix 1

### List of Respondents to the ITC

**Note:** Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (87)	Region
<b>Investors and Analysts (7)</b>			
1.	CalPERS	California Public Employees' Retirement System	NA
2.	CalSTRS	California State Teachers' Retirement System	NA
3.	CFA	CFA Institute	GLOBAL
4.	IA	The Investment Association	EU
5.	ICGN	International Corporate Governance Network	GLOBAL
6.	NZSA	New Zealand Shareholders Association	AP
7.	SAAJ	The Securities Analysts Association of Japan	AP
<b>Those Charged with Governance (1)</b>			
8.	AICD	The Australian Institute of Company Directors	AP
<b>Regulators and Audit Oversight Authorities (12)</b>			
<b>9.</b>	<b>BCBS</b>	<b>Basel Committee on Banking Supervision</b>	<b>GLOBAL</b>
10.	CPAB	Canadian Public Accountability Board	NA
11.	EAIG	European Audit Inspection Group (21 European Audit Regulators)	EU
12.	EBA	European Banking Authority	EU
13.	ESMA	European Securities and Markets Authority	EU
14.	H3C	Haut conseil du commissariat aux comptes	EU
<b>15.</b>	<b>IAIS</b>	<b>International Association of Insurance Supervisors</b>	<b>GLOBAL</b>
<b>16.</b>	<b>IFIAR</b>	<b>International Forum of Independent Audit Regulators</b>	<b>GLOBAL</b>
<b>17.</b>	<b>IOSCO</b>	<b>International Organization of Securities Commissions</b>	<b>GLOBAL</b>
18.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
19.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
20.	UKFRC	Financial Reporting Council – UK	EU
<b>National Auditing Standard Setters (9)</b>			
21.	AUASB	Australian Auditing and Assurance Standards Board	AP
22.	CAASB	Canadian Auditing and Assurance Standards Board	NA
23.	CNCC- CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
24.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP

#	Abbrev.	Respondent (87)	Region
25.	IDW	Institut der Wirtschaftsprüfer	EU
26.	JICPA	The Japanese Institute of Certified Public Accountants	AP
27.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP
28.	NBA	Nederlandse Beroepsorganisatie van Accountants (Royal NBA)	EU
29.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
<b>Accounting Firms (10)</b>			
30.	BDO	BDO International Limited	GLOBAL
31.	CHI	Crowe Horwath International	GLOBAL
32.	DTT	Deloitte Touche Tohmatsu Limited	GLOBAL
33.	EYG	Ernst & Young Global Limited	GLOBAL
34.	GTI	Grant Thornton International Ltd	GLOBAL
35.	KPMG	KPMG IFRG Limited (Network)	GLOBAL
36.	PWC	PricewaterhouseCoopers International Limited	GLOBAL
37.	RBI	Russell Bedford International	GLOBAL
38.	RSM	RSM International	GLOBAL
39.	SRA	SRA (Samenwerkende Register Accountants) (Netherlands Network)	EU
<b>Public Sector Organizations (4)</b>			
40.	AGC	Auditor General Canada	NA
41.	AGSA	Auditor General South Africa	MEA
42.	GAO	United States Government Accountability Office	NA
43.	INTOSAI	Financial Audit Subcommittee of INTOSAI	MEA
<b>Preparers of Financial Statements (1)</b>			
44.	PAIB	IFAC Professional Accountants in Business Committee	GLOBAL
<b>Member Bodies and Other Professional Organizations (32)</b>			
45.	AAT	Association of Accounting Technicians	GLOBAL
46.	ACCA	Association of Chartered Certified Accountants	GLOBAL
47.	AIC	Asociación Interamericana de Contabilidad	SA
48.	AICPA	The American Institute of Certified Public Accountants	NA
49.	APESB	Accounting Professional & Ethical Standards Board Limited	AP
50.	CAANZ	Chartered Accountants Australia and New Zealand	AP
51.	CAI	Chartered Accountants Ireland – Audit and Assurance Committee	EU

