

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Madrid, Spain
Meeting Date: September 11–13, 2017

Agenda Item

D

Quality Management (Firm level): Proposed Revisions to ISQC 1¹

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - a) Inform Representatives about the activities of the Quality Control Task Force (QCTF) since the March 2017 IAASB CAG meeting.
 - b) Provide a report back on comments from the Representatives on the issues and recommendations regarding ISQC 1 as discussed at the March 2017 IAASB CAG meeting.
 - c) Obtain Representatives' views on the QCTF's proposals in relation to ISQC 1 (Revised), set out in **Agenda Item D.1**.

Project Status and Timeline

IAASB Discussions

- At the March 2017 IAASB CAG meeting, the QCTF presented various proposals in relation to the restructure of ISQC 1 to incorporate a QMA, as well as proposals relating to engagement quality control (EQC) reviews. Since the March 2017 IAASB CAG meeting, the QCTF has developed a working draft of ISQC 1 (Revised) and presented this to the IAASB at the June 2017 meeting, in order to obtain direction from the IAASB about the various components of the system of quality management.
2. The IAASB supported the overall direction proposed by the QCTF and provided various recommendations in relation to each of the components. In addition, the IAASB emphasized the importance of outreach with a variety of stakeholders in order to obtain input on the practicality of the proposals. The IAASB also encouraged the QCTF to develop a document that accompanies ISQC 1 (Revised), which provides guidance and examples in order to explain the application of the standard.
3. In response to the IAASB's June 2017 feedback, the QCTF developed new proposals in relation to the sections of the standard addressing (i) establish quality objectives; (ii) identify and assess quality risks and (iii) design and implement responses to the quality risks. These proposals were presented to the IAASB at its August 2017 teleconference.
4. Appendix A to this paper provides a history of previous discussions with the IAASB CAG and IAASB on quality control at the firm level, including links to the relevant IAASB CAG documentation.

¹ 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*

Activities of the QCTF

5. Since the March 2017 IAASB CAG meeting, the QCTF met in person four times and held two teleconferences. These meetings included the QCTF's work in developing a new standard addressing EQC reviews (Proposed ISQC 2²). A first read of the exposure draft of ISQC 2 will be presented to the IAASB at its September 2017 meeting. A first read of the exposure draft of ISQC 1 is planned to be presented to the IAASB at its December 2017 meeting.

Coordination with Other IAASB Task Forces and Working Groups

6. Given the relationship between quality control at the firm level (ISQC 1) and quality control at the engagement level (ISA 220), the QCTF and ISA 220 Task Force continue to coordinate on topics that affect these projects, through Staff liaison, common membership of Task Force members and cross-attendance at Task Force Meetings. Furthermore, the Chairs of the QCTF and ISA 220 Task Force and IAASB Staff held a teleconference to discuss how coordination should be undertaken between the Task Forces in the next quarter.
7. The Chair of the QCTF, Staff and the IAASB member responsible for coordination continue to liaise with Staff of the International Ethics Standards Board for Accountants (IESBA) and the IESBA member responsible for coordination in relation to the objectivity of the EQC reviewer. At the September 2017 meeting, a joint IAASB and IESBA session will be held that will include a discussion on coordination, including how coordination should be undertaken between the two Boards with respect to this matter.

Outreach

8. As part of the outreach requested by the IAASB to obtain input on the practicality of the proposals (see paragraph 3 above), a two-day workshop will be held in London with representatives of the Global Public Policy Committee (GPPC) in early September 2017, prior to the IAASB CAG meeting. This meeting will also be observed by representatives of the International Forum of Independent Audit Regulators Standards Coordination Working Group, as well as a Public Interest Oversight Board Observer. The purpose of this workshop is to discuss the proposals of the QCTF that were presented to the IAASB in June 2017 and August 2017, and to obtain views from the GPPC representatives about the practical implications of the proposals.

March 2017 IAASB CAG Discussion

9. Extracts from the draft minutes of the March 2017 IAASB CAG meeting, as well as an indication of how the QCTF and IAASB have responded to the Representatives' comments are included in the table below.

