

Overview and Invitation to Comment: Enhancing Audit Quality in the Public Interest—A Focus on Professional Skepticism, Quality Control and Group Audits—Issues and Working Groups' Discussion

Enhancing Audit Quality—Draft Minutes from IAASB Meeting September 2015¹

Ms. Zietsman noted that the development of the draft Invitation to Comment (ITC) had been coordinated by the Audit Quality Enhancements Coordination Group (AQECG), comprising the chairs of the relevant working groups (i.e., the Quality Control Working Group (QCWG), Group Audits Working Group (GAWG), Professional Skepticism Working Group (PSWG) and the Financial Institutions Working Group (FIWG)), and the IAASB member serving as the liaison to the International Ethics Standards Board for Accountants (IESBA) and the International Federation of Accountants (IFAC) SMP Committee, as well as Ms. Kelsall as correspondent member. She noted that this group had been charged with coordinating the development of the ITC, including the forepart, and that the project-specific working groups had worked on the detailed sections of the ITC.

Ms. Zietsman explained the intent to publish the ITC in December 2015 for public consultation, with a 150-day comment period. During the comment period, extensive related outreach will be performed, which is currently in the process of being planned. She noted that in outreach performed to date, support had been received from a wide range of stakeholders for a combined document to consult on the various topics included in the ITC, and added that the PIOB had supported the idea of a single document for the relevant consultations.

WHY CHANGES TO THE ISAs MAY BE NEEDED

Prof. Schilder explained that various influences had necessitated the IAASB considering what could be done to enhance and strengthen the ISAs relating to the topics included in the ITC, including:

- Changes in the business environment.
- The changing business models of firms, including their structures, which have impacted the manner in which audits are carried out.
- The findings from the IAASB's ISA Implementation Monitoring project and other feedback from practice.
- Audit inspection findings.
- Input from other outreach and interactions with regulators and audit oversight bodies, national auditing standard setters (NSS), the Global Public Practice Committee (GPPC), the SMP Committee, users, investors and those charged with governance (TCWG).

Prof. Schilder added that various other factors are also influencing the need to further explore what the audit is and what the audit can do. These changes include the [new and revised auditor reporting standards](#), the work being done on Audit Quality, including the IAASB's [Framework for Audit Quality](#) (Audit Quality Framework) and the US Public Company Accounting Oversight Board's (PCAOB) recent [concept release](#) on audit quality indicators, and changes relating to audits in the European Union.

¹ Subject to comments from IAASB members

KEY PUBLIC INTEREST AREAS FOR THE IAASB TO ADDRESS

As a result of the influencing factors, Prof. Schilder noted that key public interest issues to address in the context of the board's priority projects include:

- Audit leadership in the public interest.
- Facilitating a proactive management approach to quality by firms (possibly resulting in new ISQC 1² and revisions to ISA 220).³
- Transparency and therefore observability of the audit.
- Fostering an independent, challenging, and skeptical mindset of the auditor.
- Ensuring the ISAs are fit-for-purpose in the evolving and increasingly complex business environment, and in line with how audits are being carried out.
- Enhancing communication and interactions between those involved in the audit, for example between the group engagement team and the component auditors, with appropriate documentation of the communications and interactions.
- Addressing issues relating to the way that firms are using the quality control policies and procedures of networks, including the potential reliance placed thereon.
- Understanding how firms are addressing issues identified in their policies and procedures by internal and external monitoring activities.

FOREPART OF THE ITC

Ms. Zietsman explained that the forepart of the ITC is intended to appeal to a wider audience that may not be familiar with the technical aspects of the ISAs. She noted that the forepart is intended to provide a broad view of the issues explored in more detail in the ITC, including crossover issues between projects and matters of significance for each project that are relevant to the intended audience. She added that the questions were developed at a high-level and were intended to encourage responses from those for whom the forepart was intended. Ms. Zietsman explained that the CAG Representatives and Observers, while supporting the AQEWG's intention of creating the forepart in a manner that would solicit feedback from investors, TCWG, and preparers, raised a number of suggestions as to how the forepart could be improved to be more effective in achieving this intention. CAG Representatives and Observers expressed their preference for the forepart to be an entirely separate publication that would summarize the key issues and questions in a brief, yet understandable manner, and without too much technical detail.

Ms. Zietsman noted that the working groups would continue to obtain input from the SMP Committee to ensure that SMP issues are appropriately highlighted, and that plans were being made to obtain input for public sector perspectives to include in the ITC. Ms. Zietsman noted that the topics of professional skepticism and audits of financial institutions would be discussed separately (see sections 5 and 7 of these minutes, respectively).

Board members continued to support the approach to the combined consultation, agreeing that the "forepart" should be designed for use by an audience that can be expected to be interested in the topics but who might not have detailed technical knowledge of the ISAs and ISQC 1. The IAASB also agreed with the CAG Representatives and Observers' view that the AQECG should reconsider the manner in

which issues were presented in the forepart, as the matters were still, in their view, described in a very technical manner and therefore the Overview might not be effective in appealing to the intended audience. Ms. Zietsman also noted that in light of feedback from SMPs and small- and medium-sized entities (SMEs), the SMP Committee had also expressed concern about the length and technical nature of the document.