#	Abbrev.	Respondent (87)	Region
52.	CAQ	Center for Audit Quality	NA
53.	CIIPA	Cayman Islands Institute of Professional Accountants	NA
54.	CIMA	Chartered Institute of Management Accountants	GLOBAL
55.	CPAA	CPA Australia	AP
56.	DnR	Den norske Revisorforening (DnR) – Norwegian Institute of Public Accountants	EU
57.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
58.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas (Argentine Federation of Professionals Councils of Economic Sciences)	SA
59.	FEE	Fédération des Experts comptables Européens - Federation of European Accountants	EU
60.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
61.	IBA	International Bar Association – Capital Markets Forum	GLOBAL
62.	IBRACON	Instituto dos Auditores Independentes do Brasil	SA
63.	IRE-IBR	Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren	EU
64.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
65.	ICAP	Institute of Chartered Accountants of Pakistan	AP
66.	ICAS	Institute of Chartered Accountants of Scotland	EU
67.	ICAZ	Institute of Chartered Accountants of Zimbabwe	MEA
68.	ICPAK	Institute of Certified Public Accountants of Kenya	MEA
69.	ICPAU	Institute of Certified Public Accountants of Uganda	MEA
70.	INCPC	Instituto Nacional de Contadores Públicos de Colombia	SA
71.	ISCA	Institute of Singapore Chartered Accountants	AP
72.	KICPA	Korean Institute of Certified Public Accountants	AP
73.	MICPA	The Malaysian Institute of Certified Public Accountants	AP
74.	SAICA	South African Institute of Chartered Accountants	MEA
75.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
76.	WPK	The Wirtschaftsprüferkammer	EU
<b>Academics (4)</b>			
77.	AAA	American Accounting Association – Auditing Section	NA
78.	AH	Andrew Higson	EU
79.	Glover-Prawitt	Professors Steven Glover and Douglas Prawitt - Brigham Young University	NA

#	Abbrev.	Respondent (87)	Region
80.	TRay	Thomas Ray	NA
<b>Individuals and Others (7)</b>			
81.	CBarnard	Chris Barnard	EU
82.	CK	Constance Kawelenga (ZUVA)	MEA
83.	DAHughes	Dianne Azoor Hughes	AP
84.	JGrant	JEC Grant	EU
85.	JK	John Kelly	NA
86.	KKTuraga	Krishna Kumar Turaga	AP
87.	SDeViney	Scott DeViney, CPA	NA



## Appendix 2

**Note:** This table has been prepared to support the areas for exploration highlighted by the Enhancements Working Group and as explained in this paper, and includes what has already been incorporated in the ISA 540 and ISA 315 project proposals (the latter to be approved at the September IAASB meeting). This table has not yet been considered by the IAASB, but sets out a timeline for the various projects taking into account the matters in this paper for discussion at the September 2016 meeting.

The timetable (and additional efforts planned to achieve it) represents actions that are responsive to feedback received to date and external pressures to move forward as quickly as possible, while not compromising quality or unrealistically straining Board and Staff resources. A fifth Board meeting, and additional Board teleconferences, will be scheduled in 2017 to accommodate the planned level of activity. This timetable takes into account recommendations to be considered by the Board in September, and as set out in this paper, including:

- A proposal to explore an expanded suite of ISQCs to address areas for improvements identified in particular for audits of listed entities, as well as concerns about scalability for other types of engagements.
- A proposal to develop of a new standard – ISA 221 – to address key issues relating to involvement of others in the audit (including audits of letterbox companies and the use of audit delivery models) to give prominence to these matters within the suite of standards.
- Outcomes on the discussions of the joint Working Group dealing with professional skepticism – envisaging continued activity of the joint WG on matters requiring collaboration across the standard-setting Boards as well as activities at the IAASB / individual Board level.
- Calls for more or enhanced “deliverables” in relation to technical projects, including project updates, Staff publications, overviews, stakeholder-specific outreach and publications. As an example, the Basis for Conclusions are likely to become more critical in explaining the IAASB’s rationale and approach.

Even if it is decided to only revise existing standards (vs. developing new standards), the time needed to progress towards exposure drafts addressing the issues identified to date is not expected to be reduced.

Project / Initiative	Dec-16	Mar-17	Jun-17	Sept-17	Oct-17 (3 day mtg)	Dec-17	2018
	<b>Discussions on Topics Relevant to Standard Setting</b>						
Quality Control (Including Crossover Issues)	Project proposal and discussion of QMA	First read of exposure drafts of ISQCs 1, 2 and 3 Approach to ISA 220 and ISA 221	Second read of exposure drafts of ISQCs 1, 2 and 3 First read of exposure draft of ISA 220 and ISA 221	<u>Approval</u> of exposure draft of ISQCs 1, 2 and 3 Second read of exposure draft of ISA 220 and ISA 221	-	ISQCs 1, 2, 3 out for comment Oct 1, 2017 – Jan 31, 2018  <u>Approval</u> of exposure draft of ISAs 220 and 221	Finalization of ISQC 1,2,3 in 2018  ISAs 220 and 221 out for comment Jan 21, 2018 – May 21, 2018  Finalization of ISAs 220 and 221 by end of 2018
Group Audits	Project proposal and consideration of ISA 221 implications	Agreement on principles in certain areas	Consideration of draft requirements in certain areas	Confirmation of consistency in approach in ISA 221 and ISA 315	-	First read of exposure draft of ISA 600	Second read of exposure draft March 2018 <u>Approval</u> of exposure draft June 2018 120 day comment period Final standard (2019)
Accounting Estimates, Including Fair Value – ISA 540	Approval of exposure draft of revised ISA 540	ISA 540 ED out for comment Jan 21 – May 21 High-level feedback on 540 at June meeting		Full review of ED comments and revised draft	Discussion on additional issues	<u>Approval</u> of ISA 540 (Revised)	

