

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Dates:** September 15–16, 2015

## Agenda Item

# F

### Invitation to Comment—Responding to Public Interest Calls to Enhance Audit Quality

#### Objective of the Agenda Item

1. To discuss the approach to, and consider an initial draft of, a combined Invitation to Comment (ITC) addressing key topics on the IAASB's agenda, and provide feedback thereon in advance of its planned December 2015 issuance.

#### Project Status and Timeline

2. The IAASB's [Work Plan for 2015–2016](#) ("the Work Plan") committed to give priority to the topics of :
  - Quality control;
  - Group audits;
  - Audits of financial institutions (including International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*); and
  - Professional skepticism.
3. Work commenced on the topic of Quality Control in 2014. The IAASB discussed issues and concerns related to ISQC 1<sup>1</sup> and ISA 220<sup>2</sup> in December 2014, March 2015 and June 2015. CAG Representatives initially discussed the topic in March 2015 (see [Agenda Item C](#) and [Agenda Item C-1 from the March 2015 CAG Meeting](#)).
4. Discussions on Group Audits commenced in 2014. Initially, issues relating to the topic of "letterbox audits" and the approach to such audits, including the applicability of ISA 600<sup>3</sup> in such circumstances, were discussed with the IAASB in December 2014, March 2015 and June 2015, as well as with CAG Representatives in March 2015. 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*, was published in August 2015 to remind engagement partners of their responsibilities in such circumstances. Broader issues relating to Group Audits have been discussed

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

<sup>2</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>3</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

with the IAASB in March 2015 and June 2015, and with the CAG Representatives in March 2015 (see [Agenda Item B](#) from the March 2015 CAG Meeting).

5. The topics of professional skepticism and special audit considerations relevant to financial institutions are also included in the ITC. See discussion on these topics in **Agenda Items B and D**, respectively.
6. After the March 2015 IAASB discussions on the topics of group audits and quality control, the IAASB agreed to an approach of a combined ITC to obtain input – based on recognition of inter-relationships, and cross-over issues, and also to avoid going to the same respondents with separate requests multiple times in a short period of time. In light of its experience with the Auditor Reporting project, the IAASB was also of the view that soliciting input via a public consultation as soon as practicable would be a useful means of informing the Board's planned standard-setting activities in key topics, in particular the development of detailed project proposals and subsequent exposure drafts. The IAASB's outreach to date has indicated support for this approach. The Public Interest Oversight Board representative at the June 2015 IAASB meeting also expressed support for the IAASB's outreach efforts, and encouraged the working groups to continue obtaining information about matters at the early stages of the project, in particular from audit oversight bodies and regulators, as this would assist in early identification of the most pertinent public interest issues that need to be addressed.
7. In order to facilitate the development of a combined ITC, the Audit Quality Enhancements Coordination Group (AQECG) was formed. This group comprises the chairs of the four individual working groups of the topics covered by the ITC, as well as the Board member serving as the Liaison to the International Ethics Standards Board for Accountants (IESBA) and the IFAC Small and Medium Practices (SMP) Committee. The role of this group is to coordinate the various inputs to the ITC developed at the individual working group (WG) level and take a holistic approach as to how the matters are presented in the ITC. Separate WGs continue to progress the discussions on the four individual topics.
8. The following is relevant to the CAG's consideration of the draft ITC (**Agenda Item F.2**):
  - The draft ITC incorporates the WGs' and IAASB discussions to date, as well as feedback from the CAG at its March 2015 meeting.
  - Input from the CAG and the IAASB at their respective September 2015 meetings will be used to finalize the ITC for discussion with the IAASB in December 2015.
  - The ITC is expected to be published mid-December with a 150-day comment period, in order to enable those stakeholders who would like to provide feedback on all parts of the ITC sufficient time to formulate their responses.
  - During the comment period, there will be ongoing outreach to solicit further stakeholder views on matters included in the ITC. In this regard, interaction with CAG Member Organizations in various ways will be explored.
  - The responses to the ITC will be used to inform standard-setting project proposals to be presented to the CAG and IAASB in September 2016. At that time, the IAASB may also consider activities other than standard setting that may be necessary to address the public interest issues related to the four key topics.

## Format of the Session and Papers to Be Referred to During the Discussion

9. The draft ITC<sup>4</sup> has been developed by three different groups, with interactions as appropriate:
  - The AQECG—Responsible for the forepart of the ITC.
  - The Quality Control Working Group (QCWG)—responsible for the Quality Control section of Part II, *Exploring the IAASB's Suggested Enhancements in Relation to Specific Projects*.
  - The Group Audits Working Group (GAWG)—responsible for the Group Audits section of Part II.
10. The CAG's initial discussion (planned for 1.25 hours on September 15) will follow the format of the issues paper (**Agenda Item F.1**). This initial group discussion by the CAG will focus on the nature and content of the forepart of the ITC (paragraphs 1–59 of **Agenda Item F.2**). The forepart is intended to provide a broad view of the issues identified relating to the IAASB's priority projects, soliciting views through the use of broad questions on the individual topics. *Matters for CAG Consideration* relating to the forepart can be found in Section I of **Agenda Item F.1, questions 1–2**.
11. During the initial discussion, the CAG will also be asked to discuss the more significant issues that will be raised with the IAASB at its September 2015 meeting in relation to the topic of quality control. These can be found in Section II of **Agenda Item F.1**, with *Matters for CAG Consideration* included as **question 3**.