Representatives' Comments	Task Force/IAASB Response
Mr. Iinuma and Mr. James were of the view that more clarity is needed on how these proposals would be operationalized, including scalability. Mr.	Point noted. Ms. French agreed that it is difficult to understand the proposals until such time as all of the

² Proposed ISQC 2, *Engagement Quality Control Reviews*

Representatives' Comments	Task Force/IAASB Response
<p>James was also unclear as to whether a QMA is “built-in” to ISQC 1 or whether it would be an “add-on” to ISQC 1.</p>	<p>requirements are presented together and noted that this would be the focus of the QCTF in the next few months.</p> <p>Agenda Item D.1 sets out the proposals and demonstrates how the QMA would be embedded within ISQC 1 (Revised).</p>
<p>Mr. Baumann suggested clearly articulating the problems with the extant standard and evaluating how the QMA would solve these problems, for example, if there are consistently high levels of deficiencies in the audits performed, how would improvements to the firm’s system of quality control translate into improvements in the quality of audits. Mr. Inuma was of the view that examples of where firms have applied a QMA in practice would be helpful and also questioned how a QMA would change firms’ behaviors.</p>	<p>Point noted.</p> <p>Ms. French agreed that as the standard is developed, it will be critical to keep in mind the original intention of the changes. She added that practical examples will be critical to proving the concept of a QMA, including demonstrating the scalability of ISQC 1 and how firms of different sizes would apply the requirements.</p> <p>Consideration of how the proposed changes could affect firms’ behaviors was included in the June 2017 Issues Paper presented to the IAASB.</p>
<p>Ms. Pettersson agreed with Mr. Bauman’s comments and questioned whether a QMA would promote and support a more preventative and continuous approach to quality management, i.e., that quality is achieved in the engagement throughout the process, rather than quality being addressed through detection at the end or after the completion of the engagement.</p>	<p>Point noted.</p> <p>Prof. Schilder agreed and noted that achieving quality the first time around is the fundamental goal.</p> <p>Ms. French noted that the foundations of the QMA are based on a preventative, proactive approach to quality management, rather than a detective approach, and highlighted that the revisions to ISA 220 would also incorporate this principle.</p>
<p>Messrs. Perera and Lang were supportive of the proposals relating to scalability. However, Ms. Molyneux cautioned that overly emphasizing scalability could result in firms not implementing policies and procedures, or other responses, necessary to comply with ISQC 1 and that adequately address the firm’s responsibility for quality. Similarly, Mr. Yoshii noted that in practice entities may appoint firms without appropriate resources and skills because the audit fees are lower for such firms. Mr. James was of the view that while flexibility is positive, the standard also needs</p>	<p>Point taken into account.</p> <p>Ms. French explained that maintaining the robustness of the standard is critical to the revisions, and that there would be certain objectives, risks and responses which all firms would be expected to apply that are based on the current elements of ISQC 1.</p> <p>Paragraphs 32 and 36 of Agenda Item D.1 include the proposed prescribed quality objectives and quality risks. There would also be limited prescribed responses that would include EQC</p>

Representatives' Comments	Task Force/IAASB Response
to enable consistent application in practice and be enforceable.	reviews (additional prescribed responses have yet to be considered by the QCTF, however the intention is that they would be limited).
Mr. Fortin was supportive of the “foundational components” as important aspects that underpin the firm’s system of quality management. He also suggested reconsidering the term “applying the QMP”, since “applying” a process is illogical and may not be sufficiently clear that this component includes requirements.	Point accepted. Ms. French agreed that the terminology used needs to be sufficiently clear that this component incorporates requirements, and accordingly indicated that the QCTF would reconsider the terminology. The term “applying the QMP” has not been used in Agenda Item D.1 .
Mr. van der Ende expressed his support for maintaining the robustness of the standard and noted that the components of governance and leadership and information and communication are very important. He explained that in the Netherlands firms are required to establish a “public interest committee” comprising external senior representatives, and that this function has resulted in a positive effect on firms through the committee’s independent challenge of the firm’s leadership and actions they take.	Point taken into account. Ms. French thanked Mr. van der Ende for the insightful information. Paragraph 23 of Agenda Item D.1 requires the firm to consider the requirements of law, regulation or other professional standards in relation to the governance of the firm. Paragraph A18 further notes that the firm may have an independent governing body or board of partners that has executive oversight of the firm, or committees may be established to fulfill specific leadership functions.
Ms. Pettersson emphasized the importance of incorporating inspection findings into ISQC 1 in order to improve quality management.	Point accepted. References to external inspections have been included in paragraphs 41(d), 44, A57, A70, A72, A87 and A88 of Agenda Item D.1 .
GOVERNANCE AND LEADERSHIP, INCLUDING ORGANIZATION, CULTURE AND STRATEGY	
Ms. Molyneux was particularly supportive of the component of “governance and leadership” and suggested that merely calling this component “governance” would encompass all of the aspects including leadership, culture, strategy and organization.	Point not accepted. Ms. French noted that the QCTF had extensively debated the terminology of the components and would consider this suggestion while ensuring the terminology is clear and understandable. Various proposals related to the terminology, including “governance and leadership”, were