Project / Initiative	Dec-16	Mar-17	Jun-17	Sept-17	Oct-17 (3 day mtg)	Dec-17	2018
Special Audit Considerations Relevant to Financial Institutions <sup>55</sup>	-	Discussion of principles to be addressed in IAPN #1 addressing supervisors	Consideration of IAPN #1 for <u>exposure</u>	IAPN #1 out for comment (comment period TBD)		Discussion of principles to be addressed in IAPN #2 addressing financial institutions	Consideration of IAPN #2 for exposure June 2018 Finalization of IAPN #1 Finalization of IAPN #2 (2019)
Risk Assessment – ISA 315 (Revised)	Issues	Agreement on principles in certain areas	Consideration of draft requirements in certain areas	First read of exposure draft of ISA 315 (Revised)	-	Second read of exposure draft of ISA 315 (Revised)	<u>Approval</u> of exposure draft of ISA 315 (Revised) – March 2018 ISA 315 (Revised) out for comment April 15 – Aug 15 Final standard in 2018? IAPNs or other guidance development in 2018/2019 (need for exposure TBD)
Professional Skepticism	Discussion on common SSB issues	Level of activity to be determined based on consideration of issues affecting the three SSBs, including the articulation of the relationship between PS and IESBA fundamental principles, possibility of extending the concept of PS beyond assurance engagements, and need for a common description					

<sup>55</sup> The ED for ISA 540 (Revised) will be used as a means to solicit feedback on the nature and extent of additional guidance that may be needed to address audits of financial institutions and whether an IAPN is an appropriate vehicle to do so. Targeted dialogue with Basel, IAIS and others will also be necessary.

Project / Initiative	Dec-16	Mar-17	Jun-17	Sept-17	Oct-17 (3 day mtg)	Dec-17	2018
Evidence (ISA 500) and Documentation (ISA 230)	Establishment of working group to carry on from PSWG	Initial exploration of issues	Project proposal	Agreement of principles in certain areas	Consideration of issues in light of ISA 540	Consideration of draft requirements in certain areas	<u>Exposure drafts</u>
<b>Information-Gathering Activities to Inform Future Work</b>							
Data Analytics and the Effects on the Audit	Report back on the development of Project Advisory Panel and next steps	Request for Input expected to be out for comment Sept 1 – Dec 31; Report backs as needed to Steering Committee and IAASB from project advisory panel; input also to be considered in both the ISA 315 projects and the new workstream on evidence and documentation					
Integrated Reporting	Discussion paper out for comment Aug 17 – Dec 15	-	-	Report back on feedback from Discussion Paper and consideration of next steps			
Agreed-Upon Procedures – ISRS 4400	Discussion paper out for comment Nov 1 – Mar 1		-	Report back on feedback from Discussion Paper and consideration of next steps			
Innovation Working Group	-	-	Annual update	-	-	-	-

High-Level Summary of the Responses to the Invitation to Comment and Possible Options for the Way Forward  
 IAASB CAG Public Session (September 2016)

Project / Initiative	Dec-16	Mar-17	Jun-17	Sept-17	Oct-17 (3 day mtg)	Dec-17	2018
International Accounting Standards Board Liaison	Annual review	-	-	-	-	Annual review	-
IESBA Coordination	Periodic updates (at least annually) on matters of mutual interest and coordination across key standard-setting activities						
Updates on other initiatives	Periodic updates will be scheduled as needed on topics such as efforts in support of adoption and implementation of the Auditor Reporting standards and the development of a post-implementation review process in respect of standards other than ISAs						
Development of the IAASB's Work Plan for 2017–2018 (and next cycle)	Approval of final Work Plan for 2017–2018						Limited consultation on 2019 Work Plan Commence consultation on Strategy 2020–2024