

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, USA
Meeting Date: March 6–7, 2018

Agenda Item

D

Quality Management (Firm level): Draft Exposure Draft (ED) of ISQC 1 (Revised)¹

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - a) Inform Representatives about the activities of the Quality Control Task Force (QCTF) since the September 2017 IAASB CAG meeting.
 - b) Provide a report back on comments from the Representatives on the issues and recommendations regarding ISQC 1 as discussed at the September 2017 IAASB CAG meeting.
 - c) Obtain Representatives' views about key issues arising from the QCTF deliberations.

Project Status and Timeline

IAASB Discussions

2. Since the September 2017 IAASB CAG meeting, the IAASB discussed the first draft of the ED of proposed ISQC 1 (Revised). The IAASB supported the overall direction proposed by the QCTF and provided various recommendations in relation to each of the components. The IAASB has not engaged in any further discussions in relation to proposed ISQC 2.² A second read of the ED of ISQC 1 will be presented to the IAASB at its March 2018 meeting. The QCTF plans on presenting a second read of the ED of ISQC 2 to the IAASB at its September 2018 meeting.
3. Appendix A to this paper provides a history of previous discussions with the IAASB CAG and IAASB on quality management at the firm level, including links to the relevant IAASB CAG documentation.

Activities of the QCTF

4. Since the September 2017 IAASB CAG meeting, the QCTF met in person six times and held two teleconferences. The QCTF drafting team has also met four times in person.

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*

² Proposed Draft ISQC 2, *Engagement Quality Control Reviews*

Coordination with Other IAASB Task Forces and Working Groups and other Standard Setting Boards

5. Given the relationship between quality management at the firm level (ISQC 1) and quality management at the engagement level (ISA 220³), the QCTF and ISA 220 Task Force continue to coordinate on topics that affect these projects, through Staff liaison and common membership of Task Force members. Since September 2017, the Chairs of the Task Forces, certain members of the Task Forces and staff of the respective projects have held four meetings to discuss matters of mutual interest.
6. The Chair of the QCTF and Staff intend on liaising with certain members of the International Ethics Standards Board for Accountants (IESBA) and IESBA Staff ahead of the March 2018 IAASB meeting, regarding the ethical matters included in proposed ISQC 1 (Revised). Furthermore, the IAASB and IESBA Staff are setting up a webcast ahead of the March 2018 meeting for the IAASB Members to update them on key aspects of the Restructured IESBA Code.⁴
7. The Chair of the Professional Skepticism Working Group, Chair of the QCTF, their technical advisors and staff of the respective projects held one meeting to discuss how proposed ISQC 1 (Revised) can address matters relating to professional skepticism.

Outreach

8. The QCTF undertook various outreach activities between September 2017 and November 2017 in order to solicit input on the proposals in relation to proposed ISQC 1 (Revised). These outreach activities included:
 - A two-day workshop with representatives of the Global Public Policy Committee, which was observed by a representative of the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group (SCWG), as well as the Secretary General of the Public Interest Oversight Board;
 - A one-day workshop with representatives of the Forum of Firms;
 - A half-day workshop with members of the International Federation of Accountants (IFAC) Small and Medium Sized Practices (SMP) Committee;
 - A teleconference with representatives of the IFIAR SCWG; and
 - A webcast aimed largely at SMPs.

With the exception of the SMP webcast, outreach participants were provided with the working draft of proposed ISQC 1 (Revised). A summary of the feedback from the outreach was included in the [Issues Paper](#) for the IAASB December 2017 meeting, including the QCTF's deliberations and proposals with respect to the matters raised.

9. The QCTF plans to undertake further outreach in the second quarter of 2018, with some of the above constituents, and the public sector.

³ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

⁴ The International Code of Ethics for Professional Accountants (including *International Independence Standards*), approved by the IESBA at its December 2017 meeting

September 2017 IAASB CAG Discussion

10. Extracts from the draft minutes of the September 2017 IAASB CAG meeting, as well as an indication of how the QCTF and IAASB have responded to the Representatives' comments are included in the table below.