Representatives' Comments	Task Force/IAASB Response
	presented to the IAASB in June 2017, and the IAASB agreed to retain the description of “culture, strategy and organization” in this component.
<p>Mr. Fortin and Ms. Molyneux noted that each individual within the firm is responsible for their work. Nevertheless, they, in addition to Mr. James and Mr. Rockwell agreed that there needs to be ultimate responsibility and accountability for quality at the highest level within the firm. Ms. Molyneux suggested that the proposals relating to firm leadership’s accountability for quality needs additional emphasis.</p>	<p>Point taken into account.</p> <p>Emphasis of the responsibility of each individual within the firm is included in paragraph 23 (a) of Agenda Item D.1.</p> <p>Paragraph 24 of Agenda Item D.1 includes the proposed requirements regarding the responsibility and accountability of firm leadership. These were presented to the IAASB in June 2017, however the IAASB had varying views regarding what specifically leadership should be responsible for, i.e., the system of quality management, management of quality or quality.</p>
<p>Mr. Iinuma and Ms. Molyneux highlighted the importance of the governance principles being principles-based in order that smaller firms are able to apply the governance principles in practice. Ms. Robert and Ms. Lang expressed their support regarding the new QMA approach, but expressed concern that there may be difficulties for small- and medium sized practices in applying governance principles. Mr. Iinuma made reference to the Japanese audit firm governance code which is principles-based and noted that how the firms are governed would vary from firm to firm.</p>	<p>Point taken into account.</p> <p>Ms. French explained that the QCTF is considering how to develop the governance principles in a manner that would facilitate application by all firms, but at the same time ensure the requirements are sufficiently robust to achieve their intended purpose.</p> <p>Paragraph 23 of Agenda Item D.1 includes the proposed governance principles. This paragraph also requires the firm to consider the requirements of law, regulation or other professional standards in relation to the governance of the firm, which may include a jurisdictional firm governance code.</p>
<p>Mr. James challenged the proposals of the QCTF related to the firm identifying appropriate personnel within firm leadership to be responsible and accountable for independence matters. He noted that Agenda Item D.1 suggested that firm leadership would be responsible for quality, yet it was implied that it is not possible to assign responsibility for independence to a single person. Mr. James suggested that the same principle should be applied to assigning responsibility for</p>	<p>Point accepted.</p> <p>Ms. French explained that the QCTF were of the view that independence is subsumed as part of quality and noted that the QCTF is debating the extent to which ISQC 1 should require specific allocation of responsibility for certain matters, such as independence.</p> <p>In June 2017 the IAASB concurred with the QCTF’s proposal to introduce a requirement for assigning operational responsibility for compliance with the</p>

