



# Quality Management (Firm Level)

Quality Control Task Force

IAASB Meeting, New York

Agenda Item 2

June 19, 2017

**IAASB**

**International Auditing  
and Assurance  
Standards Board**

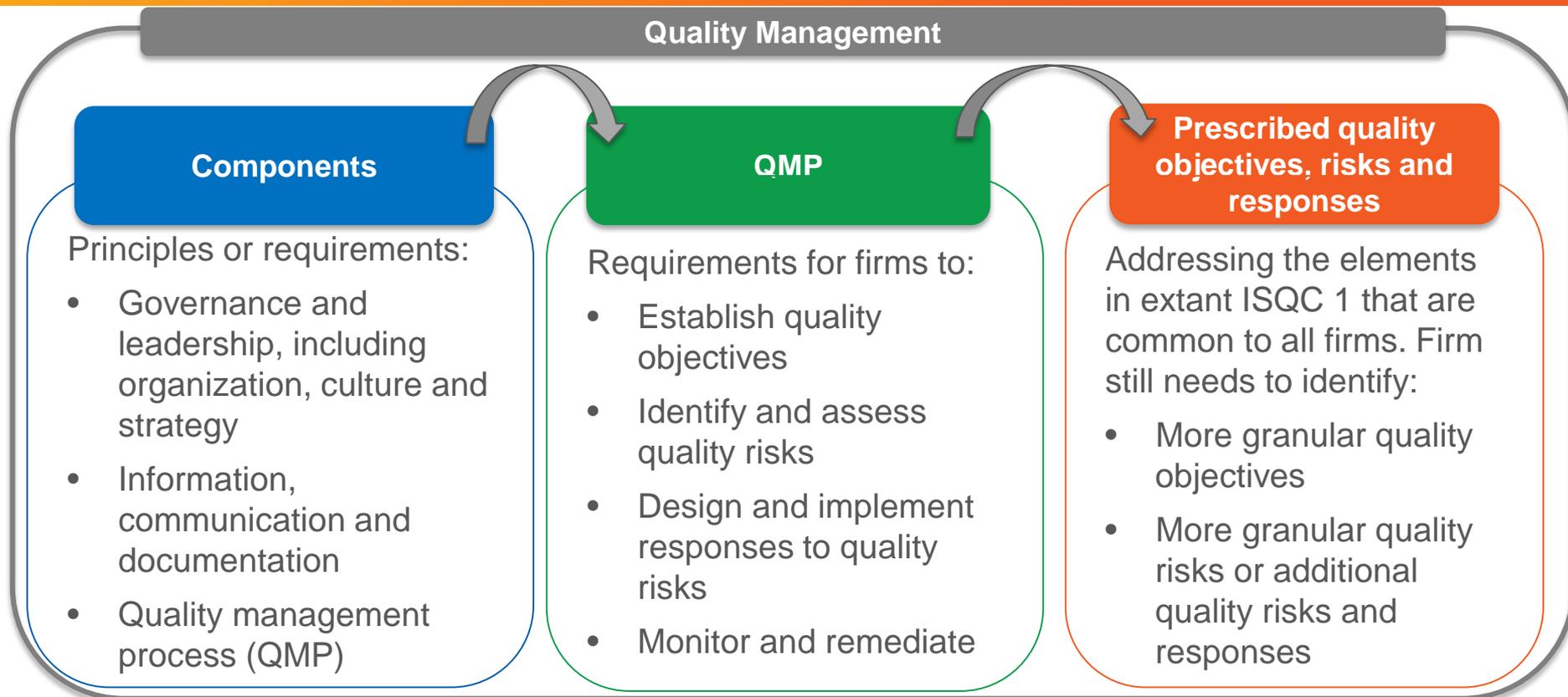
# **Introduction, Components, Terminology, Robustness and Scalability**

**Presented by: Karin French**

## Components of ISQC 1 and Terminology



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## Components of ISQC 1 and Terminology

### Question 1:

Does the IAASB agree with **revising the terminology** to refer to the “**firm’s system of quality management**” instead of “the firm’s quality management”?