Representatives' Comments	Task Force/IAASB Response
GENERAL COMMENTS	
<p>Mr. van der Ende supported the proposals in relation to the incorporation of a quality management approach in ISQC 1 (Revised).</p>	<p>Support noted.</p>
<p>Mr. Ruthman encouraged the QCTF to consider other types of assurance engagements.</p>	<p>Point noted.</p> <p>Ms. French noted that the QCTF has yet to consider the impact of the proposals on the IAASB's other standards and plans to do so once the standard has been further developed.</p>
<p>Prof. Schilder asked the Representatives and Observers about their views on whether the standard sufficiently addresses the needs of SMPs, in particular whether SMPs would be able to easily navigate the standard, whether the volume of the proposed application material is excessive and the need for more explicit guidance addressing sole practitioners and networks. In response to Prof. Schilder's request:</p> <ul style="list-style-type: none"> • Mr. Hansen noted the guidance developed by the American Institute of Certified Public Accountants for the purposes of the peer review process, addressing how a system of quality control would apply in the case of a sole practitioner. Mr. Dalkin questioned whether the standard could be bifurcated to address the needs of SMPs. • Mr. Hansen questioned how the standard would address circumstances when firms intentionally establish policies or procedures that are not sufficiently stringent. 	<p>Point taken into account.</p> <p>Ms. French indicated that the responses to the Invitation to Comment (ITC), <i>Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits</i> called for additional examples and guidance, but recognized that such examples and guidance would not necessarily need to be included in the standard. Ms. French noted that the QCTF is considering guidance and examples and how best to present these, for example, in application material or a supplemental publication. Paragraphs 3–4 of Agenda Item D.1 further explains the QCTF's proposals to provide examples and highlight the scalability of the standard.</p> <p>Ms. French noted that the QCTF is of the view that the prescribed objectives and quality risks in the revised standard may be sufficient for a small, non-complex firm, i.e., the firm may not necessarily have to establish more quality objectives and quality risks in their circumstances. Ms. French added that firms that intentionally take a minimalist approach will do so irrespective of how the standard is written.</p>

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Dalkin questioned whether there were any plans to undertake a post-implementation review and evaluate how the proposals have affected firms and whether the proposals have addressed the issues identified.</p>	<p>Point taken into account.</p> <p>Ms. French noted that this could be considered. She added that the QCTF had considered requesting firms to pilot test the proposals, however it had been identified that it would be impracticable to do so given the time it would take firms to implement the full system and for the system to flow through an entire cycle. However, she noted that it could be explored whether certain aspects of the proposals could be pilot tested.</p>
<p>Mr. Inuma noted that due to rotation requirements, entities are increasingly changing their auditors. He therefore suggested exploring whether ISQC 1 should address the firm's responsibilities in circumstances when the audit firm is changed.</p>	<p>Point taken into account.</p> <p>Relevant ethical requirements, by definition, include the requirements of law or regulation, such as rotation requirements. The QCTF agreed that proposed ISQC 1 (Revised) should take a principles-based approach in relation to firms' fulfillment of relevant ethical requirements, given the variety of topics covered by relevant ethical requirements and the fact that jurisdictions may be subject to different ethical requirements. However, the application material highlights that rotation requirements may exist in law or regulation.</p>
<p>Mr. Thompson questioned the appropriateness of locating the responsibilities of the EQC reviewer in ISQC 2, since it would be a firm-level standard and the performance of the EQC review is undertaken at an engagement level. He added that the procedures undertaken by the EQC reviewer in relation to an audit may be different than other engagements, and accordingly the EQC reviewer's responsibilities may be better placed in ISA 220.</p> <p>Mr. Dalkin indicated that a separate standard for EQC reviews assists in reducing the volume of ISQC 1 and elevates the importance of the EQC review, thereby emphasizing audit quality.</p>	<p>Point noted.</p> <p>Ms. French emphasized that the EQC review is a firm's response to the quality risks, despite it being performed by an EQC reviewer at an engagement level. Ms. French explained the key elements of ISQC 2, in particular that the firm would establish the policies or procedures for the performance of the EQC review and the EQC reviewer would then be required to follow those policies or procedures. She added that including the requirements in a single standard streamlines the requirements that were duplicative between ISQC 1 and ISA 220 and would also apply to EQC reviews performed on engagements other than audits of financial statements. Ms. French also highlighted that the IAASB would be discussing the proposals at the September 2017 meeting, including the placement of the EQC reviewer's responsibilities.</p>

