



Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: September 10–11, 2019

Agenda Item C

Proposed ISQM 1¹ – Cover

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Provide an overview of respondents' feedback on the Exposure Draft (ED) of ISQM 1 (ED-ISQM 1), particularly respondents' feedback on the quality management approach, benefits to quality, scalability and structure of ED-ISQM 1 and comments on the firm's risk assessment process.
 - (b) Obtain Representatives' views about:
 - (i) The ISQM 1 Task Force's (TF) proposals to address scalability.
 - (ii) Whether there are any additional actions the IAASB should take to address the scalability of Proposed ISQM 1.

Project Status

2. ED-ISQM 1 was published for comment on February 8, 2019 and the comment period closed on July 1, 2019. As a result, the IAASB has not held any discussions on Proposed ISQM 1 since the March 2019 IAASB CAG meeting.
3. In September 2019, the ISQM 1 TF plans to present to the IAASB Board respondents' feedback on the quality management approach, benefits to quality, scalability and structure of ED-ISQM 1 and comments on the firm's risk assessment process. Furthermore, the ISQM 1 TF plans to obtain the Board's views on how the ISQM 1 TF proposes to address:
 - (a) The overall scope of firms and services covered by Proposed ISQM 1.
 - (b) The structure of Proposed ISQM 1.
 - (c) How Proposed ISQM 1 deals with quality objectives, quality risks and responses.
 - (d) How the standard deals with the firm's risk assessment process.

¹ Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

4. The ISQM 1 TF plans to present respondents' feedback on other areas of ED-ISQM 1 and proposals to address respondents' comments and concerns to the IAASB Board in December 2019.

CAG Discussion in September 2019

5. For the purposes of the CAG discussion, the Chair of the ISQM 1 TF will present:
 - (a) An overview of the feedback received on ED-ISQM 1 (**Agenda item C.1**).
 - (b) The ISQM 1 TF's proposals to address the matters highlighted in paragraph 3(a)–3(d).Representatives will then be asked to provide input on the questions outlined below in this paper.
6. **Agenda Item C.2**, which accompanies this cover note, is the ISQM 1 Issues Paper that will be presented to the IAASB Board in September 2019. **Agenda Item C.2** therefore includes a summary of respondent's feedback on some of questions that were included in ED-ISQM 1. **Agenda Item C.2** also includes the ISQM 1 TF's proposals to address the matters highlighted in paragraph 3(a)–3(d).
7. Since **Agenda Item C.2** is an IAASB Board paper, in navigating the document, Representatives are requested to note the following:
 - (a) The questions in **Agenda Item C.2** are those that will be posed to the IAASB Board, and therefore Representatives are not being asked to respond to these questions. The questions that are being asked of Representatives are outlined below.
 - (b) **Agenda Item C.2** includes references to a variety of other Agenda Items that will be presented to the IAASB Board in September 2019. These Agenda Items have not been provided to Representatives for the purposes of the CAG discussion, but if CAG members would like to access these papers, they are available at: <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-0>.
8. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB Board on Proposed ISQM 1, including links to the relevant IAASB CAG documentation.
9. **Appendix B** to this paper provides a list of outreach between March 2019 and July 2019 regarding ED-ISQM 1.

Matters for IAASB CAG Consideration

1. Do representatives support the proposals outlined in **Agenda Item C.2** to address the scalability and complexity of Proposed ISQM 1, including:
 - (a) Reordering the components of the standard to improve the readability of the standard, and clarifying that “the firm's risk assessment process” and “monitoring and remediation” are processes in nature?
 - (b) Revising the approach to required quality objectives, quality risks and responses in the components, i.e.:
 - (i) Revising the quality objectives to be higher level, which may result in fewer quality objectives;
 - (ii) Introducing quality risk considerations; and

- (iii) Reducing the required responses.
 - (c) Simplifying the requirements addressing the identification and assessment of quality risks?
 - (d) Developing a separate standard dealing with quality management over related services engagements?
2. Do representatives have views about additional actions the IAASB should take to address the scalability and complexity of Proposed ISQM 1?

Material Presented – IAASB CAG Papers

Agenda Item C.1 Proposed ISQM 1 - Presentation

Agenda Item C.2 Proposed ISQM 1 – Issues and Recommendations

Appendix A

Project History

Project: [ISQM 1](#)

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
First Read of Draft Exposure Draft of Proposed ISQC 1		December 2017
Second Read of Draft Exposure Draft of Proposed ISQC 1	March 2018	March 2018
Third Read of Draft Exposure Draft of Proposed ISQC 1	September 2018	September 2018
Exposure Draft of ISQM 1 approved		December 2018

IAASB CAG Discussions: Detailed References

Information gathering: Responding to Calls to Enhance Audit Quality	<p><u>March 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B and C).</p> <p>http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F).</p> <p>http://www.iaasb.org/cag/meetings/new-york-usa-0</p>
Information gathering: Overview of Responses to the ITC, Group Audits and Engagement Quality Control Reviews	<p><u>September 2016</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G).</p> <p>http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project Proposal	<p><u>November 2016</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B).</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
ISQC 1 issues discussion, including EQC reviews	<p><u>March 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H).</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D).</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2018</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D).</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny</p> <p><u>September 2018</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item C).</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p>
ISQM 1 update and report back	<p><u>March 2019</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H).</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p>

Appendix B

Outreach

1. Various outreach activities took place between March 2019 and July 2019 regarding ED-ISQM 1. These outreach activities included:
 - A presentation at the International Forum of Independent Audit Regulators' Standards Coordination Working Group.
 - A presentation at the International Organization of Supreme Audit Institutions' Financial Audit and Accounting Subcommittee Meeting.
 - Two webcasts hosted by the IAASB that were open to any participants.
 - A deep-dive session, including a panel discussion, with the Forum of Firms, as well as a presentation to the Japanese member firms of the Forum of Firms.
 - A presentation and roundtable discussion at the Paris Small-and-Medium Sized Practices working conference hosted jointly by the IAASB, IESBA, Ordre des Experts-Comptables and Compagnie Nationale des Commissaires aux Comptes.
 - Two roundtable discussions in Hong Kong with firms, and a general public forum in Hong Kong.
 - A meeting with the UK Financial Reporting Council's Investor Group.
 - Presentation and roundtable discussion at the Standard Setters Forum in Costa Rica.
 - A roundtable discussion at the Pan African Federation of Accountants Technical and Standard Setters Forum Meeting.
 - A presentation at the Institute of Certified Public Accountants of Kenya's Annual Seminar
 - A presentation to the New York State Society of Certified Public Accountants.