



Quality Control Considerations Relating to Networks

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IAASB Meeting, New York

Agenda Item 4

June 21, 2017

IAASB

**International Auditing
and Assurance
Standards Board**

Introduction

- Networks (or associations) have varying structures:
 - Aimed at cooperation
 - May share:
 - Quality control systems
 - Control or management
 - Other (brand name, ownership, significant part of professional resources etc.)
- Neither the ISAs nor ISQC 1 have requirements for networks and do not address in any significant detail the ability to rely on network policies and procedures
 - ISA 220 (paragraph 4) - engagement teams are entitled to rely on firm quality control policies and procedures, unless something to indicate otherwise (i.e., arguably “passive reliance”)

Issues Identified Relating to Networks

- ISA Implementation Monitoring (2013) highlighted concerns that firms and engagement teams were ‘relying on’ network policies and procedures without an appropriate basis In particular regulator concerns included:
 - **Undue reliance** by firms on the network`s system of quality control in some circumstances
 - **Undue reliance** on network level policies and procedures **in a group audit situation** (e.g., inadequately assessing the component auditor`s competence and capabilities when the component auditor operates within the same network)
 - Inadequate communication to the network of the results of **external inspection findings** of individual firms within the network

Invitation to Comment

- Concerns related to networks set out in IAASB's Invitation to Comment (ITC), including possible actions to address issues
 - Question in ITC re developing more detailed requirements and guidance to rely on network-level policies and procedures
- ITC also acknowledged difficulty in establishing policies and procedures at the network level because of the many and varied laws and regulations governing networks and firms globally
 - Question in ITC whether feasible to develop requirements and guidance for networks

Overall Responses to the ITC

- No general support for establishing **requirements for policies and procedures at the network level**
- **Strong support for the IAASB to give further consideration to clarify what needs to be done to demonstrate the basis for support** when relying on common policies and procedures (at firm or engagement level)
- Regulators and others emphasized need for **strengthened communications** in relation to **inspections that have taken place across networks**
- In relation to understanding the **competence of component auditors**, stakeholders urged the IAASB to enhance the standards to distinguish the considerations when the component auditor is from a network firm, and when it is not

Task Force Discussions

- No intention currently to revise the definition of a network or network firm as set out in extant standards—remain consistent with IESBA definition
- No intention to establish requirements for networks:
 - Different structures of networks and associations (i.e., different procedures)
 - Different degrees of centralized control
 - Difficult to monitor compliance by networks because of multi-jurisdictional nature of networks

Task Force Discussions

- Strengthened requirements to **more proactively consider** relevant aspects of network's system of quality control
 - By the firm in responding to quality risks
 - At the engagement level when managing quality
 - By the engagement partner and engagement team
 - In relation to component auditors when the component auditors are from a network firm
- Strengthened requirements for:
 - **Proactive two-way communication** on a timely basis and as needed
 - Clarifying the types of **information** that should be communicated between network / firms / engagement teams- including component auditors (feedback loops)
- Additional application guidance to illustrate **application to different situations** (e.g., ADM's)

Matters for IAASB Consideration

1. Does the IAASB agree with the overall direction being contemplated by the Task Forces i.e., to strengthen and enhance the requirements and application material in ISQC 1, ISA 220 and ISA 600, and require more proactive consideration or evaluation by network firms, and at the engagement level, before “relying” on network-level quality management activities (for example, a common methodology and tools, monitoring conducted at a network level and related communications)?
 - a) What is the IAASB’s view about the work effort that would be necessary to demonstrate the basis for appropriate reliance at the firm and the engagement level? Would the necessary work effort vary depending on what is being relied upon? What are the documentation considerations?
 - b) What are the practical implications of strengthening the requirements as proposed? What challenges would be likely to arise?
 - c) Are there other aspects relating to networks that need to be addressed and/or strengthened in the IAASB’s International Standards?
2. Does the IAASB agree with the Task Forces’ view that, at this time, no further consideration be given to the definition of “network”?



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