Representatives' Comments	Task Force/IAASB Response
NETWORKS	
<p>Mr. van der Ende noted the transformation in recent years across the larger firms regarding leadership responsibilities at a network level, as well as the increased focus on networks by audit oversight authorities. While he indicated his support for the proposed approach in addressing the firm and engagement team's responsibilities in relation to networks, he encouraged the QCTF to consider how to further emphasize the role of networks.</p>	<p>Point accepted.</p> <p>Prof. Schilder agreed with the observation and the importance of addressing networks.</p> <p>Paragraphs 34–37 of Agenda Item D.1 further explains the QCTF's proposals to address networks.</p>
<p>Mr. Koktvedgaard questioned the IAASB's decision with respect to how networks will be addressed, given that responsibilities may be assigned to the network. He added that in the case of a group audit, the group engagement team's responsibilities in relation to components audited by a firm within a network could differ from the responsibilities in relation to components audited by a firm outside of a network, and therefore it may be necessary to establish requirements for the network. Mr. Koktvedgaard further questioned the level at which the "tone at the top" is established, i.e., the firm or network level, and also noted that aspects such as monitoring and technology are set up at a network level and such areas are not within the control of the firm. Mr. Koktvedgaard also indicated that in a global environment, the perception of the auditor is not in the context of the individual partner, but rather the network. Ms. Manabat pointed out that the perception is that networks are responsible for accepting the audits of global entities, who would then cascade the performance of the audit to the firms within the network. She noted that while jurisdictionally the firm is accountable for the work performed, she questioned the responsibility of the network.</p> <p>Mr. Koktvedgaard emphasized his view that networks should be directly addressed, and suggested that this could be achieved through</p>	<p>Point not accepted.</p> <p>Ms. French and Ms. Zietsman explained that the IAASB's decision to not impose requirements on networks was based on a multitude of reasons, including:</p> <ul style="list-style-type: none"> • The network itself does not perform any services or engagements. • Networks are structured in a variety of ways and the responsibilities assigned to the network may vary. Ms. Zietsman added that recent outreach has also highlighted increasing use of other types of firm structures within networks, for example, regional clusters. <p>Ms. Zietsman therefore noted that it would be impracticable to develop requirements for networks given the variety of structures. Ms. French and Ms. Zietsman explained the firm would be responsible to proactively understand the activities at a network level and establish the accuracy and quality of the information received from the network, and determine additional responses needed at the firm level in order that the firm's quality risks are appropriately addressed. Ms. French and Ms. Zietsman also noted that establishing requirements for the firm would promote two-way communication with the network and improve the network's transparency, i.e., the network would need to provide the necessary</p>

Representatives' Comments	Task Force/IAASB Response
<p>"voluntary compliance", i.e., instead of mandating requirements in the standards, other mechanisms could be used to address networks, for example, through the membership requirements for the Forum of Firms.</p>	<p>information to the firms within the network in order that the firms are able to fulfill their responsibilities.</p> <p>Ms. Zietsman noted that in relation to a group audit, the involvement of the group engagement team with components audited by a firm within a network would need to be adapted based on the information about that firm, despite it being part of the network.</p> <p>Ms. French also added that the principles in relation to networks would equally apply to circumstances when the firm utilizes something outside the firm, for example, a methodology from a third party service provider.</p>
<p>Mr. Baumann agreed with the proposed approach. He added that although networks are doing more to establish consistency across the brand, networks are not subject to inspections since the firms are the legal entities that undertake the engagements and are responsible for the engagements. He therefore noted that leadership at the firm level is responsible for quality.</p>	<p>Support noted.</p>
<p>Mr. Baumann encouraged the QCTF to more explicitly address the firm's responsibility for ensuring that the procedures performed by other firms as part of a group audit are undertaken in accordance with the IAASB's standards, irrespective of whether the firm is within the network or outside of the network. Mr. Baumann added that while ISA 600⁵ would include the responsibilities of the group engagement team in considering the work of other firms, the firm should also consider the quality of the work undertaken by other firms.</p>	<p>Point not accepted.</p> <p>The QCTF considered the CAG's suggestion to address how the firm ensures that the procedures performed by other firms as part of a group audit are undertaken in accordance with the IAASB's standards. The QCTF noted that the scope of proposed ISQC 1 (Revised) is focused on the firm's system of quality management and accordingly monitoring other firms would fall outside of this scope. The QCTF is also of the view that as part of undertaking monitoring activities at the engagement level, in the case of a group audit, such activities ordinarily include an evaluation of how the engagement team has considered the work of the component auditor.</p>
<p>Mr. Fortin highlighted that the culture of the firm is influenced by the network and noted the difficulty</p>	<p>Point accepted.</p>