Board members also provided specific comments on the forepart and part II of the draft ITC, including noting that:

- The crossover issues were not clearly identified and described and that more clarity was therefore needed in order for respondents to better understand the issues and also why the ITC was combining issues for the various projects.
- There was duplication in some areas between the forepart and the detailed descriptions of the topics in Part II of the document.
- The ITC should be very clear that it is focused on seeking input on the priority projects included in the ITC and should not imply that it is a broader consultation on the IAASB's work plan.
- There should be fewer questions in the forepart, but those questions should be worded in an open-ended manner to invite broad responses from respondents, who would be likely to have different perspectives.
- The draft ITC should be easy to navigate, and should therefore have a table of contents and incorporate other "signposting" to facilitate easy navigation between the forepart and the rest of the ITC where further detail can be found.
- Further consideration should be given as to how the Audit Quality Framework impacts the different aspects that are included in the forepart. Mixed views were expressed as to the usefulness of the relevant quotes from the Audit Quality Framework, board members generally noted the usefulness of linking the discussion to the Audit Quality Framework, in particular because of the forepart's intended audience, but a few Board members found the references distracting.
- While acknowledging the need to challenge the description of the issues in the forepart and present them succinctly with less focus on all the technical details, but given their complexity, the description of the issues in Part II should not be overly truncated and the document should be "as long as it needs to be" to provide the necessary context for those responding more detailed level.
- The ITC should where possible, highlight relevant activities of others that relate to the various topics included in the ITC.
- Consideration should be given to making the forepart a separate document, in light of its intended audience and purpose and in view of the CAG's preference for it to be a separate and more targeted document.

The Board also recognized that the content included in the ITC relating to professional skepticism and financial institutions was subject to change based on the planned direction of those projects.

² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*

³ ISA 220, *Quality Control for an Audit of Financial Statements*

IAASB CAG Chairman's Remarks

Mr. Waldron agreed with Ms. Zietsman's summary of the comments received from CAG Representatives and Observers, and noted in particular that some expressed uncertainty that the forepart would achieve the objective for which it was intended, as it was too long, too technical and the articulation of certain matters was not sufficiently clear, in particular the crossover issues. The IAASB was encouraged to make the forepart more succinct and high-level so that the intended audience would be encouraged to engage (e.g., investors who would not need extensive technical details in order to formulate responses).

Ms. Zietsman also noted that there were a few CAG Representatives and Observers that questioned whether the combined approach was appropriate, as, in their view, the topics were different in nature. However, she noted that they understood why the IAASB was developing the combined ITC.

PIOB Observer Remarks

Prof. van Hulle acknowledged the challenging nature of the forepart of the ITC, and encouraged the IAASB to reconsider the technical nature of the document and to make it as simple as possible such that it would be more likely to be appealing to the broadest possible range of stakeholders, including those who would not ordinarily respond to IAASB consultations.

GENERAL COMMENTS ON PART II OF THE ITC

The AQECG was encouraged to consider how the "possible actions" in relation to issues that had been identified for quality control and group audits were articulated, in particular whether it was appropriate in all cases to present "IAASB views." Some IAASB members were concerned that the ITC should not give the impression that the IAASB has already decided on a course of action nor prejudge the outcome of the consultation. While acknowledging the need to provide the IAASB's perspectives on possible actions to address the issues identified, these members were of the view that the ITC needs to strike the appropriate balance in providing the Board's perspective based on its detailed discussions to date while not suggesting that further or alternative views will not be considered. All working groups were also encouraged to eliminate unnecessary repetition, and also consider whether the possible actions outlined in the ITC would likely be effective in addressing the issues identified. In addition, the IAASB asked that further consideration be given to whether the questions relating to quality control and group audits were appropriately drafted to solicit the necessary input in a broad-based manner.

IAASB CAG Chairman's Remarks

Mr. Waldron noted that some CAG Representatives and Observers had encouraged the IAASB to make sure that the issues and possible actions are described in sufficient detail so that stakeholders could consider the adequacy and appropriateness of the possible actions and develop an effective response.

QUALITY CONTROL

Ms. French introduced the topic, noting that both specific aspects relating to Quality Control, as well as the Quality Control section of the draft ITC, would be discussed. In respect of the specific matters noted below, the Board noted that it would be important for the ITC to sufficiently address these matters and seek stakeholder input in order to have sufficient information to proceed in its standard setting activities.

Quality Control Policies and Procedures at the Firm Level when Operating as Part of a Network of Firms

The Board generally agreed with the QCWG's view that the quality control requirements in ISQC 1 should remain the responsibility of the audit firm. However, a few Board members questioned why a network would not have an interest in maintaining consistency in the application of policies and procedures by firms within the network, particularly in the area of common quality control policies and procedures. In addition, Board members variously:

- Noted that if an audit firm chooses to rely on network-level quality control policies and procedures, or any other third party other than itself, in order to meet its responsibilities under ISQC 1, that the audit firm should have an appropriate basis for doing so, and agreed that including specific requirements in ISQC 1 would help clarify what that basis should be.
- Expressed concern that developing new requirements in this area may have unintended consequences on the extent of effort that would be required by the audit firm to be able to demonstrate the basis for such reliance. It was suggested that one approach might be to consider the "service organization" concept followed by corporate entities that choose to rely on others for certain aspects of their financial reporting obligations (including the related reporting by service auditors).

Ms. French noted these comments were consistent with the feedback from the CAG Representatives and Observers, who acknowledged the challenges likely to be faced by the IAASB in attempting to mandate policies and procedures at the network level and suggested that it would be more appropriate to focus rather on what is needed at the firm level as a basis for this reliance.