### *Breakout Session*

12. During the September 2015 CAG meeting, a breakout session will be held to provide the Representatives with an opportunity to discuss the matters included in Part II of the draft ITC, *Exploring the IAASB's Suggested Enhancements in Relation to Specific Projects* (beginning at paragraph 63 of **Agenda Item F.2**).
13. The CAG Representatives and Observers will be divided into groups for the breakout session. Each group's discussion will be facilitated by IAASB Staff and one of the Chairs of the IAASB Working Group (Megan Zietsman, Chair of the GAWG and Chair of the AQECG, Karin French, Chair of the QCWG and Rich Sharko, Chair of the Financial Institutions Working Group), with the objective of obtaining CAG feedback on the topics of Quality Control and Group Audits as presented in Part II of the draft ITC (**Agenda Item F.2**). Specific questions regarding the individual topics will be used to guide these sessions, and can be found in the *Matters for CAG Consideration Agenda Item F.1* (**question 4** for Quality Control and **question 5** for Group Audits), with specific reference to the draft ITC presented in **Agenda Item F.2**. It is expected that CAG member's detailed comments on Part II will be raised during the breakout session discussion. In addition to providing input on the matters raised as specific questions, CAG members are also encouraged to provide any other comments on any aspects of the draft ITC, or on the specific questions<sup>5</sup> in Part II of the draft ITC.

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<sup>4</sup> In addition to the topics set out in paragraph 9, the ITC also contains the topics of professional skepticism (see **Agenda Item F.2** paragraphs 51–59) and financial institutions, including auditing accounting estimates (see **Agenda Item F.2** paragraphs 45–50), and may also contain more information about the detailed issues relating to financial institutions, including auditing accounting estimates, subject to CAG and IAASB discussions in September 2015.

<sup>5</sup> In Part II of the ITC, the questions on the individual topics are more specific, and relate to the issues identified and possible actions to address the issues identified. These questions may help in formulating views on the overall questions in the forepart of the ITC.

14. The observations, including any themes identified from the discussions in the breakout sessions, will be collated by IAASB staff, and a summary will be presented to the CAG in the session planned for September 16.

### **Matters for CAG Consideration**

15. Specific *Matters for CAG Consideration* are set out in **Agenda Item F.1**. Discussion of these matters have been set out above.

### **Material Presented**

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| Agenda Item F.1 | Invitation to Comment—Responding to Public Interest Calls to Enhance Audit Quality—Issues and Working Groups’ Recommendations |
| Agenda Item F.2 | (Draft) Invitation to Comment—Responding to Public Interest Calls to Enhance Audit Quality                                    |

### **Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY**

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| August 2015 Staff Audit Practice Alert, <i>Responsibilities of the Engagement Partner in Circumstances When the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed</i> | <a href="http://www.ifac.org/publications-resources/staff-audit-practice-alert">http://www.ifac.org/publications-resources/staff-audit-practice-alert</a>   |
| Agenda Item 8 of the June 2015 IAASB Meeting, <i>Approach to Combined DP</i>  | <a href="http://www.iaasb.org/system/files/meetings/files/20150615-iaasb-agenda_item_8-approach_to_combined_dp-final.pdf">http://www.iaasb.org/system/files/meetings/files/20150615-iaasb-agenda_item_8-approach_to_combined_dp-final.pdf</a>     |
| Agenda Item 9-A of the June 2015 IAASB Meeting, <i>Group Audits—Issues and Working Group Recommendations</i>  | <a href="http://www.iaasb.org/system/files/meetings/files/20150617-iaasb-agenda_item_9-a_group_audits_issues-final.pdf">http://www.iaasb.org/system/files/meetings/files/20150617-iaasb-agenda_item_9-a_group_audits_issues-final.pdf</a>         |
| Agenda Item 12-A of the June 2015 IAASB Meeting, <i>Quality Control – Issues and Working Group Recommendations</i>  | <a href="http://www.iaasb.org/system/files/meetings/files/iaasb-20150615_agenda-item-12-a_quality_control-issues-final.pdf">http://www.iaasb.org/system/files/meetings/files/iaasb-20150615_agenda-item-12-a_quality_control-issues-final.pdf</a> |