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Representatives' Comments	Task Force/IAASB Response
<p>in addressing this topic and the importance of referring to networks throughout ISQC 1. He added that ISA 600 should also address the consideration of networks, noting that there is increased risk in circumstances when components are audited by firms outside of the firm's network. Prof. Schilder noted that due to rotation requirements, there is an increased mix of firms from various networks involved in group engagements.</p>	<p>Application material explaining how the firm's culture may be influenced by the network has been included in the appendix of proposed ISQC 1 (Revised).</p> <p>Considerations in relation to ISA 600 will be considered by the Group Audits Task Force.</p>
<p>Mr. Dalkin questioned whether the proposals would be effective in circumstances when the firm utilizes methodologies from third party service providers.</p>	<p>Point accepted.</p> <p>Ms. French noted that the approach would be similar to how networks would be addressed, i.e., the firm would need to obtain the necessary information in order to establish the appropriateness of the products from the third party service provider.</p> <p>Paragraph 38 of Agenda Item D.1 explains the QCTF's proposals to address service providers.</p>
<p>GOVERNANCE AND LEADERSHIP, INCLUDING ORGANIZATION, CULTURE AND STRATEGY</p>	
<p>Mr. Yurdakul was of the view that the proposals were too general and therefore could be difficult to understand and apply.</p>	<p>Point taken into account.</p> <p>The component addressing governance and leadership has been comprehensively amended and clarified since the previous CAG discussion. Paragraphs 16–18 of Agenda Item D.1 explain some of the key aspects that have changed.</p>
<p>Mr. Hansen noted that the term "public interest" had not been incorporated in the working draft of ISQC 1 (Revised) and was of the view that there should be a reference to the firm's "public interest role". He added that the working draft of ISQC 1 (Revised) appears to set a tone that firms should aspire to a higher level of quality, but questioned whether, in practice, all firms aspire to higher levels of quality and how the standard would therefore be applied.</p>	<p>Point accepted.</p> <p>Ms. French indicated that the public interest term was not used in the standard as this was not supported by the IAASB in its June 2017 discussions for various reasons, including that the term is difficult to define and may imply an aspiration and adding the phrase "public interest" to the standard does not necessarily result in a change in behavior. Ms. French added that the governance principles were intended to describe the firm's public interest role, however the QCTF would further consider whether it could be more clearly explained.</p>

Representatives' Comments	Task Force/IAASB Response
	<p>Paragraph 17 of Agenda Item D.1 explains how proposed ISQC (Revised) will address the firm's public interest role, including explicit use of the term "public interest" in the introductory paragraphs of the standard.</p>
<p>Mr. Baumann encouraged the QCTF to consider whether ISQC 1 should explicitly address how the firm's business model may influence quality, given that firms' audit services are, in general, proportionally less than other services provided by the firm.</p>	<p>Point accepted.</p> <p>Paragraph 18 of Agenda Item D.1 explains that various enhancements have been made to the quality objectives and responses addressing governance and leadership that better emphasize the consideration of financial and operational priorities in the context of the firm's commitment to quality.</p>
<p>Mr. Fortin emphasized the importance of firm culture in addressing quality, however was of the view that the working draft does not fully address it. He indicated that the reference to professional values is unclear and that the manner in which culture has been described in the working draft appears limited to ethical considerations. Mr. Fortin suggested that culture is broader, for example, it includes encouraging a culture of consultation, innovation, challenge and excelling.</p>	<p>Point accepted.</p> <p>Ms. French indicated that the QCTF would consider these suggestions as the proposals did not intend on narrowing culture to ethical considerations.</p> <p>Application material has been included in proposed ISQC 1 (Revised) to explain the meaning of "professional values, ethics and attitudes."</p>
<p>Mr. Inuma noted that the Japanese Audit Firm Governance Code contains two additional elements not included in the proposals in the working draft and encouraged the QCTF to consider these elements. The elements are as follows:</p> <ul style="list-style-type: none"> • An audit firm should enhance the function for supervision and evaluation for its effective management and operations, and effectively utilize the knowledge and experience of independent third persons. • An audit firm should promote the initiatives for people development, human resources management and performance evaluation in order for the firm members to appropriately demonstrate their professional competence. 	<p>Point partially accepted.</p> <p>Ms. French noted that the QCTF has extensively researched multiple audit firm governance codes in developing the governance principles, and that resources is addressed in the leadership responsibilities.</p> <p>Given the varying nature and sizes of firms, the QCTF is of the view that it is not possible to prescribe appointing independent third persons within firm leadership. However, the application material in the appendix to proposed ISQC 1 (Revised) explains that this may be appropriate in some circumstances.</p> <p>The QCTF considered whether to explicitly address human resources in the governance and leadership quality objectives, but concluded that a more general principle regarding obtaining and allocating resources is appropriate, since the resources component</p>