Representatives' Comments	Task Force/IAASB Response
<p>independence as was applied to assigning responsibility for quality to firm leadership.</p> <p>Mr. James added that while he agrees that independence is a subset of quality, independence is a matter that is sufficiently important that it warrants separate identification.</p>	<p>independence requirements within the firm, and suggested exploring whether this should relate more broadly to relevant ethical requirements.</p>
<p>Mr. Fortin agreed that governance is an important underpinning component. However, he was concerned that the types of principles identified in Agenda Item H.1 are incomplete or limited, for example, it doesn't include a concept similar to the "public interest committee" that is required in the Netherlands and he questioned how transparency would be addressed in these principles.</p>	<p>Point taken into account.</p> <p>Ms. French explained that the QCTF had undertaken extensive research of various governance codes and other publications related to governance in developing the proposals and further explained that the topic of transparency reporting would be discussed by the QCTF and with the Board in the near future.</p> <p>Paragraph 23 of Agenda Item D.1 includes the governance principles, and paragraph A18 notes that the firm may have an independent governing body or board of partners that has executive oversight of the firm, or committees may be established to fulfill specific leadership functions.</p>
<p>Mr. Rockwell noted his support for including references to public interest in the requirements and application material.</p>	<p>Point not accepted.</p> <p>In June 2017, the IAASB discussed including references to "public interest" in ISQC 1 (Revised) and agreed that the standard should explain what is meant by public interest, rather than using the term "public interest".</p>
<p>Mr. Yoshii noted that a culture that promotes professional skepticism at engagement level is established through the governance of the firm</p>	<p>Point noted.</p>
<p>INFORMATION AND COMMUNICATION</p>	
<p>Mr. Yoshii noted that communication with parties external to the firm is very important.</p>	<p>Point noted.</p> <p>Ms. French agreed and noted that the QCTF were evaluating how to emphasize the importance of external communication in ISQC 1.</p> <p>Paragraph 23(d) of Agenda Item D.1 references to relevant stakeholders, including communication</p>

Representatives' Comments	Task Force/IAASB Response
	with such stakeholders. Paragraph 30 also addresses communication with external parties.
<p>Ms. Molyneux explained the importance of the firm communicating externally regarding the firm's governance and how it manages quality, and noted that only providing internal communication of these matters is too limited. Ms. Molyneux and Ms. Robert were of the view that such information is important to those charged with governance in appointing the audit firm and understanding their approaches to quality. Mr. James noted the International Organization of Securities Commissions (IOSCO) report on <i>Transparency of Firms that Audit Public Companies</i>, and highlighted that firms tend to use transparency reports as a tool for marketing purposes, with inadequate information about the firm's system of quality management and how quality is being addressed and monitored. Mr. James further noted that the requirements related to transparency reports across jurisdictions are basic and therefore suggested that the IAASB has the opportunity to raise the bar by introducing requirements that promote high quality transparency reports. Ms. Molyneux agreed and added that governance is about striving to exceed the minimum requirements.</p>	<p>Point noted.</p> <p>Ms. French indicated that the QCTF is still considering the topic of transparency reporting and that they would consider what type of information is appropriate in developing the requirements. She added that ISQC 1 would most likely address circumstances when the firm is required to prepare a transparency report and would include the type of information that should be communicated in such circumstances.</p>
<p>Mr. Baumann explained that in some jurisdictions, such as the United Kingdom, firms are required to conclude in the transparency report on the effectiveness of their system of quality control. However, he noted that often firms may conclude in the transparency report that the firm's system of quality control is effective, yet the results of external inspections reflect a different outcome. He added that companies are expected to go through a rigorous process in order to be able to conclude on the effectiveness of their internal control (e.g., in the United States) and therefore questioned whether firms should also be expected to go through a similar process in concluding on the</p>	<p>Point noted.</p> <p>The QCTF debated the purpose of the firm's monitoring and remediation process in developing the requirements in relation to monitoring and remediation. The QCTF agreed that the monitoring and remediation process is designed as an evaluation of whether the firm's system of quality management is effective in providing the firm with reasonable assurance that it has met the overall objective of the standard, i.e., its purpose is not to provide the firm with reasonable assurance about the effectiveness of the procedures put in place to address the overall objective of the standard. The</p>

