



Quality Management (Firm Level)

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IAASB Meeting, Amsterdam

Agenda Item 7

March 15, 2018

IAASB

**International Auditing
and Assurance
Standards Board**

Length and Scalability of the Standard

- CAG comments
 - Support for additional guidance
 - Need to be careful of overregulation and imposing additional cost on SMPs
- SMPC comments
 - Support use of term “responses” and explanation of “responses” in the definition
 - Support how professional judgment has been addressed
 - Overall concerned about the scalability of the standard - highly complex
 - Some application material appears geared for large firms
 - Communication with external parties – needs clarity when it might not be appropriate
 - Concerned about the overall length, repetition of content and “three sources” (requirements, AM and appendix)
 - Support development of separate guidance

Length and Scalability of the Standard

Question 1:

The IAASB is asked to share their views regarding:

- (a) The appropriate location of the guidance that is currently included in Appendix 1 of proposed ISQC 1 (Revised), i.e., whether this should remain in the Appendix or be located elsewhere.
- (b) The development of further guidance that demonstrates the application of the standard to different sizes or complexities of firms, which would be located in the explanatory memorandum accompanying the ED.
- (c) The emphasis on the application of professional judgment throughout the standard.

Introduction and Objective

Paragraph References for IAASB Discussion

Requirements: 1 – 15

Application material: A1 – A4

Question 2:

The IAASB is asked to share their views regarding the proposed objective of the standard.

Question 3:

The IAASB is asked to share their views regarding how the components have been referenced and described in proposed ISQC 1 (Revised).

Definitions and Other Terms

Paragraph References for IAASB Discussion

Requirements:	16
Application material:	A5 – A13

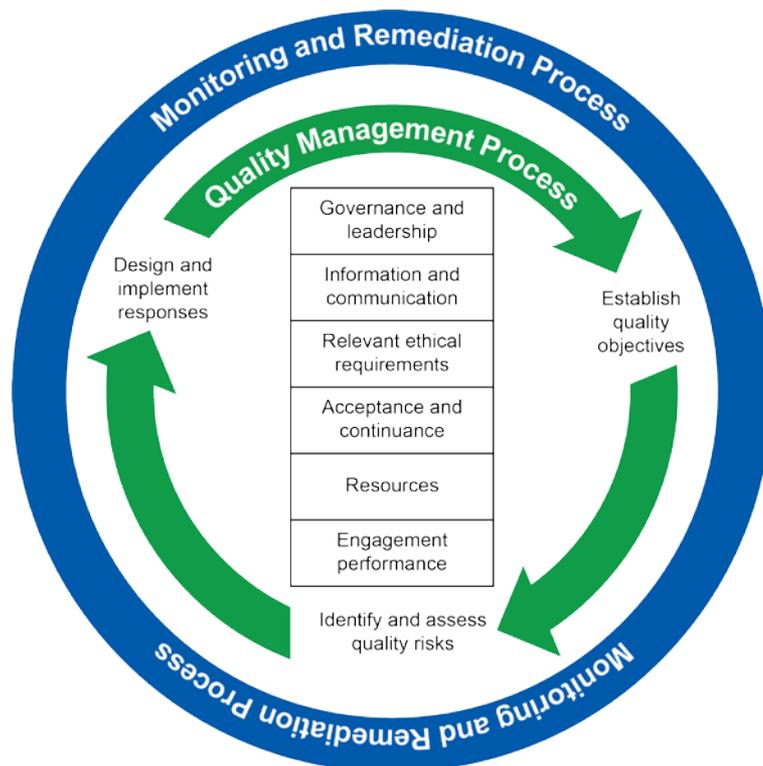
Question 4:

Does the IAASB support the revised definition of responses and the QCTF’s proposal to retain the term “responses” instead of “controls” or “policies or procedures”?

