

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 7–8, 2017

Agenda Item

H

Enhancing Audit Quality: Quality Control and Group Audits

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - a) Inform Representatives about the activities of the Group Audit Task Force (GATF), the Quality Control Task Force (QCTF) and the ISA 220 Task Force (ISA 220 TF) since the November 2016 IAASB CAG teleconference;¹
 - b) Provide a report back on comments from the Representatives on the project proposal for Quality Control and Group Audits as discussed on the November 2016 IAASB CAG Teleconference; and
 - c) Obtain Representatives' views on the QCTF proposals in relation to the proposed restructure of ISQC 1² to incorporate a quality management approach (QMA) and the QCTF proposals in relation to engagement quality control (EQC) reviews.

Project Status and Timeline

2. In December 2016, the IAASB approved the project proposal for the revision of the IAASB's International Standards relating to group audits and quality control, including:
 - 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*;
 - International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*; and
 - ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.
3. Furthermore, in December 2016 the IAASB discussed the following topics related to the proposed projects including:
 - Possible revisions to ISQC 1 in relation to:
 - Incorporating quality management in the revisions to ISQC 1, including how the structure

¹ The purpose of the November 2016 IAASB CAG teleconference was to discuss the project proposal for Quality Control and Group Audits and to obtain the views of Representatives in advance of the December 2016 IAASB meeting.

² 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*

- of ISQC 1 might be revised and how scalability could be further enhanced in the standard.
- EQC reviews, in particular regarding the objective of an EQC review, the scope of the engagements subject to an EQC review, and the execution of the EQC review.
 - Possible revisions to ISA 220 in relation to clarifying and enhancing the roles and responsibilities of the engagement partner, incorporating quality management principles at the engagement level and enhancing requirements related to communication between the engagement team and others involved in the audit.
4. Since the November 2016 IAASB CAG teleconference, the QCTF met in person twice and held two teleconferences, while the GATF and ISA 220 TF each met in person once and held one teleconference to further their discussions on the respective projects. These discussions included topics that cross over the three projects, including information and communication and reliance on information from networks at the firm and engagement level. The Task Forces will continue to coordinate on these and other topics that affect all three projects, through Staff liaison and the common membership of Task Force members on the respective Task Forces.
 5. The Task Forces continue to make good progress on the projects. However, it was determined that additional time would enable the Task Force recommendations to be further developed and would thereby facilitate more effective Board discussions on ISQC 1, ISA 220 and Group Audits.³ Accordingly, these topics will not be presented to the IAASB at the upcoming March 2017 meeting (with the exception of the QCTF's recommendations in relation to the eligibility of the EQC reviewer).
 6. **Agenda Item H.1** includes for discussion by Representatives at their March 2017 meeting, the QCTF's initial recommendations on incorporating quality management into ISQC 1 and the proposals related to EQC reviews that were presented to the IAASB in December 2016 (and in relation to the eligibility of the EQC reviewer that will be presented in March 2017).
 7. As highlighted in **Agenda Item H.1**, the objectivity of the EQC reviewer is closely related to the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the Code), given that objectivity is one of the fundamental principles addressed in the IESBA Code. Accordingly, since the November 2016 IAASB CAG discussion, the IAASB Staff, IESBA Staff, Chair of the QCTF and certain members of the IESBA Board have coordinated on how the IESBA Code addresses the objectivity of the EQC reviewer and the various threats to the objectivity that may arise in the context of the EQC reviewer's role.
 8. Appendix A to this paper provides a history of previous discussions with the IAASB CAG and IAASB on these projects, including links to the relevant IAASB CAG documentation.

November 2016 IAASB CAG Discussion

9. Extracts from the draft minutes of the November 2016 IAASB CAG teleconference, as well as an indication of how the Task Forces or IAASB has responded to the Representatives' comments are

³ It is noted that this further enables additional time to be devoted to ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, given the relative priority of finalizing the Exposure Draft for approval by the IAASB at the March 2017 meeting.

included in the table below.