Representatives' Comments	Task Force/IAASB Response
<p>effectiveness of their system of quality control. Mr. Fortin noted that the European Union has the same regulation as the United Kingdom.</p>	<p>objective of the monitoring and remediation is set out in paragraph 39 of Agenda Item D.1.</p>
<p>Mr. Dalkin noted that many firms strive to undertake quality work and follow the requirements of the standards, and cautioned that adding additional requirements may disproportionately burden such firms because there are other firms that do not intend on complying with the standards. Mr. Koktvedgaard noted that through his role in relation to disciplinary hearings, firms have either failed to read the standard or have no desire to comply with the standard. Mr. Koktvedgaard was therefore supportive of less, but more precise, requirements.</p>	<p>Point taken into account.</p> <p>At the June 2017 IAASB meeting, it was proposed that the requirements with respect to the elements³ in extant ISQC 1 would be included in ISQC 1 (Revised) in the form of prescribed quality risks and prescribed responses, at a level of granularity similar to extant ISQC 1. At the August 2017 teleconference, the IAASB further discussed these requirements and agreed that they should be reflected as prescribed quality risks (with some exceptions), at the level of granularity set out in paragraph 36 of Agenda Item D.1.</p>
<p>Mr. Yoshii highlighted that in Japan the quality of the transparency reports is very poor and that investors struggle to understand the information presented. Accordingly, he was supportive of the IAASB addressing this topic.</p>	<p>Point noted.</p> <p>The QCTF is still considering the topic of transparency reporting.</p>
<p>Ms. Robert referred to the legislation within the European Union regarding the transparency report and to the Accountancy Europe publication about audit quality indicators.</p>	<p>Point noted.</p> <p>The QCTF is still considering the topic of transparency reporting.</p>
<p>Ms. Lang indicated that the development of the requirements related to documentation would be critical to the scalability of ISQC 1.</p>	<p>Point taken into account.</p> <p>At the September 2017 IAASB meeting, the IAASB will be discussing the QCTF's proposals in relation to documentation. These proposals have been developed in an outcome based manner that focuses on the objective of the documentation, as this allows for the scalable application of the requirements. More specific requirements have also been included in relation to certain components, in order to support consistent application and interpretation.</p>

³ Elements refers to the following elements in extant ISQC 1: (i) relevant ethical requirements, (ii) acceptance and continuance of client relationships and specific engagements, (iii) human resources, and (iv) engagement performance.

Representatives' Comments	Task Force/IAASB Response
QUALITY MANAGEMENT PROCESS	
<p>Mr. Rockwell supported the concept of establishing a threshold for the risks for which no further response or consideration is needed by the firm, although was agnostic about how such a threshold should be established.</p>	<p>Point taken into account.</p> <p>Paragraph 34 of Agenda Item D.1 includes the proposed requirements regarding the risk identification, which focuses on “the risks that could reasonably have an adverse impact on the firm’s ability to achieve its quality objectives”. At the June 2017 meeting, the IAASB supported a threshold for the risk identification, however raised various concerns regarding the proposed threshold in the working draft.</p>
<p>Ms. Molyneux indicated that those charged with governance of the entity may be interested about the quality objectives, the key performance indicators on the quality objectives, and encouraged transparency about the threshold for the risks for which no further response or consideration is needed by the firm.</p>	<p>Point noted.</p> <p>The QCTF is still considering the topic of transparency reporting.</p>
EQC REVIEW	
<p>Ms. Molyneux asked whether the IAASB had considered extending the scope of the engagements subject to EQC review to public interest entities (PIEs).</p> <p>Mr. Rockwell was of the view that a risk-based approach seemed workable, but questioned how there would be consistent interpretation and application across firms in practice in following a risk-based approach. Mr. Dalkin noted that in the public sector, there could be an entity that is extremely small, which is audited by a firm comprising a single partner (e.g., a school) and highlighted that in such cases it would be impracticable for an EQC review to be undertaken. Mr. Dalkin encouraged the QCTF to understand what “public interest” means and the nature of the firms that would perform engagements that would be subject to an EQC review in accordance with the requirements in ISQC 1.</p>	<p>Point taken into account.</p> <p>Ms. French explained that the IAASB had concluded that the use of PIEs as a basis for the scope of engagements subject to EQC review would be inappropriate given the varying definitions of PIEs across jurisdictions. She added that the IAASB had instead concluded that ISQC 1 should establish more robust risk-based requirements that would capture engagements that should be subject to an EQC review, which would in most cases include PIEs.</p> <p>A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. The QCTF has proposed, in addition to audits of listed entities and where required by law and regulation, the performance of an EQC review for engagements for which the firm has determined through its quality management process that an EQC review is an appropriate response based on</p>