## Robustness and Scalability

### Question 2:

Is the IAASB of the view that the proposals would result in the **robustness** of ISQC 1 being retained, and in some cases enhanced?

### Question 3:

The IAASB is asked to share their views regarding the QCTF's proposals to **improve and emphasize the scalability** of ISQC 1. In particular:

- (a) Does the IAASB have any **further recommendations on** how **scalability** could be introduced in the standard, while retaining the necessary robustness?
- (b) Does the IAASB agree with the QCTF's recommendation to **include examples and considerations in relation to SMPs in the application material** in the context of the matter, rather than retaining the sections "Considerations Specific to Smaller Firms"?

# **Governance and Leadership**

## **Presented by: Brendan Murtagh**

# System of Quality Management: Governance and Leadership



## Governance and Leadership

### Question 4:

Paragraph 13 discusses the QCTF's recommendation to **combine “organization, culture and strategy that foster quality” with governance and leadership** into a single component. Does the IAASB agree with this recommendation, particularly in light of the proposed requirements and application material in relation to this section?

## Governance and Leadership

### Question 5:

Does the IAASB agree with the QCTF's recommendation to introduce a **requirement for firms to establish governance principles in relation to quality** and to **implement them** through various actions? If so:

- (a) Is the IAASB of the view that the **four governance principles** identified by the QCTF are **appropriate**?
- (b) Are there **additional governance principles** that should be included?

## Governance and Leadership

### Question 6:

The IAASB is asked to share their views regarding the QCTF's **proposals in relation to firm leadership**, in particular the following:

- (a) Does the IAASB agree that the responsibilities of firm leadership should be extended beyond being responsible for the system of quality control as is currently required by ISQC 1, i.e., that **firm leadership should be responsible for quality**?
- (b) Does the IAASB agree that in circumstances when the firm has appointed a managing board of partners, that the **full managing board of partners is responsible and accountable for quality**, as proposed in paragraph 37?

## Governance and Leadership

### Question 6 (continued):

- (c) Does the IAASB agree that there should be an **assignment of operational responsibility for compliance with the independence requirements**, and that such person(s) should possess sufficient and appropriate experience and authority in the firm to assume that responsibility?
- (d) Does the IAASB agree with the introduction of a **requirement** for the firm to **establish periodic performance evaluations** that assess the effectiveness of the **person(s)** that are assigned **ultimate responsibility or accountability for quality** and does the IAASB support this being extended to any **person(s)** that are **assigned operational responsibility** for the firm's system of quality management?

## Governance and Leadership

### Question 6 (continued):

- (e) Does the IAASB agree with the **specific responsibilities** identified in paragraph 23(a)–23(e) of Agenda Item 2–B and **are there additional responsibilities** that have not been identified that should be considered?
- (f) Does the IAASB agree with the conclusion of the QCTF that the requirements related to “**complaints and allegations**” are necessary in supporting the firm’s culture and accordingly should be incorporated in the component “Governance and Leadership, including Organization, Culture and Strategy”?

## Governance and Leadership

### Question 7:

Does the IAASB support the proposal to include **references to public interest** throughout the requirements in relation to “Governance and Leadership, including Organization, Culture and Strategy”, in order to remind firms of their role with respect to the public interest and actions the firm can take to enhance their consideration of their public interest role?

# Information and Communication

## Presented by: Bob Dohrer

## System of Quality Management: Information and Communication



## Information and Communication

### Question 8:

The IAASB is asked to share their views regarding the proposed requirements and application material addressing information and communication, in particular:

- (a) Does the IAASB believe that these appropriately **emphasize the importance of two-way communication**?
- (b) Do the proposed requirements and application material highlight the **pervasive nature** of information and communication, including that it is a **continual, iterative process** of providing, sharing and obtaining necessary information?
- (c) Does the IAASB agree that **specific requirements** related to communication should be **located in the sections** of ISQC 1 to which they relate?

# **Quality Management Process**

**Presented by: Josephine  
Jackson and Denise Weber**

# Quality Management Process



Establish Objectives

Perform Quality Risk  
Assessment

Design and Implement  
Response to Quality Risks

## Quality Management Process: Establish Objectives

30. The firm shall establish quality objectives **necessary to achieve the overall objective** of the firm's system of quality management. (Ref: Para. A48, A52 and A53)
31. In establishing the quality objectives the firm shall consider whether:
  - (a) The quality objectives are **aligned with the firm's governance principles and strategy**, professional standards and applicable legal and regulatory requirements; (Ref: Para. A50)
  - (b) The quality objectives are **relevant to the circumstances** of the firm and all relevant quality objectives have been identified; and (Ref: Para. A51–A52)
  - (c) The quality objectives are set at an **appropriate level of granularity** that enables the firm to identify and assess the quality risks. (Ref: Para. A49)
32. The quality objectives established by the firm shall be based on the following: ....

## Quality Management Process: Perform Quality Risk Assessment

33. The firm shall identify quality risks, **through understanding** the conditions, events, circumstances, actions or inactions that, individually or in combination, could **reasonably have an adverse impact** on the **firm's ability to achieve its quality objectives**. (Ref: Para. A54–A58)
34. The firm shall assess the **likelihood and impact of the quality risks** identified in paragraph 33. (Ref: Para. A59)
35. The quality risks shall include the following: ...

## Quality Management Process: Design and Implement Responses to Quality Risks

36. Taking into account the **assessed likelihood and impact of the quality risks**, the firm shall design and implement responses for which the **nature, timing and extent** are **responsive to the conditions, events, circumstances, actions or inactions** that gave rise to the quality risk. (Ref: Para. A60–A70)
37. The responses shall include the following:...

## Quality Management Process

### Question 9:

Does the IAASB agree with the proposals of the QCTF in relation to the **requirements to establish objectives, identify and assess risks and design and implement responses to the risks**, set out in paragraphs 30–37 of Agenda Item 2–B, in particular:

- (a) Does the IAASB agree with the **considerations of the firm in establishing the quality objectives**, i.e., (i) the alignment with the firm's **governance principles**, strategy, professional standards and applicable legal and regulatory requirement, (ii) whether they are relevant to the **circumstances of the firm** and **all relevant** quality objectives have been identified, and (iii) the appropriate level of **granularity**?
- (b) Does the IAASB agree with the approach of **identifying quality risks through an understanding** of the conditions, events, circumstances, actions or inactions that could give rise to those risks?

## Quality Management Process

### Question 9 (continued):

- (c) Does the IAASB agree with the **threshold that has been established in identifying quality risks**, i.e., those risks could reasonably have an adverse impact the firm's ability to achieve its quality objectives?
- (d) Is the IAASB of the view that the **requirements clearly set out the expectations** in establishing quality objectives, identifying and assessing quality risks and designing and implementing responses and would these be **able to be applied in practice**?

## Quality Management Process: Extant ISQC 1 – “Silo” Approach by Element

### Relevant ethical requirements

- P&P on independence
- Annual confirmation
- Rotation of EP and EQCR

### Acceptance and continuance

- P&P on capabilities to perform engagements
- P&P on client integrity

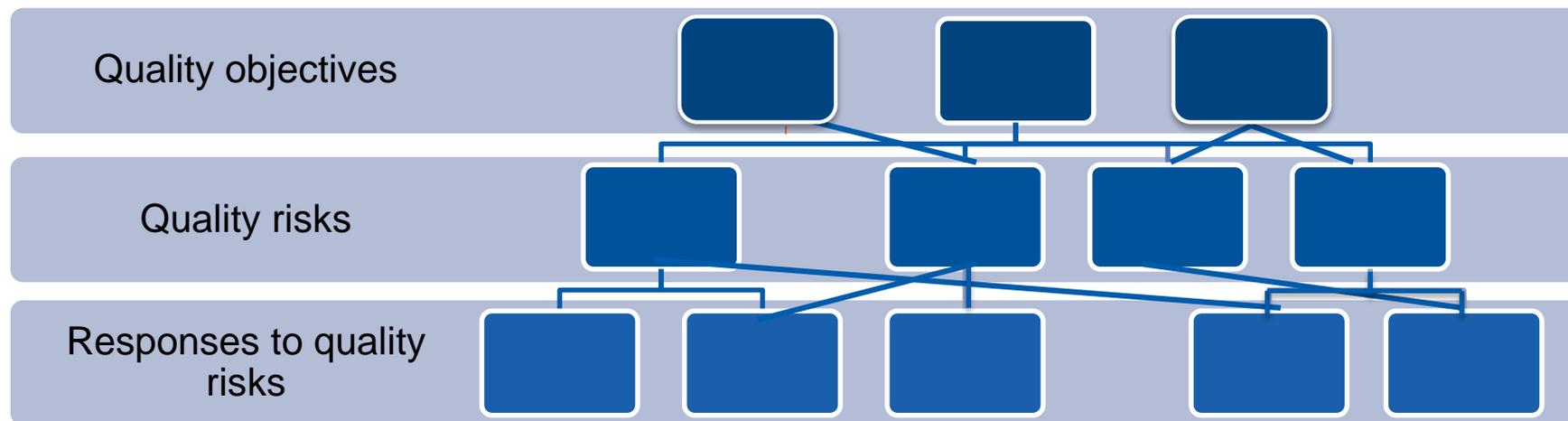
### Human resources

- P&P on sufficient, competent, ethical personnel
- P&P on assignment of EP and teams

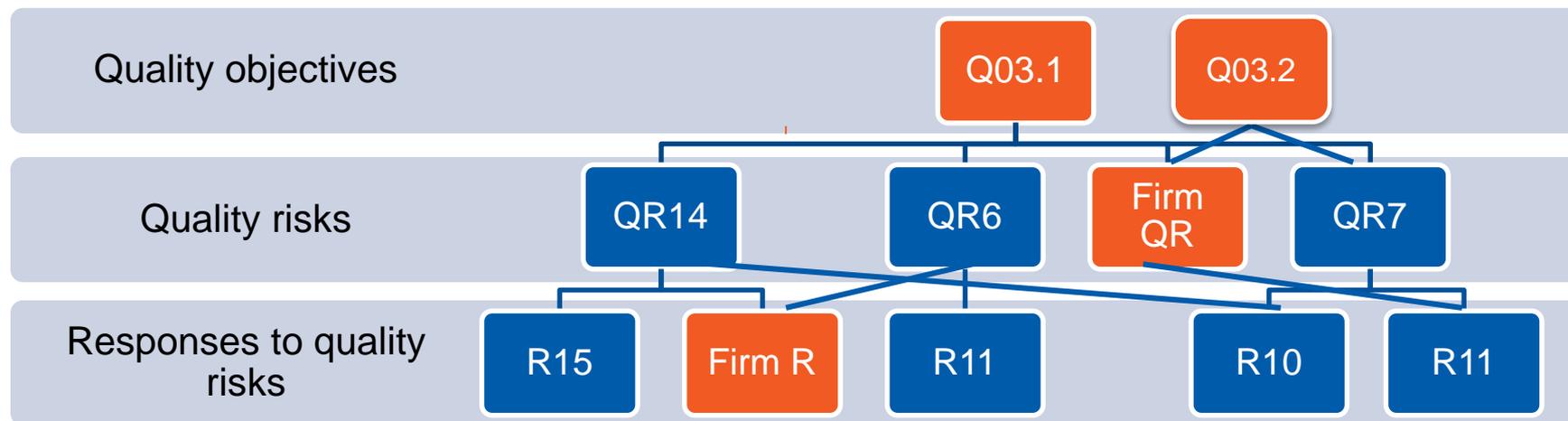
### Engagement performance

- P&P to perform in accordance with prof standards
- P&P on supervision & review, consultation, EQCR