Representatives' Comments	Task Force/IAASB Response
	includes detailed considerations in relation to human resources.
<p>Mr. Yoshii noted that stakeholders have less information about audit quality in relation to smaller and medium sized firms, however these firms may perform audits of entities that have public interest. He therefore recommended that in addressing communication externally with stakeholders, the standard should emphasize that the need for such communication is dependent on the type of engagements undertaken by the firm, rather than the size of the firm. Mr. Thompson questioned which firms should be required to prepare transparency reports, noting that in the European Union the requirement to prepare transparency reports only applies to firms that perform audits of public interest entities.</p>	<p>Point accepted.</p> <p>Ms. French noted that the QCTF has not yet discussed transparency reporting or presented any proposals on this topic to the IAASB.</p> <p>Paragraphs 20–26 of Agenda Item D.1 explain the QCTF's proposals in relation to communication with external parties. Proposed ISQC 1 (Revised) includes a requirement for the firm to communicate information about the firm's system of quality management to parties external to the firm, as appropriate, taking into consideration factors that include the interests of stakeholders, the nature of the engagements the firm performs and the types of entities for whom such engagements are performed, and the requirements of law or regulation.</p>
<p>Ms. Meng sought clarity regarding why the QCTF was seeking views regarding the responsibilities of firm leadership. She added that firms may have well established systems of quality management, however there are still quality management failures. Therefore she recommended that the responsibility of firm leadership should be for the results of the system of quality management as this would compel firm leadership to implement effective systems.</p>	<p>Point partially accepted.</p> <p>Ms. French indicated that the QCTF is in agreement that firm leadership is ultimately responsible for quality, however this needs to be further explored and deliberated with the IAASB.</p> <p>In December 2017, the IAASB supported the proposal that firm leadership is responsible for the system of quality management. However, as explained in paragraph 10 of Agenda Item D.1, the QCTF have proposed a new requirement for the individual(s) assigned ultimate responsibility and accountability for the system of quality management to perform a stand back and evaluate whether the system of quality management provides the firm with reasonable assurance that the firm's objective is met. This places an onus on firm leadership to ensure that the system is operating effectively.</p>
<p>Mr. Yurdakul highlighted that all persons within the firm have a responsibility for quality and encouraged the QCTF to add emphasis to this in the working draft.</p>	<p>Point accepted.</p> <p>The responsibility of all firm personnel for quality is emphasized in the quality objectives under</p>