Representatives' Comments	Task Force/IAASB Response
	the assessed likelihood and impact of the quality risks.
<p>Mr. James indicated that the EQC review being performed throughout the engagement versus at appropriate stages during the engagement could be subject to different interpretations. He added that performing the EQC review at the final stage of the engagement could be interpreted as an "appropriate stage" and therefore was cautious about the use of this term.</p>	<p>Point accepted.</p> <p>A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. The QCTF has proposed addressing the appropriate timing of the EQC review in the requirements relating to the performance of the review.</p>
<p>Mr. James expressed concern about the EQC review focusing only on significant judgments and was uncomfortable that the determination of the significant judgments would be left to the EQC reviewer, as this could be problematic from an enforceability perspective. He noted that the PCAOB's Standard, AS 7, is more specific about the matters that the EQC reviewer should consider. Mr. Yurdakul was of the view that the EQC review should focus also on compliance with the firm's policies and procedures and with professional standards. Mr. Fortin suggested that the EQC review should consider other matters beyond significant judgments, and noted the direction of the project in relation to ISA 315 (Revised) that aims to place additional focus on risks at the higher end of the spectrum of risk, rather than just significant risks. He added that the term "significant" is used across the IAASB's International Standards and accordingly there is a need to understand what it means.</p>	<p>Point partially accepted.</p> <p>Ms. French highlighted that the IAASB agreed that the EQC review should remain focused on the significant judgments, with application guidance that explains the types of matters that may be considered significant judgments. She added that the standard would also impose a responsibility on, and encourage, the EQC reviewer to evaluate other areas of the engagement, as necessary, in order to meet the objective of the EQC review.</p>
<p>Ms. Robert supported the EQC review being a role of the firm and encouraged the QCTF to compare the matters subject to the EQC review with that of the EU Regulation.⁴</p>	<p>Point accepted.</p> <p>Ms. French indicated that the QCTF has considered the relevant EU Regulation.</p>
<p>Mr. Sobel reiterated that each member of the engagement team has a responsibility towards</p>	<p>Point accepted.</p>

⁴ [Regulation \(EU\) No 537/2014 of the European Parliament and of the Council](#)

Representatives' Comments	Task Force/IAASB Response
<p>quality and encouraged the QCTF to consider emphasizing this in the standard.</p>	<p>Emphasis of the responsibility of each individual within the firm for quality is included in paragraph 23(a) of Agenda Item D.1.</p>
<p>ELIGIBILITY OF THE EQC REVIEWER</p>	
<p>Ms. Molyneux questioned why industry knowledge had not been included as one of the necessary attributes to be eligible to perform the role of EQC reviewer.</p>	<p>Point accepted. A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. The QCTF has proposed including “sufficient knowledge of the entity’s industry” as one of the attributes in relation to the eligibility of an individual to be appointed as the EQC reviewer.</p>
<p>Ms. McGeachy suggested using the expression “sufficient time” instead of “capacity” as this is clearer.</p>	<p>Point accepted. A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. The phrase “sufficient time” has been included in the attributes.</p>
<p>Mr. Koktvedgaard noted the IESBA Code provisions in relation to long association, which prohibit the engagement partner from fulfilling the role of EQC reviewer in the cooling-off period, and address the cooling-off of the EQC reviewer. Mr. Yoshii added that the IESBA Code addresses the independence of the EQC reviewer. Mr. Inuma questioned the objective of the proposals in relation to the cooling-off period, and how these relate to the provisions of the IESBA Code.</p>	<p>Point noted. Ms. Klonaridis explained that the IESBA Code provisions in relation to long association address the cooling-off of the engagement partner in circumstances when the entity is a PIE and when the engagement partner has reached the maximum period, i.e., seven years. She added that the proposals of the QCTF would therefore address circumstances when the engagement is not an audit of a PIE, or the engagement partner has not served a full seven years. Ms. Klonaridis also noted that the long association provisions in the IESBA Code address a familiarity and self-interest threat, whereas the cooling-off provisions in this case are intended to address a self-review threat.</p>
<p>Ms. Molyneux noted her support for a cooling-off period, and although she agreed that a minimum period of two years would be appropriate, she indicated that the period should probably align with the IESBA period in relation to the cooling-off</p>	<p>Point noted. Prof. Schilder noted that the coordination with IESBA on this matter is a good example of the cooperation between the two standard setting boards.</p>