## Quality Management Process: Applying the QMP – A Matrix Approach



# Quality Management Process: Applying the QMP – Firm Implementation Example



## Quality Management Process

### Question 10:

The IAASB is asked to share their views in relation to the **prescribed quality objectives, quality risks and responses** set out in Agenda Item 2–C, in particular:

- (a) Is the IAASB of the view that the **level of granularity** of the prescribed quality objectives, quality risks and responses is appropriate?
- (b) Does the IAASB support the QCTF's proposal to **consolidate the prescribed quality objectives, quality risks and responses**, rather than place these into the categories according to the elements in extant ISQC 1?
- (c) Does the IAASB have any suggestions regarding the **presentation** of the prescribed quality objectives, quality risks and responses and their placement in ISQC 1?

# Monitoring and Remediation

## Presented by: Imran Vanker

## Monitoring and Remediation: Overview of Extant versus Working Draft

### Extant

- ISQC 1 paragraphs 48 – 53  
paragraphs A64 – A69

(R)  
521  
words

(A)  
554  
words

### Working Draft

- 2-A paragraphs 87 – 113
- 2-A paragraphs Q 11 – Q 20
- 2-B paragraphs 38 – 49
- 2-B paragraphs A71 – A99

(R)  
848  
words

(A)  
3,705  
words

## Monitoring and Remediation: Proposals in the ITC

- Strengthen the requirements and application material for firms to respond to all feedback in relation to quality control, including feedback from external inspection findings, as well as other quality reviews that a firm might perform.
- Include requirements to address actions firms should take to understand the causes of deficiencies identified by internal and external inspections and other reviews, and from other information sources.
- Introduce requirements to clarify the necessary actions regarding the analysis of audit deficiencies and corrective measures.
- Introduce requirements and application material addressing the monitoring by firm leadership of the effectiveness and appropriateness of remedial actions.