Representatives' Comments	Task Force/IAASB Response
<p>Mr. van der Ende noted the importance of considering quality control at the network level, in addition to the engagement level and firm level, and addressing this in the standards. Ms. McGeachy agreed and noted that it was important to consider how the reliance by the firm on the network firm's policies and procedures when tailoring the firm's quality management could be best addressed in the standards.</p>	<p>Point accepted.</p> <p>Ms. Zietsman agreed and highlighted that network policies and procedures are relevant to quality at the firm and engagement level, as well as in group audits, and accordingly the various task forces would work together in determining an appropriate way forward.</p> <p>Since the November 2016 IAASB CAG Discussion, the three Task Forces have discussed how the standards could address circumstances when a network provides support to the firm and engagement teams on matters related to quality control, and have begun to develop recommendations in this regard for discussion at a later IAASB and IAASB CAG meeting.</p>
<p>Ms. Lang supported the focus on audits of SMEs, noting however that the definition of an SME changes across jurisdictions, and accordingly it would be important to take into consideration the broad range of SMEs in developing the scalability and proportionality of the standards.</p>	<p>Point noted.</p> <p>Paragraph 20–21 of Agenda Item H.1 discuss how scalability could be introduced into ISQC 1. These proposals would not specifically differentiate SMPs from other types of firms, but would be scalable in in order to cater for a wide variety of circumstances. Further consideration is also being given by the other Task Forces about how the standards can be applied in a wide variety of circumstances.</p>
<p>Mmes. Lang and McGeachy highlighted the proposals to develop the quality management approach, and Ms. McGeachy added that is an essential aspect of the revision of ISQC 1.</p>	<p>Support noted.</p>
<p>Mr. Hines encouraged the IAASB to consider the use of experts in the context of quality control, i.e., how quality management is established when making use of different experts throughout the network.</p>	<p>Point noted.</p> <p>Ms. Zietsman explained that the project related to quality control at the engagement level would address considerations related to the composition of the engagement team in addressing risks to quality, i.e., that there may be a level of expertise needed within the team to respond to certain risks, resulting in the use of experts. She added that at a firm level the use of experts would also need to be</p>

Representatives' Comments	Task Force/IAASB Response
	considered when such experts come from another division within the firm or the network, and noted that consideration would be given to addressing this.
Mr. Koktvedgaard observed that some jurisdictions have not adopted ISQC 1, and only adopt the ISAs and therefore encouraged the IAASB to be focused on the ability of the ISAs to operate in such circumstances. Mr. Koktvedgaard had the view that it is important that there is clarity regarding when something is considered a responsibility of the firm versus a responsibility of the engagement partner, and noted that this is often an area of uncertainty for regulators.	Point noted. ISA 220 deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements (i.e., at the engagement level). ISA 220 builds on the quality control requirements of ISQC 1, which deals with the firm's responsibilities for its system of quality control, and paragraph 2 of ISA 220 indicates that "this ISA is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding."
With regard to professional skepticism, Mr. Koktvedgaard questioned whether the project proposal adequately takes into account the possible long-term outcomes of the Professional Skepticism Working Group, in particular those that have not yet been determined. Mr. Rockwell agreed and noted the importance of the working groups taking into account developments with respect to professional skepticism as the projects progress.	Point noted. Ms. Zietsman indicated that the working groups do not want to prejudge what will happen with respect to the project on professional skepticism, however as the revisions to the standards are progressed, the applicable task forces would consider how the revised requirements and related application guidance can be structured to address professional skepticism in a way that encourages auditors to think about what impediments may exist.
Mr. Yoshii was supportive of the consideration of transparency reporting in the project proposal, and highlighted the aspects relating to governance, engagement quality control reviews and engagement partner compensation as being very important.	Support noted. The QCTF continues to progress changes in these areas, as well as the ISA 220 TF as relevant.
Mr. Dalkin encouraged the IAASB to reflect, as the projects progress, on how the proposals for changes that are developed would be executed in practice, and to consider whether these changes align with what was originally intended.	Point noted. Ms. French agreed with the view that as the projects progress it would be important to look back and consider how the requirements would be implemented in practice is the way that was as intended. She noted that as the task forces develop and revise the requirements that outreach would be

Representatives' Comments	Task Force/IAASB Response
	undertaken with relevant stakeholders that would help inform the IAASB's decisions.
Mr. van der Ende noted that although the project proposal sets out the issues that would be addressed, it was difficult to grasp how these issues would be addressed specifically, however he recognized the challenge of being explicit about a way forward at this early stage of the projects.	Point noted. The Task Forces will continue to discuss changes with Representatives as the projects to revise ISQC 1, ISA 220 and ISA 600 are progressed.

Matters for IAASB CAG Consideration

10. Representatives are asked for their views on the matters for IAASB CAG consideration included in **Agenda Item H.1**. [Agenda Item 6–A](#), presented at the IAASB's December 2016 meeting, provides a summary of the comments from respondents to the IAASB's Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, in relation to incorporating a quality management approach into ISQC 1.

Material Presented – IAASB CAG Papers

Agenda Item H.1 Quality Management (Firm level), Including Engagement Quality Control Reviews

Project History

Project: Group Audits and Quality Control

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 and ISA 220 issues discussion		December 2016

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 (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 (Agenda Item B).</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
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