Representatives' Comments	Task Force/IAASB Response
<p>provisions addressing the long association of an EQC reviewer (three years).</p>	<p>At the September 2017 meeting, a joint IAASB and IESBA session will discuss how coordination should be undertaken between the two Boards with respect to the objectivity of the EQC reviewer, and specifically, a cooling-off period.</p>
<p>Ms. Robert noted that the combination of requirements relating to a cooling-off period and industry knowledge might be too onerous and may result in a lack of individuals that are eligible to fulfill the role. Ms. Robert encouraged the QCTF to consider how to balance the requirements, for example, considering whether it would be more important for the individual to have the right competence, or whether objectivity be more important. Mr. Yurdakul was not supportive of a cooling-off period as he was of the view that the qualification of the EQC reviewer and the procedures they should perform are more important and a prescriptive cooling-off period would be too onerous for SMPs to apply.</p>	<p>Point noted.</p> <p>At the September 2017 meeting, a joint IAASB and IESBA session will discuss how coordination should be undertaken between the two Boards with respect to the objectivity of the EQC reviewer, and specifically, a cooling-off period.</p> <p>A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. The criteria for the eligibility of the EQC reviewer have been designed so that the individual possesses the appropriate attributes relative to the engagement. This has been accomplished through the use of terms, such as, "sufficient and appropriate experience", supported by application material that emphasizes that such attributes are flexible according to the engagement circumstances, including the nature of the engagement and its complexity.</p>
<p>Ms. Robert supported locating the requirements in relation to the cooling-off period in ISQC 1, given that many jurisdictions do not adopt the IESBA Code.</p>	<p>Point noted.</p> <p>At the September 2017 meeting, a joint IAASB and IESBA session will discuss on how coordination should be undertaken between the two Boards with respect to the objectivity of the EQC reviewer, and specifically, a cooling-off period.</p>
<p>Mr. Yurdakul was of the view that there should be an individual or a committee within the firm who is assigned responsibility for establishing the policies and procedures in relation to the firm's system of quality management and who would be responsible for selecting the EQC reviewer.</p>	<p>Point accepted.</p> <p>A first read of the exposure draft, ISQC 2, will be presented to the IAASB in September 2017. This includes a proposed requirement for the firm to "assign responsibility for the appointment of the EQC reviewer(s) to an individual(s) who possesses sufficient knowledge to be able to objectively assess whether the eligibility criteria in [ISQC 2] have been met".</p>

Matters for IAASB CAG Consideration

10. **Agenda Item D.1** includes the working draft of ISQC 1 (Revised) for consideration by the Representatives, and comprises:
- (a) The working draft of ISQC 1 (Revised) presented to the IAASB in June 2017 and the proposals presented to the IAASB in August 2017; and
 - (b) Updates to address certain of the IAASB's June 2017 comments that have not been presented to the IAASB (the QCTF needs to further deliberate various proposals of the IAASB in order to fully address all of their comments, and therefore this draft does not reflect all possible changes).⁵
- Representatives are asked for their views on the proposals in the working draft. *At this stage, the QCTF is not seeking feedback on the proposed drafting set out in **Agenda Item D.1**, as the drafting is preliminary and will be further developed for the purposes of the exposure draft.*
11. The [June 2017 Issues Paper](#)⁶ and [August 2017 Issues Paper](#)⁷ presented to the IAASB provide detailed insight into the matters considered by the QCTF in developing the working draft.

⁵ As a convenience, the QCTF has prepared a marked version to highlight recent updates that have not yet been discussed with the IAASB (see **Agenda Item D.2**). Aside from showing these marked changes, **Agenda Item D.2** is the same as **Agenda Item D.1**. Please note, the marked changes are from previous IAASB discussion and do not represent changes from extant.

⁶ Matters discussed in the June 2017 Issues Paper include:

- The components and structure of ISQC 1 (Revised).
- How ISQC 1 (Revised) would retain robustness, but at the same time enhance the standard to allow for a more scalable application to cater for firms of all sizes.
- The basis for the proposals in relation to the components, i.e., (i) governance and leadership, including organization, culture and strategy; (ii) information and communication (this excluded documentation that has yet to be developed); (iii) the quality management process (quality objectives, quality risks and responses), including monitoring and remediation.
- How the proposals could affect firm behaviors.
- Consideration of a separate standard addressing EQC reviews.

This Issues Paper was accompanied by [Agenda Item 2–B](#), *Working Draft of ISQC 1*, [Agenda Item 2–C](#), *Prescribed Quality Objectives, Quality Risks And Responses* (superceded by [Agenda Item 1–B](#), of the August 2017 teleconference), and [Agenda Item 2–D](#), *Tracking Document of Requirements in Extant ISQC 1 to New Proposals*.