# Monitoring and Remediation: System of Quality Management



## Monitoring and Remediation: Proposals in the ITC

### Extant

#### **Monitoring the firm's quality control policies and procedures (para. 48)**

The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

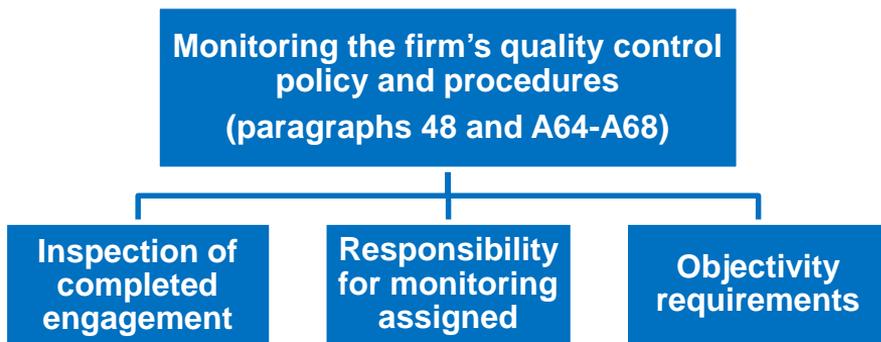
### Working Draft

#### **Establishing a Monitoring and Remediation Process (para. 38)**

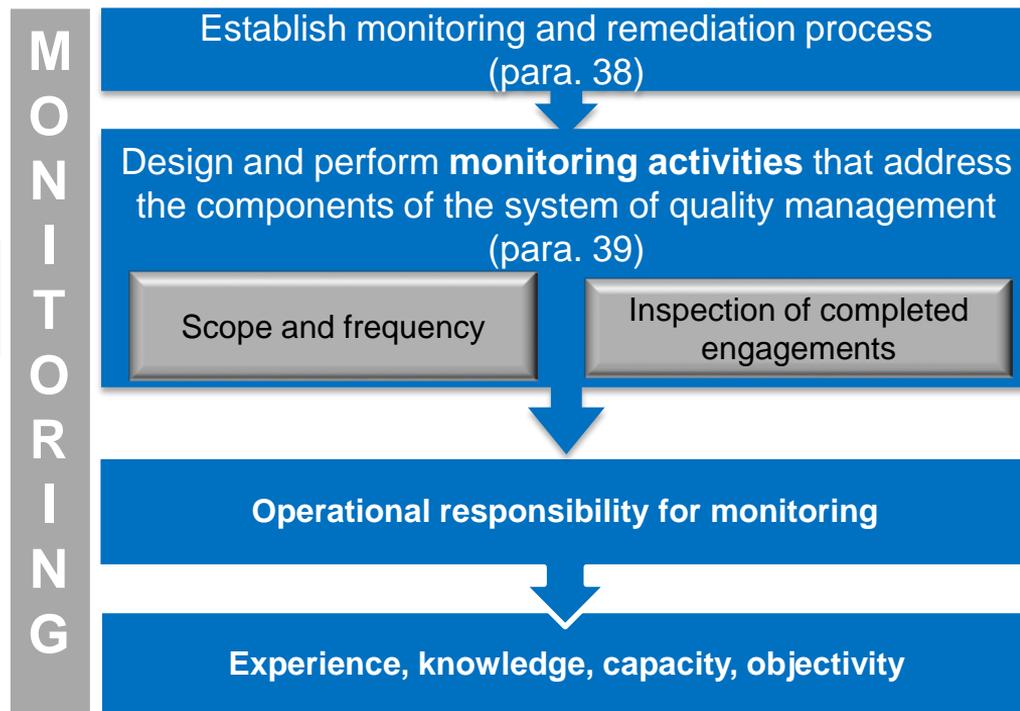
The firm shall establish a monitoring and remediation process in order to evaluate whether the firm's system of quality management provides the firm with reasonable assurance that its overall objective has been achieved.