Transparency Reporting

The Board acknowledged the challenges raised in relation to transparency reports, but generally had the view that it was important to understand views of its stakeholders in relation to requirements and guidance for transparency reports. The Board therefore recommended that the ITC include a question regarding the use of transparency reports to solicit views on what actions on the topic by the IAASB may be appropriate or necessary. The Board also emphasized the importance of clarifying what is meant by the term "transparency reporting," by explaining in the ITC what transparency reporting is, and noting that any efforts by the Board would be in the context of reporting by a firm on the effectiveness of its system of quality control. Ms. French noted that some CAG Representatives had also suggested focusing the discussion in this manner, and also highlighted that the International Organization of Securities Commissions (IOSCO) would soon issue a publication on transparency reporting. She added that the SMP Committee had also expressed concerns about the IAASB moving towards requiring transparency reporting, and encouraged the IAASB to highlight in the ITC that requiring transparency reporting would impose burdens on SMPs that would be disproportionate to the public benefit. The SMP Committee also noted that the public perception of differences between larger and smaller firms could be widened if the IAASB standards were to require some firms to publish transparency reports and others not.

IAASB CAG Chairman's Remarks

Mr. Waldron noted his personal view that transparency reporting is a topic that the IAASB should continue to pursue and highlighted the CAG Representatives and Observer's support for the inclusion of the topic and related questions in the ITC.

Engagement Quality Control Review

The IAASB acknowledged the need to consider how to give further prominence to engagement quality control reviews (EQCRs), including strengthening requirements for engagement quality control reviewers and the selection of those reviewers; potentially expanding the scope of engagements subject to an EQCR beyond audits of financial statements of listed entities; and the possibility of the development of a separate EQCR standard to emphasize the importance of the role of these reviews. Ms. French also added that the SMP Committee had agreed with the QCWG's suggestion to not include a question about a separate standard in the ITC. The IAASB was supportive of including a question about a separate standard in the ITC.

IAASB CAG Chairman's Remarks

Mr. Waldron noted that a number of CAG Representatives and Observers strongly supported including the possibility of developing a separate EQCR standard in the ITC, highlighting that this would heighten the relevance and the role of the EQCR.

Part II of the Draft ITC

In considering the quality control sections of the draft ITC, Ms. French noted specific comments received at the September 2015 CAG meeting as well as a letter received from the SMP Committee. Board members provided input on matters to be further considered by the QCWG for inclusion in the ITC, including:

- Strong support for further exploring changing the approach to quality control for firms to a quality management approach (QMA). However, the QCWG was also encouraged to make this proposed action more prominent, and provide more detail about what it could entail, so that stakeholders could understand the change.
- In relation to the definition and responsibilities of the engagement partner, as the person responsible for audit quality, one approach could be for the focus on the ISAs to be on determining whom is best placed to serve in the role as engagement partner. One member suggesting it may be helpful to ask an explicit question in the ITC about whether the definition needed to be revisited in light of this view.

IAASB CAG Chairman's Remarks

Mr. Waldron added that CAG Representatives and Observers were supportive of exploring a QMA to a firm's quality control.

PIOB Observer Remarks

Prof. van Hulle expressed his strong support for establishing requirements at the audit firm level when relying on others, such as a network entity, to meet its obligations under ISQC 1. He emphasized the importance of this in the public interest, as particularly in the case of networks, where public perception is that the system of quality control through the network is consistent, when in reality this is not always the case. On the topic of transparency reporting, Prof. van Hulle commented that, while an evolving area, it was important for the IAASB to continue to consider where it can make positive contributions and therefore supported the inclusion of the topic and related questions in the ITC.

GROUP AUDITS

Ms. Zietsman provided an overview of the specific comments received from CAG Representatives and Observers, as well as the SMP Committee, relating to the detailed group audits section in part II of the draft ITC.

Board members provided input on matters to be further considered by the GAWG for inclusion in the ITC, including:

- Highlighting that all of the relevant ISAs apply in a group audit situation, and noting that ISA 600⁴ provides further guidance about how to apply the other ISAs in the circumstances of a group audit.
- Emphasizing, where relevant, the practical challenges that arise in applying the ISAs (including ISA 600) to group audit situations.
- Highlighting those issues that have been identified relating to non-controlled investments (including those investments that are accounted for using the equity method), given the challenges in practice in this area.
- Exploring whether the current approach described in ISA 600 for auditing a group and which is suitable for “traditional” group structures is still appropriate, or whether requiring a more “top-down” approach to the planning and performance of a group audit would be more effective in addressing some of the more complex group structures encountered today, and which are not explicitly addressed in the current standard,
- Further clarifying what it might mean to “refer to the report of another auditor in the auditor’s report” and the related implications.
- Better explaining the limits of what may be done in relation to materiality within a project focused on group audits, making it clear that many of the issues relating to materiality would likely need to be dealt with first in project focused on materiality more broadly and which would likely involve a more overall review of ISA 320.⁵
- Further exploring the need for requirements and guidance for component auditors and providing more details about what this may entail.
- Integrating the impact of disclosures in a group audit into the relevant sections, and not as an isolated section at the end.

IAASB CAG Chairman’s Remarks

Mr. Waldron agreed with Ms. Zietsman’s summary of the matters highlighted by CAG Representatives and Observers relating to group audits, including that CAG Representatives and Observers were supportive of exploring guidance for component auditors and encouraged the IAASB to give additional consideration to law and regulation impacting the information needed in order to accept a new audit engagement. It was noted that CAG Representatives and Observers also supported a question in the ITC to explore the group engagement team’s ability to use and make reference in the auditor’s report to the report of another auditor, recognizing there may be concerns about whether this would ever be appropriate. In this regard, CAG Representatives and Observers encouraged the IAASB to provide appropriate background about in the ITC to allow respondents to submit informed responses.

PIOB Observer Remarks

Prof. van Hulle questioned whether the working group had considered the impact of mandatory rotation in a group audit situation, suggesting that further guidance may be needed in that area.

WAY FORWARD

The AQECG, QCWG, GAWG and PSWG⁶ will continue to develop the ITC for the IAASB's consideration and finalization at the December 2015 meeting.

Draft Minutes from IAASB Teleconference October 2015¹

Overview of the ITC: Enhancing Audit Quality in the Public Interest—A Focus on Quality Control, Group Audits and Professional Skepticism

Ms. Zietsman introduced the draft Overview of the Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest—A Focus on Quality Control, Group Audits and Professional Skepticism (Overview)*. She explained that the ITC had been split into two separate documents, with the Overview reworked to better facilitate responses from users and preparers of financial statements and audit committee members and their representative organizations. Ms. Zietsman explained that the separate ITC would contain the technical details relating to the topics of professional skepticism, quality control and group audits, together with more detailed questions on specific potential areas for improvement within the IAASB's standards. The Board supported moving forward with the proposed approach to have two separate documents (the Overview and ITC), noting this approach would allow the Overview document to be more tailored to its intended audience (as feedback from these groups is essential) and to better serve as the basis for the planned outreach.

In relation to the draft Overview presented for discussion, the Board acknowledged the significant revisions that had been made since the September 2015 IAASB discussions, in particular highlighting that this had resulted in increased readability and struck a good balance in terms of the intended audience. Mixed views were expressed on the length. Some Board members thought the Overview could be shorter, but other Board members continued to emphasize that the document needed to provide sufficient information for respondents to be able to form informed views on the matters therein. The Enhancements Working Group agreed to further consider the readability and structure of the document in finalizing the document for the December 2015 IAASB meeting.

With regard to the articulation of the public interest matters being addressed by the consultation, the Board agreed that the Overview largely captured the public interest issues being discussed in relation to the priority projects included, but asked that further consideration be given to how matters related to the roles and responsibilities of the engagement partner and engagement quality control reviewer, as well as monitoring and remediation, were appropriately captured therein.

It was noted that further specific improvements could be made, and the Enhancements Working Group was asked to further consider:

⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁵ ISA 320, *Materiality in Planning and Performing an Audit*

⁶ Refer to the Financial Institutions discussion below where it was concluded that the FIWG would proceed with its work separately from the ITC.

- How the relevant detail in the ITC could be most effectively signposted from the Overview. This was viewed to be essential to highlight the deeper discussions in the ITC, and would provide for the ability of readers of the Overview to refer to the detail if they wanted to.
- How to better contextualize the development of the IAASB's *Work Plan for 2015–2016* (Work Plan) and the rationale for the focus on quality control, group audits and professional skepticism as the priority topics, as this was seen as being helpful in framing the discussion for readers of the Overview and explaining the context of the projects addressed therein.
- Making the discussion on professional skepticism more prominent in the document. Some Board members were also of the view that more description of the IAASB's discussions to date on professional skepticism would be important and informative to respondents. However, others acknowledged that the Professional Skepticism Working Group had only recently commenced its work on the topic and may not be in a position to put forth possible actions at this stage, but rather the group and the IAASB would benefit from using the consultation to gather further information that could then inform the ongoing work. It was noted that this context would be useful to include in the Overview and ITC.
- Providing more insight in the Overview about the matters relating to group audits that are covered in the more detailed ITC. It was noted that this should be done in a manner that would be appropriate to the intended audience of the Overview, i.e., without overly complex technical details. Board members observed that more content on group audits in the Overview would also help achieve better balance of the content between the three projects in the ITC, and address observations made by some Board members that there appeared to be an imbalance among the topics.
- How better linkages to the *Framework for Audit Quality* could be provided, in particular with respect to how the Quality Management Approach (QMA) in the quality control section could seek to promote an emphasis on quality at all levels and in all process within a firm.
- How current developments could be further linked to the need to “future proof” the ISAs to address the overarching point of making sure the ISAs and ISQC 1⁷ are adequate to enable auditors to reduce audit risk to an acceptably low level.
- Whether a greater emphasis on governance of firms was needed as this was specifically highlighted in the Work Plan for quality control.
- How the issues and possible actions relating to possible changes to address issues identified relating to network of firms were being articulated, as ISQC 1 was directed at the firm and not the network level.
- Whether the questions could be more targeted to solicit appropriate feedback. As part of this, it was noted the IAASB should seek to understand the expectations that respondents may have of others to address some of the public interest issues highlighted in the Overview, in light of the interactions in the financial reporting supply chain that affect audit quality. It was also noted that the questions should be open-ended in nature so as to encourage broad based feedback.

⁷ 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*

- Various other changes and editorials to clarify certain matters, or provide additional insight, throughout the document, including to not appear presumptive about certain courses of action.

QUALITY MANAGEMENT APPROACH

In relation to the detailed revisions made to the QMA section, there were mixed views about the level of detail needed in the Overview versus the ITC. Some Board members suggested that the Overview section could be condensed, with some of the more technical details (including some of the tables) only being included in the ITC. Others suggested that additional examples of how the QMA approach would be undertaken could also be useful.

Other comments on the QMA included:

- Some concern about the tone in relation to perceived deficiencies or criticism of ISQC 1, as well as the view that various interpretations exist as to what is intended by “preventative” versus “detective” controls. It was also noted that such terms may not be well-understood by the intended audience.
- Whether more could be done in the text to address the scalability of the QMA approach, in anticipation of concerns about adopting such an approach from small and medium practices.
- Whether more could be done to highlight how this may impact quality control at the engagement level (i.e., ISA 220)⁸ and the project on group audits.
- References to the COSO Framework⁹ in relation to the QMA in the Overview were noted as potentially confusing.

WAY FORWARD

A revised Overview (together with the ITC) will be presented for IAASB discussion and finalization at the December 2015 IAASB meeting.

Consultative Advisory Group (CAG) Chair's Remarks¹⁰

Mr. Waldron supported the direction taken in the drafting of the Overview, and the changes made to respond to Board and CAG members' comments. He asked that further consideration be given to making the document more readable and relevant to the intended audience. In particular, he asked that further consideration be given to making clear upfront for whom the document is intended, and its purpose. He also agreed that cross-referencing to the more detailed sections in the ITC, where relevant, was essential and would provide readers with the opportunity, if they so wished, to obtain more information about the matters in the Overview. He requested the Enhancements Group to also consider the placement of the questions, including whether they should be placed towards the beginning of the document.

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*

⁹ *Committee of Sponsoring Organizations of the Treadway Commission (COSO ERM Framework)*

¹⁰ Subject to comments from CAG Chair

Objectives of the IAASB Discussion

The objectives of the IAASB discussion at its December 2015 meeting are to approve¹¹ for publication the:

- (a) Overview of the IAASB's Invitation to Comment (ITC), *Enhancing Audit Quality—A Focus on Professional Skepticism, Quality Control and Group Audits*.
- (b) IAASB's ITC, *Enhancing Audit Quality—A Focus on Professional Skepticism, Quality Control and Group Audits*.

1. The purpose of the Overview and ITC are to solicit input on the topics of professional skepticism, quality control and group audits.
 - In relation to group audits and quality control, the input will be used to inform the development of standard-setting project proposals that are expected to be considered by the IAASB Consultative Advisory Group (CAG) and IAASB at their respective September 2016 meetings.
 - In relation to professional skepticism, the documents are intended to solicit input to assist the joint working group with progressing their discussions about possible actions to enhance the application of professional skepticism in audits. Input from the working group will inform the IAASB in making decisions about the most effective way forward.

Format of the Consultation Papers

2. Feedback from the September 2015 IAASB and CAG meetings suggested that it might be more effective to progress two separate but related publications to solicit feedback on the priority topics from all the various stakeholder groups. Further consideration by the IAASB at its October 2015 teleconference, and discussions of the Audit Quality Enhancements Coordination Group (Enhancements Group) supported this approach. Accordingly, two documents are presented for approval:
 - Overview of the ITC (Overview) (**Agenda Item 2-A**)—This publication describes the public interest issues the IAASB is seeking to address in the context of its three priority projects and has been designed to introduce the matters that the ITC addresses in more detail. The Overview is intended to appeal to a wider audience of stakeholders (for example, those that have broad interest in audit-related matters and who wish to provide input on the significant issues on a more overall basis, such as users and preparers, and audit committees and their representative organizations). The Overview includes various questions to guide respondents in developing their responses. In addition to serving as a basis for written public comments, the Overview will also be used as the basis for the various outreach activities that are currently being planned for 2016. A draft of this document was discussed on the IAASB teleconference on October 29th, 2015 (see draft minutes above).

¹¹ In terms of the Board's due process and working procedures, the IAASB is not required to formally vote to approve the issuance of consultations like the Overview and ITC. However, in the context of seeking the IAASB's approval of these documents, Board members will be asked to indicate whether they are supportive of their issuance for public consultation (subject to any final comments that may be necessary for IAASB staff to address under the oversight of the Enhancements Group, and in consultation with the IAASB Chairman and Technical Director).

- The detailed ITC (**Agenda Item 2-B**) —The detailed ITC builds on the background in the Overview as to why the IAASB is considering changes to the ISAs and ISQC 1, and includes a more detailed discussion that provides greater insight into matters related to quality control and group audits. Specifically, the Overview includes more detail about the issues, overviews extant requirements and application material, and describes possible actions that the IAASB might take to address the issues. This ITC is generally intended to facilitate responses from firms, regulators and audit oversight bodies, NSS, member bodies and others interested in the more detailed aspects of the consultation. More specific questions for respondents are included in the ITC.

The IAASB's intent is that both documents achieve an appropriate balance between readability and comprehensiveness for the intended audience and efforts have been undertaken to streamline and clarify wording and presentation. In addition, both documents will be professionally designed before issuance.

3. In considering the interactions between the documents, and taking into account the intended audiences for each document, the Enhancements Group has agreed that the Overview and ITC should be two standalone documents, intended to be read as follows:

- **The Overview.** Although the Overview is designed to stand alone, it includes references to the relevant paragraphs in the ITC containing a more detailed description of the matters that facilitate the ability of stakeholders to understand more about a particular matter. The Overview notes that stakeholders are welcome to respond to either the Overview or the ITC or a combination thereof.
- **The ITC.** In addition to describing the interaction between the Overview and the more detailed ITC, the ITC also states that if stakeholders are reading and responding to the ITC, there is no need to also read and respond to the Overview. The Enhancements Group's rationale is as follows:
 - The background information as to why changes to the ISAs and ISQC 1 are being considered is the same in the ITC and the Overview.
 - The section on professional skepticism is the same in both documents.
 - The ITC sections on Quality Control and Group Audits provides more detail than the summary in the Overview, but the introductory sections are consistent.
 - The questions asked in the Overview are repeated in the ITC, with more detailed questions relating to the sections on Quality Control and Group Audits also included in the ITC.

The Appendix to this paper provides a summary of how the various paragraphs in each document correspond to each other. Further consideration could be given to including such a table in the ITC as an Appendix.

4. It is still intended that "Guides for Respondents" will be developed and published in early 2016 to assist different stakeholder groups in reading these documents and responding to them. These guides are intended to focus on particular areas of interest for different stakeholders. For example, the Enhancements Group will consider developing guides for small and medium practices (SMPs), users of financial statements (e.g., investors), public sector, academics and preparers and audit committee members.

Overview – Significant Changes since Board Call

5. In light of the feedback from the IAASB on its October teleconference (see draft minutes above) and further discussions by the Enhancements Group, structural and other changes have been made to the Overview as follows:
- To help focus respondents on the purpose of the consultation and what the paper addresses, a new introductory page has been added, setting out the objective of the paper, the intended audience and a clear indication that there are questions for respondents and where these can be found. The Enhancements Group deliberated about whether it would be more useful to include the questions for respondents at the front of the document rather than the end. In light of concerns that the questions might be distracting or lack context without reading the content of the paper, the group concluded that pointing to them at the beginning of the paper would be effective in drawing respondent's attention to them.
 - More context has been provided about how the issues were identified, i.e., how the IAASB's *Strategy for 2015–2019* and *Work Plan for 2015–2016* was developed and highlighting ongoing IAASB outreach and discussions with audit inspection bodies and regulators, firms, national standard setters and others.
 - More context has been added around the link between audit quality, the ISAs and ISQC 1, and the outputs of an audit engagement.
 - Further text has been added to better explain how the various contextual factors are driving the need to keep the standards 'fit-for-purpose', in turn influencing the IAASB's decision to consider changes to the ISAs and ISQC 1 in the context of the three projects addressed in the ITC.
 - Efforts have been made to tighten and clarify the articulation of the description of the significant public interest areas to be addressed. Changes have also been made to the introduction to this material to explain the linkage between the high-level questions described in paragraph 3 used to frame the issues, with the Questions for Respondents included on pages 25–26.
 - The focus on the topic of professional skepticism has been improved by placing this section earlier in the document, and providing additional perspectives about the topic and the activities of the joint working group. The diagram illustrating the initial views of the Professional Skepticism Working Group about potential interactions and contextual factors in relation to professional skepticism has also been further refined.
 - A summary version of the Quality Management Approach (QMA) has replaced the more detailed version that is now included in the ITC. Other specific changes to the QMA are explained further in the Quality Control section below (see paragraph 9)
 - The section on group audits has been expanded to provide more detail about the project. In the Enhancements Group's view, these changes when taken together with the other changes described in the bullets above, create a better balance between the three projects covered by the consultation.
 - References to the paragraphs about where more detail on the various topics in the ITC can be found have been added. (Note, the presentation of these references will be further refined in the final design process).

- The questions have been revised to be more detailed, as well as more open-ended.

ITC (including Quality Control and Group Audits)—Significant Changes Since September 2015 Board Discussions

6. As explained above, the ITC is intended to be a standalone document (i.e., respondents reading the ITC will not need to read the Overview). Accordingly, the Enhancements Group agreed that the introductory section of the overview, which sets out the background and contextual factors for the Board's efforts, should be repeated in the ITC to provide respondents to that publication with the same essential information.
7. The following sets out how the sections in both documents correspond to one another:
 - Professional Skepticism—this section is the same in both documents.
 - Quality Control—a high-level summary of the QMA can be found in the Overview with more detail in the ITC. In relation to crossover issues and quality control specific issues, the Overview provides a summary of the more significant matters in this section, while the detailed ITC provides more context as well as other issues that will be considered but that were considered less significant for the audience.
 - Group Audits—the introductory paragraphs are the same in both the Overview and ITC, with the ITC providing significantly more detail about the issues and possible actions than the Overview. Due to the technical nature of the topic, it was agreed that the Overview should only provide a high-level summary of the detailed matters that the ITC addresses.

The **Appendix** to this paper provides a list of the corresponding sections in each document, with relevant paragraph references. Additionally, the Quality Control and Group Audits sections of the ITC include a listing of the issues and an indication of the paragraphs where they are addressed in the sections.