⁷ Matters discussed in the August 2017 Issues Paper include:

- The overall approach to establishing quality objectives, identifying quality risks and designing and implementing responses.
- The granularity of the proposed prescribed quality objectives and quality risks and the extent to which the extant requirements in ISQC 1 should be retained in their current form.
- How the elements of extant ISQC 1 would be incorporated within the QMP of revised ISQC 1.
- How the proposals in relation to the QMP in revised ISQC 1 would be reflected in revised ISA 220, *Quality Control for an Audit of Financial Statements*.

This Issues Paper was accompanied by [Agenda Item 1–B](#), *Draft Prescribed Quality Objectives and Quality Risks* (these are included in paragraph 32 and 36 of **Agenda Item D–1**) and [Agenda Item 1–C](#), *Comparison of Extant Requirements in the Elements of ISQC 1 to the Proposed Prescribed Quality Risks*.

Furthermore, a comparison with extant ISQC 1 was presented to the IAASB in [June 2017](#) and [August 2017](#) for reference purposes.⁸ Representatives may consider these documents useful.

12. Matters on which the QCTF is seeking Representatives' views are include below:

General Questions

1. Are Representatives of the view that the proposed working draft of ISQC 1 (Revised) is a robust and improved standard that facilitates scalable application for firms of varying size and complexity?
2. Are Representatives of the view that the proposed standard would result in a more robust and effective system of quality management for firms?
3. Are Representatives concerned that the proposed changes could result in a disproportionate burden on smaller firms?

Governance, Leadership, Organization, Culture and Strategy (Para. 23–28 of **Agenda Item D.1**)

4. Representatives are asked to share their views in relation to the requirements addressing governance and leadership, in particular:
 - (a) How the requirements address the culture of the firm and the responsibility of all firm personnel for quality.
 - (b) Whether the requirements appropriately address the firm's public interest role.
 - (c) The responsibilities of firm leadership in paragraph 24, in particular whether firm leadership is responsible for quality overall, or only the system of quality management.
 - (d) The proposed new requirement in paragraph 26 addressing performance evaluations.

Establishing Quality Objectives, Identifying and Assessing Quality Risks and Designing and Implementing Responses (Para. 32–38 of **Agenda Item D.1**)

5. Representatives are asked to share their views in relation to the requirements addressing quality objectives, quality risks and responses, in particular:
 - (a) Whether the proposals would improve firms' systems of quality management, i.e., a more robust, tailored and effective system of quality management.
 - (b) Whether the proposed level of specificity in relation to the quality objectives (para. 32) and quality risks (para. 36) are appropriate, given that the quality risks have been generated from the requirements in paragraphs 20–34 and 43–47 in extant ISQC 1.

Monitoring and Remediation (Para. 39–51 of **Agenda Item D.1**)

6. Representatives are asked to share their views in relation to the requirements addressing monitoring and remediation, including:

⁸ Please note that it is not practicable to provide a "marked from extant" version, given the extent of changes and restructuring of the standard.

- (a) Whether the proposals sufficiently address the current regulatory landscape, in particular the expectations of regulators and oversight bodies with respect to firms' monitoring and remediation.
- (b) Matters relating to firm's inspections of engagements, set out in paragraph 42.

Material Presented – IAASB CAG Papers

Agenda Item D.1 Quality Management (Firm level) – Working Draft of ISQC 1

Agenda Item D.2 Quality Management (Firm level) – Working Draft of ISQC 1 (Marked from Board)

Project History

Project: Quality Control (Firm Level)

Summary

	IAASB CAG Meeting	IAASB Meeting
Project Commencement	March 2015 September 2015 September 2016	June 2014 (Quality Control only) December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project proposal	November 2016 Teleconference	December 2016
ISQC 1 issues discussion, including ISQC 2 addressing EQC reviews	March 2017 September 2017	December 2016 March 2017 June 2017 August 2017 September 2017

IAASB CAG Discussions: Detailed References

Information gathering: Responding to Calls to Enhance Audit Quality	<p><u>March 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B and C). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p>
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Quality Management (Firm level): Proposed Revisions to ISQC 1
IAASB CAG Public Session (September 2017)

Information gathering: Overview of Responses to the ITC, Group Audits and Engagement Quality Control Reviews	<u>September 2016</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa
Project Proposal	<u>November 2016</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est
ISQC 1 issues discussion, including EQC reviews	<u>March 2017</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting