



RECAP Session

IAASB Meeting, New York

June 22, 2017

IAASB

**International Auditing
and Assurance
Standards Board**

Quality Control (Firm Level) – ISQC 1

Quality Control (Firm Level)

- Overall support for general direction
- Importance of outreach with a variety of stakeholders – input on the practicality of the proposals
- Document that explains the application of the standard, with examples
- Balance between robustness and scalability: Overall different views about the extent to which the extant requirements should be retained, enhanced or lightened
- Areas where there are still concerns on how would apply to SMPs
 - Possibility of more conditional requirements
 - Clarifying how a system of quality management applies to SMPs
- Overall objective of ISQC 1 – different views on whether it is appropriate “as is” or needs to be enhanced to capture a more aspirational goal of quality

Quality Control (Firm Level)

- Consideration of impact on public sector across various proposals
- Change behavior:
 - Rather frame as how is it in the public interest (how does it improve audit quality)
 - Message as a “fresh look”
- Support for separate standard on EQCR

Quality Control (Firm Level): Governance and Leadership

- Title – “including” culture, organization and strategy inappropriate
- Clarify how G&L affects the firm’s identification and assessment of quality risks (akin to how the control environment affects the control risks under COSO)
- Governance
 - Better clarification of interaction with jurisdictional governance codes or laws & regulations
 - More emphasis needed on “tone in the middle” – not clear enough
 - Not much support for use of term “public interest”, instead explain what it means
 - Rethink 4th principle related to enhancing stakeholder confidence
- Leadership
 - Responsibility of those with ultimate responsibility (i.e., managing board versus CEO) – who it should be depends the context of the firm’s circumstances and structure
 - Varying views on what are they responsible for, i.e., quality versus SOQM
 - Those assigned operational responsibility
 - Clarify needs to have authority and reporting lines to senior firm leadership
 - Accountability of these persons – what are they accountable for and what are the consequences for them

Quality Control (Firm Level): Leadership, Whistleblowing Information and Communication

- Leadership
 - Responsibility for independence – perhaps broaden to ethical requirements?
- Whistleblowing
 - Clarification of the term
 - Broadening to also be a support mechanism
- Information and Communication
 - Too high level and conceptual – needs to be built out
 - Two-way nature of communication is not clear
 - Explain purpose of what the information is used for and the decisions being made based on that information (instead of classification by party with whom communication takes place)
 - Explore circumstances when information flows need to be systematic and not informal
 - Separate external parties into a different requirement – the way you communicate with them is different and might not be two-way
 - Coordinate with ISA 220 group to get connectivity between the standards

Quality Control (Firm Level): Quality Management Process

- Overall support for QMP
- Better balance on level of granularity between quality objectives and quality risks and responses
 - Too much prescription = checklist based approach
 - Too high level (e.g., quality objectives) – not clear what is needed in order for quality to be achieved
 - Possibly convert the responses into quality risks – more flexible and less confusing
- Set out a framework for how firms would further develop the objectives
- Suggestions on further refinement of the objectives and clarity that these are what is required
- Explore linkage to applying professional judgment at the engagement level
- Threshold for quality risks – explore approach similar to ISA 315
- Retain the concepts of the elements in extant ISQC 1, build those elements out
- Clarity on what is a “deficiency” and what that means for achieving the objective of reasonable assurance
- Improve linkage with responses at an engagement level
- Overall support for term policies OR procedures
- Documentation a key consideration
- Visual presentation important and necessary to support understanding of QMP

Quality Control (Firm Level): Monitoring and Remediation

- Overall support
- Revisit the objective of monitoring and remediation – system assurance and outcome assurance
- Clarity on interaction between internal and external monitoring
- More clearly include other information sources that may indicate deficiencies
- Root-cause
 - Support for the term “root-cause”
 - Proposed requirements too definitive (“determine” too strong)
 - Better differentiation of deviations (isolated etc.) versus deficiencies (more systemic) – helps drive extent of understanding root cause
 - Bring more emphasis to also understanding why engagements went well (the positive)
- 3 year inspection cycle remains appropriate
- Explore giving recognition to “in-flight” reviews and why these are important
- Communication – may need to be more often than annually and subject to restrictions under L&R
- Importance of reporting lines within the firm for those performing monitoring activities

Consideration about Networks

Consideration About Networks

- The Board supported:
 - The overall direction proposed by the QC and GA Task Forces relating to networks, and encouraged the Task Forces to further consider how changes could be made in the relevant standards to reflect this
 - The Task Forces' approach not to revisit the definition of the networks that is used in the IESBA Code and the IAASB's International standards
 - The Task Forces' proposal to not further consider how to establish requirements for networks in the IAASB's International Standards.

Consideration About Networks (Cont.)

- The Board discussed:
 - Whether the use of the term ‘reliance on network policies and procedures’ is appropriate.
 - Challenges that may arise relating to standard-setting when considering changes relating to networks, for example the many different structures of networks but also because of the international nature of many of the networks, while firms within those networks have national or regional laws and regulations that need to be complied with
 - How to achieve ‘reasonable assurance’ on the effectiveness of the network’s policies and procedures
- The Board encouraged the Task Forces to give further consideration to the practical implications of its proposals, including how to evidence and document considerations when using network policies and procedures as part of the firm’s quality management

Quality Control (Engagement Level) – ISA 220

ISA 220

- Board feedback:
 - Support for some aspects of the proposed changes (e.g., strengthening the EP’s leadership responsibilities for the engagement and a consideration of all resources needed for an engagement), but caution that many of the changes would likely be difficult to implement in practice and document.
 - Agreed that identification of quality risks and embedding quality management principles is helpful, but encouraged the Task Force to reflect on how this can be done.
 - Encouraged the Task Force to consider how the EP could assess that quality had been achieved, which is the underlying objective of ISA 220.
 - Although supportive of strengthening the requirements for ongoing, two-way communication, the Board noted that adding requirements for communication would not necessarily change behavior—encouraged the Task Force to further reflect on the changes to promote behavioral change.

ISA 220

- Way Forward
 - The Task Force will reconsider how to build quality management into ISA 220.

Group Audits – ISA 600

Group Audits

- The Board supported the proposal of the Group Audit TF to
 - engage more directly with the QCTF, ISA 220 TF, and ISA 315 (Revised) TF,
 - help formulate the overarching requirements in those standards, and
 - provide appropriate input regarding the connection points between those projects and ISA 600.
- The Board supported the proposal of the TF to publish a short project update
- The Board asked the TF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.



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