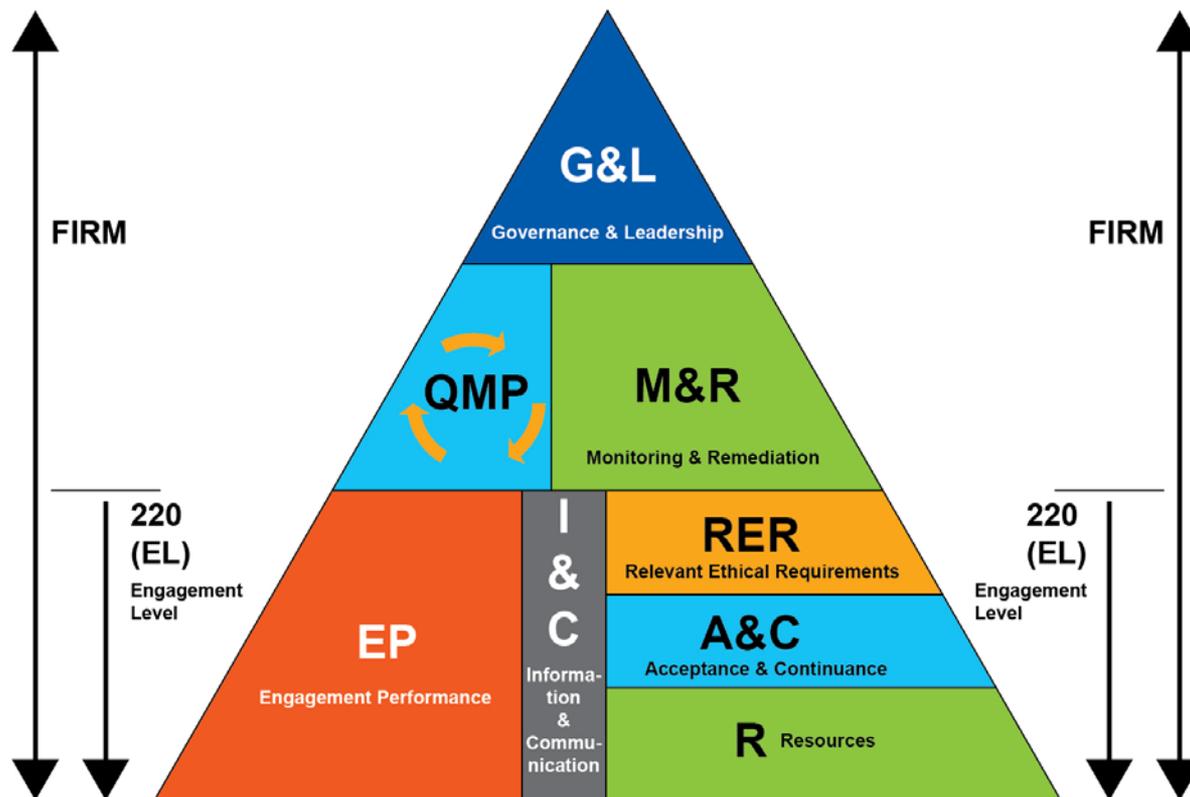
Question 5:

Is the IAASB of the view that the references to “sufficient” and “appropriate” throughout proposed ISQC 1 (Revised) are appropriate?

Structure of the Standard and Interrelationship of Components



Structure of the Standard and Interrelationship of Components



Structure of the Standard and Interrelationship of Components: CAG Comments

Paragraph References for IAASB Discussion

Requirements: 17 – 19

Application material: A14 – A17

Question 6:

Does the IAASB support the new term for the quality risk assessment process component?

Question 7:

Does the IAASB support the proposed location of the governance and leadership component?

Question 8:

Is the IAASB of the view that the interrelationship of the components is clear and appropriately reflected in the standard?

Governance and Leadership

Paragraph References for IAASB Discussion

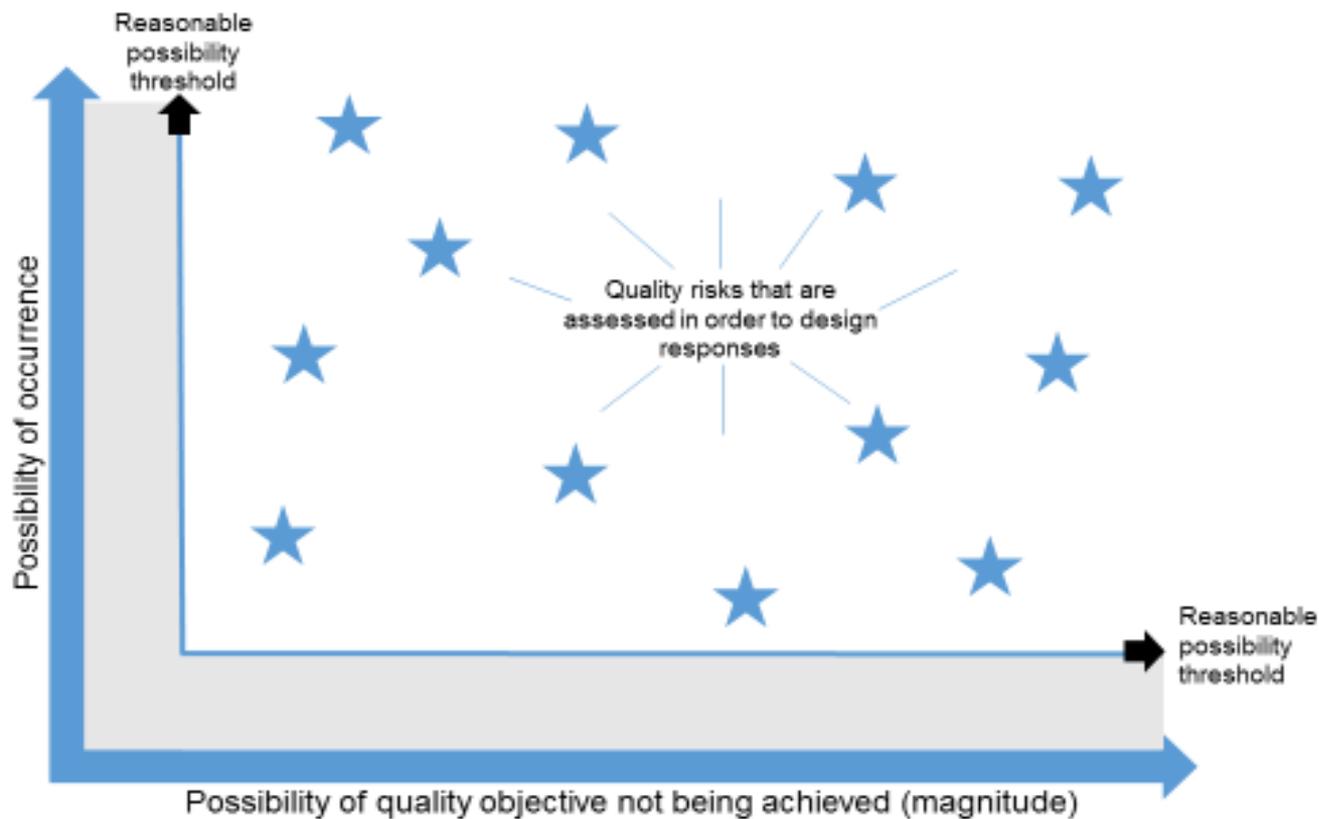
Requirements: 20 – 23

Application material: A18 – A34

Question 12:

The IAASB is asked to share their views regarding the proposed requirements addressing governance and leadership.

Quality Risk Assessment Process



Quality Risk Assessment Process

Paragraph References for IAASB Discussion

Requirements: 24 – 26

Application material: A38 – A48

Question 9:

The IAASB is asked to share their views regarding the quality risk assessment process, in particular whether the IAASB supports the approach for the identification and assessment of quality risks, including how the threshold has been established.

Information and Communication

Paragraph References for IAASB Discussion

Requirements: 27 – 29

Application material: A49 – A60

- CAG Comments

- Are we at the point where requirements are needed for transparency reports (TR)?
 - Consider how long is it necessary to wait for innovation
- Requirements for TR that are aspirational may better support audit quality
- Need to encourage SMPs also to be transparent – they use their size as an excuse
- Caution not to mix TR with marketing publications

Information and Communication

- CAG Comments

- Emphasized importance of communication about the system of quality management on a frequent basis internally with firm personnel
- Recommended addressing TR for networks – may help to bridge the expectation gap about what the network does versus the firm

Information and Communication

Question 13:

The IAASB is asked to share their views regarding the information and communication component, including whether the IAASB supports the QCTF's conclusions not to specify the information needs and information systems.

Question 14:

The IAASB is asked to share their views regarding the proposals addressing communication with external parties, including:

- (a) Whether the application material is appropriate, or portions of it should be located in a separate publication or the appendix.