8. In addition to restructuring the ITC, other changes since the version discussed during the September 2015 IAASB meeting include:
 - Rarticulating the issues that have been identified and the possible actions that might address them to provide sufficient context for possible IAASB actions, but without suggesting that the IAASB has prematurely concluded on the appropriateness or completeness of the suggestions. The intention is that sufficient information is provided for respondents so that their input is appropriately informed and as specific as possible, i.e., so that it can effectively assist the various Working Groups in scoping the further work to be done on the projects.
 - Rarticulating the questions to be more detailed, but more open-ended as well as more consistent among sections.
 - Incorporating a table of contents, and as indicated above, a more detailed table of contents is provided in each of the Quality Control and Group Audits sections to better facilitate navigation around the document.
 - Eliminating duplication where possible.
 - Further considering where links to the *Framework for Audit Quality* (AQ Framework) could be made.

- Incorporating feedback received during the various outreach activities that have taken place, including with regulators and audit oversight bodies.
- Describing the crossover issues more clearly to help respondents understand them, including how they apply to more than one project.

Quality Control (Paragraphs 35–170 of the draft ITC)

9. The Overview now includes a (new) summary of the matters presented in the ITC, with relevant paragraph references to facilitate the ability of respondents to review the more detailed section if they wish to. The ITC includes the detailed description of the QMA (paragraphs 35–51 of the draft ITC). The description of the QMA that was discussed with the Board on its teleconference in October 2015, has been reconsidered by the Quality Control Working Group (QCWG). Revisions include:
- Better linking the QMA and the AQ Framework, as well as the QMA to the outcome of an engagement (i.e., by explaining how the use of a QMA at the firm level may assist and support engagement teams in achieving quality at the engagement-level).
 - Expanding on the environmental and contextual factors driving the IAASB's consideration of the need for a broader revision and restructuring of ISQC 1¹² to incorporate a QMA (i.e., as opposed to only a targeted revision of its existing individual requirements and supporting application material in response to the issues identified.)
 - Emphasizing responsibility of firm leadership for the firm's system of quality control (including related accountability).
 - Noting that revising ISQC 1 to incorporate a QMA may lead to changes to ISA 220 and ISA 600.
 - Amending the description of the QMA to focus on:
 - The importance of integrating the QMA as part of the firm's culture and strategy, rather than suggesting the QMA approach is a completely separate exercise. Revisions have also been made to the QMA diagram to incorporate leadership responsibility and accountability at the center of the QMA.
 - Expanding the discussion regarding how further IAASB guidance could provide an opportunity to demonstrate how firms might consider, in the appropriate circumstances, whether and how corporate governance principles might be helpful or relevant in the context of identifying, assessing and responding to quality risks.
 - Making other editorial and formatting changes, as well as providing improvements to structure and layout.
10. Other changes made by the QCWG to the quality control specific section of the ITC (paragraphs 53–170 of draft ITC) include:
- Clarification of the differentiation between governance of a firm and the leadership responsibility for quality. Question QC5(a) has been included specifically asking for respondents views about whether governance of a firm could be better addressed in ISQC 1.

¹² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- Providing more context relating to those engagements that may be required to be subject to an engagement quality control review, i.e., beyond audits of financial statements for listed entities. The various aspects of how additional emphasis could be placed on this function have also been better explained, e.g., either through the development of a separate standard for engagement quality control reviews, or through providing additional transparency in the auditor's report. Question QC6 asks for respondents views addressing how best to provide this emphasis has now been included.
- Providing additional clarity as to what is meant by "transparency reporting" and providing more context about what these reports include, with reference being made to the recent International Organization of Securities Commission publication on the topic. It has also been emphasized more clearly that any considerations about the need for the IAASB's International Standards to address transparency reporting is still in the exploratory stages, with an explicit question now included asking respondents how the IAASB could positively contribute to the development of transparency reporting (question QC10).
- Emphasizing the importance of results of monitoring and remediation policies and procedures informing the design of the system of quality control.
- Making other editorial and formatting changes, as well as providing improvements to structure and layout

Group Audits (Paragraphs 171–279 of the draft ITC)

11. A new section addressing more high-level issues related to group audits has been developed for the Overview, and is also included in the more detailed section in the ITC. This section highlights the interaction of all relevant ISAs with ISA 600 in a group audit. This text is also intended to explore whether the current approach to a group audit under the extant standard remains appropriate, or whether other approaches (including some of the proposed actions) should be considered to encourage auditors to take a broader and appropriately risk-based approach to a group audit.
12. Other changes made by the GAWG to the group audits section of the ITC include:
 - Further refining the Group Audit Working Group's (GAWG's) understanding of the issues, including emphasizing the practical challenges being experienced when applying ISA 600.
 - Reconsidering and enhancing relevant references to requirements and guidance in the extant ISAs.
 - Emphasizing and clarifying, as relevant, certain aspects of the issues and possible actions, taking account of matters highlighted by CAG and Board members in previous discussions.
 - Adding new material related to various comments from the Board and CAG members (including but not limited to noting the impact of mandatory auditor rotation on the understanding of the component auditor, the group auditor's consideration about the component auditor's consultations during the audit of the component's financial information and identifying matters related to performing subsequent event procedures).
 - Making other editorial and formatting changes, as well as providing improvements to structure and layout

13. The ITC highlights that further consideration may be needed in ISA 600 to illustrate the effects of changes from recently completed projects, such as Disclosures and Auditor Reporting. In particular, the GAWG considered integrating possible issues and related actions related to disclosures in group financial statements with the other issues as relevant, but agreed that the details would be best considered during the standard-setting process.

