

Meeting: IAASB
Meeting Location: New York, USA
Meeting Date: June 19–22, 2017

Agenda Item

2

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

Objective of Agenda Item

1. The objective of this Agenda Item is to obtain the IAASB's input on the Quality Control Task Force's (QCTF) proposals on the revisions to ISQC 1 as a result of incorporating a quality management approach (QMA) into ISQC 1. The input from the IAASB on these matters will assist the QCTF in further developing the revisions to ISQC 1.

QCTF

2. The QCTF comprises the following members:
 - Karin French, IAASB Member and Chair of the Task Force
 - Bob Dohrer, IAASB Member
 - Brendan Murtagh, IAASB Member
 - Imran Vanker, IAASB Member
 - Josephine Jackson, IAASB Technical Advisor
 - Denise Weber, IAASB Technical Advisor
 - Keith Wilson, United States Public Company Accounting Oversight Board (official observer)
 - Dawn McGeachy, IFAC Small and Medium Practices Committee Representative (correspondent member)

Activities of the QCTF

3. Since the March 2017 IAASB meeting, the QCTF has had one physical meeting and two teleconferences.
4. In developing the proposals in this Agenda Item, the QCTF formed a sub-group, comprising two task force members and Staff (referred to as the drafting team). The drafting team has had one physical meeting since its formation in January 2017 and several teleconferences. Given the success of the drafting team in furthering the development of ISQC 1, the QCTF plans on continuing to use this as a mechanism for drafting the revisions to ISQC 1 going forward.
5. Since the March 2017 IAASB meeting, the Chair of the QCTF and Staff held a teleconference with a representative of the International Ethics Standards Board for Accountants (IESBA) to discuss the outcome of the IAASB's March 2017 discussion with respect to the eligibility of the engagement quality control reviewer and to consider further actions that could be taken in this regard.

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*

Matters for IAASB Consideration

6. **Agenda Item 2–A** sets out the discussions and views of the QCTF in developing the revisions to ISQC 1, and includes the matters for IAASB consideration. The IAASB is asked to consider the matters set out in this Agenda Item.
7. **Agenda Item 2–B** includes a working draft of ISQC 1. The purpose of this document is to demonstrate the proposals of the QCTF and how they would be reflected in ISQC 1. However, the proposed requirements and application material in this Agenda Item require further refinement once the IAASB has provided its views on the proposals on this topic.
8. **Agenda Item 2–C** includes the QCTF’s proposed prescribed quality objectives, quality risks and responses that would be ultimately incorporated into ISQC 1. These are illustrative only and the QCTF will further consider these requirements, including whether additional or more enhanced requirements are necessary in response to respondents’ views 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*. The QCTF is not, at this stage, seeking the IAASB’s views on specific aspects of the proposed requirements in this Agenda Item.
9. **Agenda Item 2–D** contains a mapping of the requirements in extant ISQC 1 to the proposed requirements in **Agenda Item 2–B** and **Agenda Item 2–C**.
10. The **Supplement to Agenda Item 2** includes a summary of the responses to the ITC, as well as the names of the respondents to the ITC.

Material Presented

Agenda Item 2–A	<i>Quality Management (Firm level): Proposed Revisions to ISQC 1</i>
Agenda Item 2–B	<i>Quality Management (Firm level) Working Draft of ISQC 1</i>
Agenda Item 2–C	<i>Quality Management (Firm level) Prescribed Quality Objectives, Quality Risks and Responses</i>
Agenda Item 2–D	<i>Quality Management (Firm level) Tracking Document of Requirements in Extant ISQC 1 to new Proposals</i>
Supplement to Agenda Item 2	<i>Summary of Responses to the ITC</i>

IAASB Discussion

11. Each of the QCTF members will participate in presenting this topic to the IAASB at the June 2017 meeting. An outline of the topics for discussion, the QCTF member presenting the topic and the approximate timing of the discussion is included below.