Representatives' Comments	Task Force/IAASB Response
	governance and leadership, and in the quality objectives and responses addressing resources.
<p>Mr. Ruthman raised concern regarding the practical implications of the proposed new requirement addressing performance evaluations of firm leadership and those assigned operational responsibility for the system of quality management. He noted that although performance evaluations are important and valuable, this could create a challenge to implement in the public sector since leadership may be appointed by statute and may have a fixed tenure. Mr. Dalkin suggested that guidance could be included to explain the unique situation.</p>	<p>Point noted.</p> <p>Ms. French noted the concerns and indicated that the QCTF plans to undertake outreach specifically with the public sector to explore how the proposals in the working draft would apply in their circumstances.</p> <p>The QCTF plans to undertake outreach with the public sector in the second quarter of 2018, to understand the aspects of proposed ISQC 1 (Revised) that have a unique challenge or application in the context of the public sector.</p>
INFORMATION AND COMMUNICATION	
<p>Mr. Baumann questioned whether the proposals on documentation would address documentation of who is accountable for the activities within the system of quality management.</p>	<p>Point not accepted.</p> <p>Ms. French responded by indicating that the standards address the responsibilities of firm leadership and those assigned operational responsibility for the system of quality management, however it does not include any specific requirements on documentation of the responsibilities. She added that these matters would be documented to the extent necessary to support a consistent understanding of the components.</p> <p>Given the introduction of a risk-based approach to the management of quality in proposed ISQC 1 (Revised), the requirements addressing documentation are more principles-based, instead of requiring specific documentation. This approach was supported by the IAASB.</p>
<p>Mr. Hansen questioned whether the standard would address documentation of matters related to monitoring and remediation that includes names of clients and details associated with individual engagements.</p>	<p>Point not accepted.</p> <p>Ms. French noted that this would be a consideration by the firm.</p>

Representatives' Comments	Task Force/IAASB Response
QUALITY MANAGEMENT PROCESS	
<p>Mr. Ruthman supported establishing minimum quality objectives and quality risks, given that there is a risk that firms fail to identify certain quality risks.</p>	<p>Point noted.</p> <p>Ms. French noted the comment, and added that the QCTF had previously considered using the term “minimum”, however this was not widely supported.</p>
<p>Mr. Ilnuma indicated his support for promoting a proactive and preventative approach to the system of quality management, but was concerned whether the approach would be sufficiently robust. Mr. Ilnuma encouraged the QCTF to develop additional guidance to explain how the QMP would apply in various scenarios and change firm behavior.</p>	<p>Point noted.</p> <p>Ms. French noted that firms would be driven to consider their circumstances and design their system according to their circumstances which would contribute to changing firm behaviours. She added that the additional requirements in the other components of the proposed standard would also have a positive influence on firm behaviours, including communication, the responsibility of firm leadership to cascade quality through the firm and establish mechanisms to support quality.</p> <p>Paragraphs 3–4 of Agenda Item D.1 further explains the QCTF’s proposals to provide examples and highlight the scalability of the standard.</p>
<p>Mr. Dalkin questioned whether the QCTF had considered whether the proposed approach would result in firms applying the requirements on a checklist basis.</p>	<p>Point noted.</p> <p>Ms. French noted that this was discussed in the June 2017 IAASB discussions and accordingly the approach was refined. Under the refined approach there is more focus on prescribed risks, with fewer prescribed responses, in order that firms are required to consider the quality objectives and design responses appropriate to their circumstances.</p> <p>Paragraph 15 of Agenda Item D.1 explains the proposed structure of the components, including that they now only include prescribed quality objectives and responses. Given that the components do not have prescribed quality risks, the QCTF is of the view that this will encourage firms to consider quality risks relevant to their circumstances and design and implement appropriate responses to address such risks.</p>

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Yurdakul questioned whether it would be possible for the requirements to be developed in a more positive manner, i.e., focus on what is needed to support quality engagements. Mr. Yurdakul also encouraged the QCTF to consider audit quality indicators. He further emphasized the importance of human resources and recommended that there should be requirements addressing recruitment and continuous training, both internal and external.</p>	<p>Point partially accepted.</p> <p>Ms. French indicated that the QCTF would further consider the quality risks and whether these could be made more positive. She added that the QCTF has not yet considered audit quality indicators and how these may be addressed in the standard.</p> <p>Paragraph 15 of Agenda Item D.1 explains the proposed structure of the components, including that they now only include prescribed quality objectives and responses, i.e., the “negativity” of the prescribed quality risks has been removed.</p> <p>Paragraphs 28–30 of Agenda Item D.1 explains the proposals of the QCTF addressing human resources.</p>
<p>Mr. Koktvedgaard questioned how the firm would address the risk in paragraph 36(a) in relation to network personnel, including how the firm would monitor compliance by network personnel.</p>	<p>Point partially accepted.</p> <p>Ms. French noted the proposals on how networks will be addressed in ISQC 1, adding that how this will be drafted in the standard has yet to be considered.</p> <p>Paragraphs 34–37 of Agenda Item D.1 explains the QCTF’s proposals to address networks.</p>
<p>MONITORING AND REMEDIATION</p>	
<p>Mr. Ilnuma and Mr. Dalkin indicated their support for the proposals. Mr Ilnuma further supported the use of the term “root cause”.</p>	<p>Support noted.</p>
<p>Mr. Gunn noted the value of the firm’s self-assessment and ongoing monitoring of the quality objectives, quality risks and responses, adding that it is useful in identifying deficiencies and implementing incremental improvements. However, he questioned whether there should be a long-term periodic review of the firm’s system of quality management that evaluates, at a point in time, whether the system of quality management addresses the circumstances of the firm and the environment in which the firm operates.</p>	<p>Point accepted.</p> <p>Ms. French indicated that the QCTF had considered a point in time assessment, however was concerned that it would be overly burdensome. She added that through monitoring the system, remediating and evaluating the effectiveness of remedial actions, it should be apparent whether the system does not address the circumstances of the firm or the environment in which the firm operates.</p> <p>As explained in paragraph 10 of Agenda Item D.1, the QCTF have proposed a new requirement for the individual(s) assigned ultimate responsibility and accountability for the system of quality management</p>

Representatives' Comments	Task Force/IAASB Response
	to perform a stand back and evaluate whether the system of quality management provides the firm with reasonable assurance that the firm's objective is met.
<p>Mr. Fortin indicated that there may be confusion as to whether the monitoring activities are intended to evaluate the system of quality management, or whether they are intended to monitor engagement quality.</p>	<p>Point accepted.</p> <p>Ms. French noted that the QCTF had extensively debated the appropriate placement of monitoring within the components. She explained that monitoring activities would need to also include monitoring of the monitoring activities. She added that the QCTF would add further clarity to the standard to explain this.</p> <p>Paragraph 31 of Agenda Item D.1 explains the focus on monitoring the system of quality management, rather than only engagements. Furthermore, it explains the proposals addressing how the firm determines whether there are deficiencies in the monitoring and remediation process.</p>
<p>Mr. Dalkin questioned the meaning of question 6(a) of Agenda Item D, noting that it implied that firms should be ahead of regulators' expectations.</p>	<p>Point noted.</p> <p>Ms. French noted that the question was intended to gather feedback about whether the proposals would meet expectations of all parties.</p>
<p>PIOB OBSERVER'S REMARKS</p>	
<p>Mr. Holm was of the view that requirements for networks should be established since a network creates an expectation of a consistent level of quality across the network and it would not be in the public interest if networks were not addressed, irrespective of the variety of structures. Mr. Holm suggested that requirements for networks could be established through setting requirements for the firm that address requirements in relation to the network's system of quality management.</p>	<p>Point not accepted.</p> <p>Prof. Schilder emphasized the proposal of the QCTF that would address the firm's responsibilities to understand the activities at a network level and establish the accuracy and quality of the information received from the network. He further noted the varying structures of networks and that given their multi-jurisdictional status, they are not inspected at a network level.</p> <p>Paragraphs 34–37 of Agenda Item D.1 explains the QCTF's proposals to address networks.</p>
<p>Mr. Holm noted that the term "public interest" had not been incorporated in the working draft of ISQC 1 (Revised) and was of the view that the standard should specifically refer to "public interest". Mr.</p>	<p>Point partially accepted.</p> <p>Ms. French indicated that the public interest term was not used in the standard as this was not supported by the IAASB in its June 2017 discussions for various</p>