# Monitoring and Remediation: The Monitoring Process

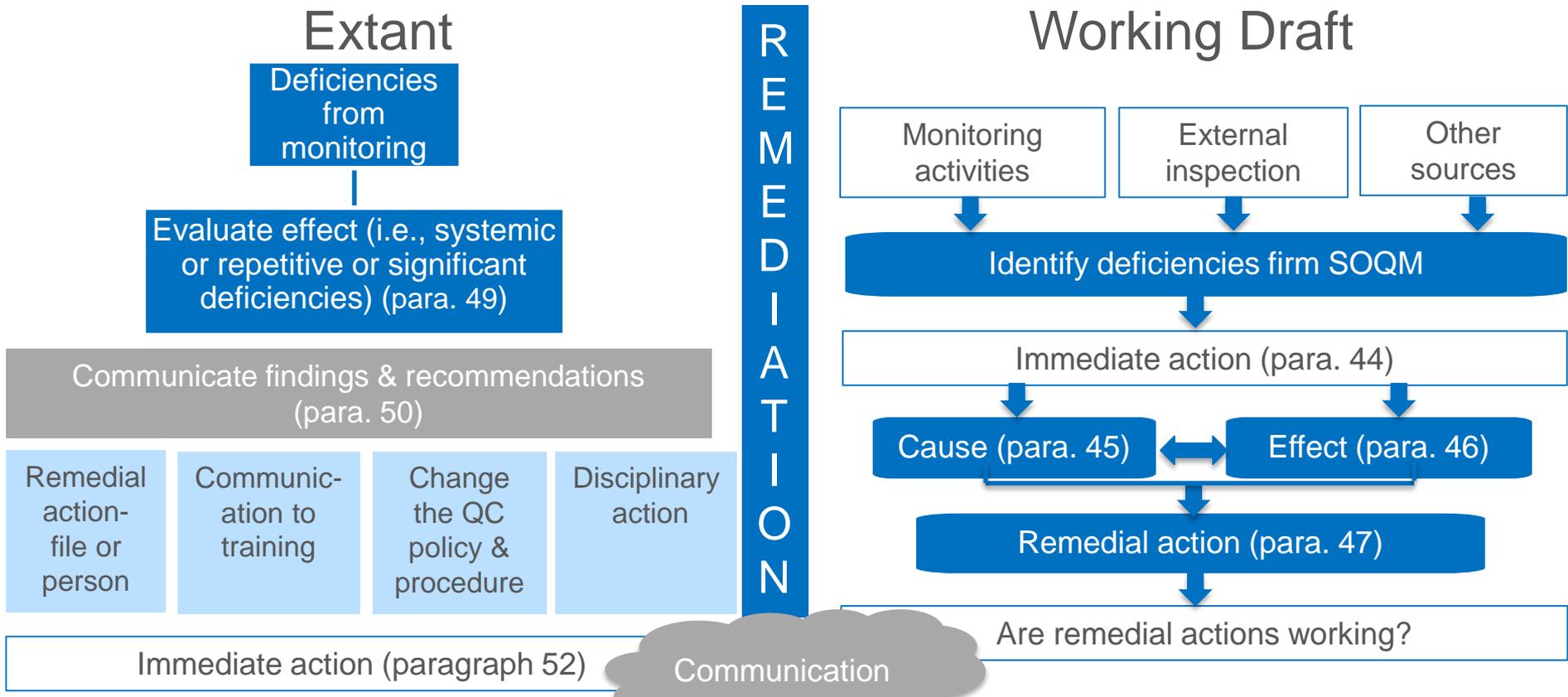
## Extant



## Working Draft



# Monitoring and Remediation: The Remediation Process



## Monitoring and Remediation

### Question 11:

Paragraph 14(b) discusses the QCTF's recommendation to retain monitoring and remediation as a **subset of the QMP process**. Does the IAASB agree with this recommendation?

### Question 12:

Does the IAASB agree with the **purpose of monitoring and remediation** explained in paragraph 89?

### Question 13:

Does the IAASB support the inclusion of **external inspections** in paragraph 40 and 43 of Agenda Item 2–B?

## Monitoring and Remediation

### Question 14:

Does the IAASB consider the requirements in paragraph 40 of Agenda Item 2–B to be appropriate, including the **factors** the firm is required to consider in **determining the scope and frequency of the monitoring activities**?

### Question 15:

Does the IAASB agree with the QCTF's recommendation in relation to **engagement inspections**, i.e., that the firm is required to set out criteria for the selection of completed engagements for inspection that sufficiently support the firm in its evaluation of its system of quality management?

## Monitoring and Remediation

### Question 16:

Does the IAASB agree with the proposal to include a requirement relating to the **experience, knowledge, capacity and objectivity of those performing the monitoring activities**?

### Question 17:

Does the IAASB support the proposals in relation to the **causal analysis**, in particular, does the IAASB agree with the conclusion of the QCTF that the causal analysis should **apply to all deficiencies** that are identified by the firm, and that the **nature, timing and extent of the procedures** undertaken by the firm to determine the cause(s) of deficiencies are determined by the firm **based on the nature of the deficiencies**?

## Monitoring and Remediation

### Question 18:

Does the IAASB agree with including a requirement in monitoring and remediation for the firm to consider the **appropriateness of the quality objectives, quality risks and responses** in evaluating the effect of deficiencies identified?

### Question 19:

Does the IAASB agree with the inclusion of a requirement for the firm, including those assigned ultimate responsibility and accountability for quality, to **monitor the effectiveness of the remedial actions** and evaluate whether they appropriately address the deficiencies identified?

## Monitoring and Remediation

### Question 20:

Does the IAASB agree with the **revisions to the communication** in relation to monitoring and remediation, including the conclusion to retain the requirement to **communicate on an annual basis**?

# Other Matters

## Presented by: Karin French

## Interconnectedness of the Components

### Question 21:

The IAASB is asked to share their views regarding whether the interconnectedness of the components is clear in Agenda Item 2–B?

## Changing Behaviors

### Question 22:

The IAASB is asked to share their views regarding how the proposals could change firm behavior, and whether there are any unintended consequences on firm behavior that may arise as a result of the proposed revisions to ISQC 1.



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