Topic	QCTF Member Presenting
Introduction	Karin French
Components of ISQC 1 and Terminology	Karin French
Robustness and Scalability	Karin French
Governance and Leadership, including Organization, Culture and Strategy	Brendan Murtagh
Information and Communication	Bob Dohrer

Topic	QCTF Member Presenting
Quality Management Process	Josephine Jackson and Denise Weber
Monitoring and Remediation	Imran Vanker
Interconnectedness of the Components	Karin French
Changing Behaviors	Karin French
Next Steps	Karin French
Separate Standard Addressing EQC Reviews	Karin French

Minutes from the March 2016 IAASB Meeting

Quality Control – ISQC 1

Eligibility of the Engagement Quality Control (EQC) Reviewer

Ms. French provided an overview of the Quality Control Task Force's (QCTF) proposals in relation to the eligibility of the EQC reviewer, which included the QCTF's recommendations to address the time that an individual who had previously been involved in the audit would not be eligible to fill the role of the EQC reviewer (the cooling-off period). Ms. French also highlighted the feedback from the CAG Representatives at their recent March 2017 meeting, as well as the views of the Small and Medium Sized Practices (SMP) Committee.

CRITERIA FOR SELECTION OF AN EQC REVIEWER

The Board was supportive of the overall direction proposed by the QCTF and encouraged a principles-based approach. The Board provided the following additional suggestions:

- The Board noted that there could be circumstances when the EQC review is performed by a group of reviewers and encouraged the QCTF to acknowledge such circumstances.
- The Board was of the view that the EQC reviewer's authority is created through the processes established by the firm's system of quality management. The Board indicated that the proposals regarding the relationship between the firm's culture and the EQC reviewer's authority were confusing and therefore encouraged clarity regarding how the firm's culture influences the EQC reviewer's authority. The Board also noted that the chain of command in relation to the EQC reviewer could impact the EQC reviewer's authority and objectivity and recommended that this be specifically discussed in the standard.
- The Board encouraged the QCTF to provide clarity on the distinction between technical competence and practical experience and emphasized the importance of attaining an appropriate balance between the attributes. The Board also noted that in some jurisdictions the EQC reviewer is required to be licensed which could further limit the number of individuals that are eligible to perform the EQC review. The Board also recommended that the criteria for the eligibility of the EQC reviewer should be linked to the basis for which the engagement is subject to an EQC review, however did not consider that it is always necessary for the EQC reviewer to have experience in relation to listed entities.
- The Board recommended that the provisions regarding the degree to which the EQC reviewer may be consulted should be retained, as these had been diluted in the proposed revisions.
- The Board encouraged the QCTF to further consider how the proposals would relate to engagements that are non-audit engagements.

OBJECTIVITY OF THE EQC REVIEWER

The Board agreed that further coordination with the IESBA should be undertaken, taking into consideration the respective remits of the two Boards. The Board did not support the IAASB undertaking revisions to the IAASB Standards in the absence of the IESBA taking further steps to address the issue. The Board provided the following additional comments in relation to the objectivity of the EQC reviewer:

- Certain members raised concern that the proposed requirements in relation to the objectivity of the EQC reviewer appear more onerous than the provisions in relation to an engagement partner.
- The Board noted that not all jurisdictions apply the IESBA Code and therefore cautioned against proposals that would be specific to the IESBA Code.
- The Board was of the view that a further understanding is needed regarding the basis for IESBA's cooling-off period of three years in relation to an EQC reviewer. The Board encouraged the QCTF to consider a two year cooling-off period (similar to the period prescribed by the Public Companies Accounting Oversight Board) and to further understand the effect of the proposed cooling-off period on SMPs.

THE PROCESS FOR THE SELECTION OF THE EQC REVIEWER

The Board was supportive of the QCTF's proposals in relation to the firm's selection of the EQC reviewer, however suggested that the exemption, "unless, in exceptional circumstances, it is not practicable", be reconsidered as it is unlikely to be an exceptional circumstance in the case of SMPs.

IAASB CAG Chairman's Remarks

Ms. Lang highlighted that the CAG Representatives emphasized the importance of achieving an appropriate balance with respect to the criteria for the eligibility of the EQC reviewer and questioned how the proposals would be implemented and enforced. Furthermore, Ms. Lang noted that many IAASB CAG Representatives are also IESBA CAG Representatives, and accordingly were supportive of the cooperation with the IESBA on this topic.

PIOB Observer Remarks

The PIOB encouraged the IAASB to further coordinate with the IESBA with respect to the cooling-off period.