Representatives' Comments	Task Force/IAASB Response
<p>Holm further suggested incorporating the firm's business model into the governance principles, since the business model should complement the firm's public interest role.</p>	<p>reasons, including that the term is difficult to define and may imply an aspiration and adding the phrase "public interest" to the standard does not necessarily result in a change in behavior. Ms. French added that the governance principles were intended to describe the firm's public interest role, however the QCTF would further consider whether it could be more clearly explained.</p> <p>Paragraph 17 of Agenda Item D.1 explains how proposed ISQC (Revised) will address the firm's public interest role, including explicit use of the term "public interest" in the introductory paragraphs of the standard.</p> <p>Paragraph 18 of Agenda Item D.1 explains that various enhancements have been made to the quality objectives and responses addressing governance and leadership that better emphasize the consideration of financial and operational priorities in the context of the firm's commitment to quality, and as part of the firm's strategic decisions.</p>
<p>Mr. Holm emphasized that the firm's culture should create an environment that supports and fosters the application of professional skepticism.</p>	<p>Point accepted.</p> <p>Paragraphs 39–40 of Agenda Item D.1 explains the coordination between the QCTF and the Professional Skepticism working group and other considerations of the QCTF in relation to how proposed ISQC 1 (Revised) creates an environment that supports professional skepticism.</p>
<p>Mr. Holm recommended several quality risks that should be included in the prescribed quality risks in paragraph 36, including provision of non-assurance services, commercial and fee pressures, appropriate allocation of resources at an engagement level and failure to consult with those charged with governance at the engagement level.</p>	<p>Point partially accepted.</p> <p>Ms. French noted the suggestions.</p> <p>Paragraph 18 of Agenda Item D.1 explains that various enhancements have been made to the quality objectives and responses addressing governance and leadership that better emphasize the consideration of financial and operational priorities in the context of the firm's commitment to quality.</p> <p>The QCTF is of the view that the proposal to include quality risks related to consultations with those charged with governance at the engagement level is a consideration that is undertaken at the engagement</p>

Representatives' Comments	Task Force/IAASB Response
	level. The QCTF is also of the view that ethical considerations should be addressed in a principles-based manner. Specifically highlighting aspects of relevant ethical requirements, such as the provision of non-assurance services, may inadvertently undermine other aspects of ethical requirements. Furthermore, such considerations are not relevant to all firms, given that ISQC 1 applies to firms that perform engagements other than audits of financial statements.
Mr. Holm supported a point-in-time periodic assessment of the firm's system of quality management, even though it may be time-consuming for firms to undertake, and highlighted that banks and insurance companies are generally required to undertake an annual risk assessment.	Point accepted. As explained in paragraph 10 of Agenda Item D.1 , the QCTF have proposed a new requirement for the individual(s) assigned ultimate responsibility and accountability for the system of quality management to perform a stand back and evaluate whether the system of quality management provides the firm with reasonable assurance that the firm's objective is met.
Mr. Holm encouraged the QCTF to include a requirement for all firms to prepare a transparency report that sets out the matters that the firm should disclose in the transparency report.	Point partially accepted. Ms. French noted that the QCTF has not yet discussed transparency reporting or presented any proposals on this topic to the IAASB. Paragraphs 20–26 of Agenda Item D.1 explain the QCTF's proposals in relation to communication with external parties.

Matters for IAASB CAG Consideration

11. Representatives are asked for their views on the matters for consideration included in **Agenda Item D.1**.

Material Presented – IAASB CAG Paper

Agenda Item D.1 Quality Management (Firm level) – Considerations in Relation to the Draft Exposure Draft of Proposed ISQC 1 (Revised)

Material Presented – IAASB CAG Reference Paper

Agenda Item D.2 Quality Management (Firm level) – Draft Exposure Draft of Proposed ISQC 1
(Reference paper) (Revised)

Project History

Project: Quality Control (Firm Level)

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 issues discussion, including ISQC 2 addressing EQC reviews	March 2017 September 2017	December 2016 March 2017 June 2017 August 2017 September 2017
First Read of Draft Exposure Draft of Proposed ISQC 1		December 2017
Second Read of Draft Exposure Draft of Proposed ISQC 1	March 2018	March 2018

IAASB CAG Discussions: Detailed References

Information gathering: Responding to Calls to Enhance Audit Quality	<u>March 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B and C). http://www.ifac.org/meetings/new-york-usa-5
---	---

	<p><u>September 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p>
<p>Information gathering: Overview of Responses to the ITC, Group Audits and Engagement Quality Control Reviews</p>	<p><u>September 2016</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
<p>Project Proposal</p>	<p><u>November 2016</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
<p>ISQC 1 issues discussion, including EQC reviews</p>	<p><u>March 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p>