The Way Forward

14. During the December 2015 meeting, the IAASB will have the opportunity to provide input and consider revisions to the detailed ITC. Selected aspects of the detailed ITC may be revised by the working groups and provided to IAASB members for further consideration during the meeting. The IAASB will also be asked to provide input into the Overview, with the Enhancements Group considering final changes that may be needed to respond to this input and to align the overview with the final version of the detailed ITC. The IAASB will be asked to approve the two documents during the Board meeting. IAASB Staff and the Enhancements Group, in consultation with the IAASB Chairman and Technical Director as necessary, will then finalize the documents for publication in mid to late December 2015.
15. The documents will be issued for public comment for a 150-day period. During this period, various outreach activities are being planned to obtain input from a wide range of stakeholder groups.
16. From May to September 2016, the various Working Groups plan to analyze the comment letters to the Overview and detailed ITC, review feedback from outreach activities, and develop project proposals for quality control and group audits that are expected to be presented for approval at the September 2016 IAASB meeting.

Matters for IAASB Consideration

1. The IAASB is asked for its views on the:
 - (a) Overview of the IAASB's Invitation to Comment, *Enhancing Audit Quality—A Focus on Quality Control, Group Audits and Professional Skepticism*.
 - (b) IAASB's Invitation to Comment (ITC), *Enhancing Audit Quality—A Focus on Quality Control, Group Audits and Professional Skepticism*.

Appendix

Enhancing Audit Quality in the Public Interest—A Focus on Quality Control, Group Audits and Professional Skepticism

The following sets out the corresponding paragraphs between the Overview and the Invitation to Comment, including indicating where these are the same.

(**Same** = the paragraphs in the Overview and the Invitation to Comment are the same)

Overview	Paragraphs	Invitation to Comment	Paragraphs
Introduction	1–2	Introduction	1–2
Taking Action in the Public Interest	3–8	Taking Action in the Public Interest (Same)	3–8
Audit Quality: The Interaction between the IAASB's Work and Its Stakeholders	9-16	Audit Quality: The Interaction between the IAASB's Work and Its Stakeholders (Same)	9-16
Professional Skepticism			
Strengthening Professional Skepticism in the Audit	17–34	Strengthening Professional Skepticism in the Audit (Same)	17–34
Quality Control			
Strengthening the Standards Addressing Quality Control	35–62	Strengthening the Standards Addressing Quality Control	35–170
A New Quality Management Approach	35–46	A New Quality Management Approach	35–51
Specific Issues to be Addressed at the Firm and Engagement Level in Revising the Quality Control Standard	47–62	Cross-Over Issues / Issues Relevant to More Than One Project	52–107
Engagement Level: Engagement Partner Roles and Responsibilities	55–58	Engagement Partner Roles and Responsibilities	53–70
		Others Involved in the Audit	71–88
Firm Level: Quality Control Policies and Procedures When Operating as part of a Network of Firms	50–52	Quality Control Policies and Procedures when Operating as part of a Network of Firms	91–100
		Exploring the Potential Effects that Firm's Changing Business Models and Structures Have on Audit Quality	101–107
		<i>Quality Control Specific Matters</i>	108–170
		Governance of the Firm, Including Leadership Responsibilities for Quality	109–119
Firm and Engagement Level: Engagement Quality Control Reviews and Engagement Quality Control Reviewers	59–62	Engagement Quality Control Reviews and Engagement Quality Control Reviewers	120–130

Overview	Paragraphs	Invitation to Comment	Paragraphs
Firm Level: Monitoring and Remediation	49	Monitoring and Remediation	131–141
		Engagement Partner Performance and Rewards Systems	142–152
		Human Resources	153–158
		Engagement Partner Competencies	159–167
Firm Level: Transparency Reporting	53–54	Transparency Reporting	168–170
Group Audits			
Strengthening the Standards Addressing Group Audits	63–73	Strengthening the Standards Addressing Group Audits	171–279
Strengthening and Clarifying how the ISAs, including ISA 220, apply in a Group Audit	63–71	Strengthening and Clarifying how the ISAs, including ISA 220, apply in a Group Audit	171–180
Specific Issues to be Addressed in Revising ISA 600	72–73		
		Acceptance and Continuance of the Group Audit Engagement	181–194
		Communication between the Group Engagement Team and Component Auditors	195–201
		Issues Relating to Understanding the Independence, Competence and Capabilities of the Component Auditors	202–209
		Issues Relating to the Group Engagement Team's Involvement in the Work of the Component Auditors	210–216
		Issues Relating to the Group Engagement Team's Understanding of the Components and Identifying Significant Risks for the Group	217–227
		Issues Relating to Component Materiality and Other Aspects of Materiality Relevant to Group Audits	228–235
		Issues Relating to Audit Procedures Performed on the Component's Financial Information	236–247
		Issues Relating to Situations Where there are Only Non-Significant Components, or a Large Number of Non-Significant Components	248–253
		Issues Relating to the Group Engagement Team's Involvement in the Consolidation Process	254–261

Overview	Paragraphs	Invitation to Comment	Paragraphs
		Issues Relating to Subsequent Event Procedures	262–265
		Issues Relating to Evaluating the Communications from the Component Auditor and the Adequacy of their Work	266–273
		Issues Relating to the Evaluation of the Work of the Component Auditors on the Group Audit Engagement and Whether Sufficient Appropriate Audit Evidence has been Obtained	274–277
		Other Issues Relating to Group Audits— The Impact of New and Revised Auditing Standards	278–279