Relevant Ethical Requirements

Paragraph References for IAASB Discussion

Requirements: 32 – 34

Application material: A65 – A71

- IESBA coordination feedback:
 - Reconsider the phrase “quality, including professional values, ethics and attitudes”
 - Does quality apply to ethics, or is ethics necessary for quality?
 - Are values and ethics different?
 - Reconsider extent of detail in summarizing the IESBA Code – is it needed?
 - Streamline application material that explains the Code (A65–A66)
 - Do not think we need to reference NOCLAR etc.

Relevant Ethical Requirements

- IESBA coordination feedback:
 - Seeking more robust requirement for enforcement of the RER e.g. disciplinary action

Question 15:

The IAASB is asked to share their views regarding the relevant ethical requirements component, including:

- (a) The extent to which particular topics of the IESBA Code should be specifically referenced in proposed ISQC 1 (Revised).
- (b) The extent to which the application material should describe the principles and concepts of the IESBA Code, and whether this approach should be consistently applied across the IAASB's standards.
- (c) Whether additional responses are necessary in relation to relevant ethical requirements.

Engagement Acceptance and Continuance

Paragraph References for IAASB Discussion

Requirements: 35 – 37

Application material: A71a – A80

Question 16:

The IAASB is asked to share their views regarding the engagement acceptance and continuance component.

Resources

Paragraph References for IAASB Discussion

Requirements: 38 – 40

Application material: A81 – A93

Question 17:

The IAASB is asked to share their views regarding the resources component, in particular:

- (a) Whether the QCTF proposals to address the views of respondents to the ITC are appropriate, in particular in relation to performance evaluations and incentives.

Engagement Performance

Paragraph References for IAASB Discussion

Requirements: 41 – 43

Application material: A94 – A100

Question 18:

The IAASB is asked to share their views regarding the engagement performance component.

Monitoring and Remediation

Paragraph References for IAASB Discussion

Requirements: 44 – 58

Application material: A107 – A138

- CAG Comments

- Sought clarity on what the standback actually is and “period” that it relates to
- Recommended improving connectivity with the objective – comes quite late in the standard – perhaps have it earlier on in the standard

Monitoring and Remediation

Question 10:

The IAASB is asked to share their views regarding the proposals in relation to monitoring and remediation, in particular whether:

- (a) The IAASB supports the proposed definition of deficiencies.
- (b) The framework for the identification and evaluation of deficiencies is clear.

Question 11:

Does the IAASB support the proposal that the individual(s) assigned ultimate responsibility and accountability for the system of quality management should perform a stand back, and:

- (a) Is the requirement understandable and clear?
- (b) If the requirement is not understandable and clear, what suggestions does the IAASB have regarding how the expectation can be clarified?

Networks and Service Providers

Paragraph References for IAASB Discussion

Requirements: 59 – 65

Application material: A139 – A152

- CAG feedback:

- Need to establish requirements for networks directly

- Perception that in reality, the network is in control and not the firm
- Necessary to address the public interest
- Should be implications for the firm if it is part of a network with a common brand
- Also address networks in the overall objective of the standard

Networks and Service Providers

Question 19:

The IAASB is asked to share their views regarding the sections addressing networks and service providers.

Public Sector and Planned Outreach

Question 20:

The IAASB is asked to share their views regarding:

- (a) The proposed change to the definition of “firm” to recognize the public sector.
- (b) The practicality and inspectability of the proposals in proposed ISQC 1 (Revised).

Structure of the Standard: CAG Comments

- CAG Comments

- Quality risk assessment process should be before governance and leadership (based on current structure but others proposed different structure)
- Support alignment with COSO, but encouraged more use of COSO terminology
- Structure appears overly complex – will be difficult for firms to understand and identify what is the baseline (or minimum)
 - Baseline expectations are needed for the small firms
- Do not see the “requirements” for the firm to achieve the quality objectives – requirements should be more direct
 - Noted style of requirements for networks etc. is different from the rest of the standard
 - Do not view required responses as risk-based because they are prescribe
- Recommended different structure for requirements (*next slide*)

Structure of the Standard: CAG Comments

CAG proposed revised structure for ISQC 1



Additional Question:

The IAASB is asked to share their views regarding the CAG's proposed revised structure for ISQC 1.



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