



# IAASB Quality Control Project

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ASB Meeting  
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**IAASB**

**International Auditing  
and Assurance  
Standards Board**

## BACKGROUND OF QC PROJECT

### Concerns noted from

- Results from ISA Implementation project
- Respondent comments on public consultation for IAASB 2015-2016 Work Plan
- Regulators and audit oversight bodies

### Concerns led to identification of four priority projects

- professional skepticism
- quality control
- group audits
- special considerations in audits of financial statements of financial institutions (which evolved into ISA 540 Estimates project)

## BACKGROUND OF QC PROJECT

Three working groups established in fall of 2014 to focus on identifying issues and performing outreach

Resulted in Invitation to Comment - Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits

- Issued December 2015 with a 150-day comment period
- Identified concerns and challenges
- Proposed quality management approach to ISQC 1
- Received 87 comment letters from a broad range of stakeholders

## OUR INVITATION TO COMMENT – THEMES FROM OUTREACH

- Strong calls for the IAASB to maintain a principles-based approach to its standards, but also to sharpen their focus and provide increased clarity on how to apply them to different and evolving circumstances
  - Support for the current standards (including ISQC 1) as a sound starting point for consideration of future enhancements, including strengthening certain important elements
  - More practical guidance is also needed – calls for more examples of “what good looks like”
    - Not necessarily in the ISAs, but may be Staff guidance or other solutions
- Reinforce importance of understanding the business and operational drivers as foundational to performing quality audits
- Consider the impact of culture on the standards and on how they can and should be applied

## QUALITY CONTROL CHALLENGES IDENTIFIED IN ITC – ISQC 1

- Direct leadership responsibility and accountability for quality
- Engagement performance matters
- Understanding causal factors of findings from internal and external inspections and monitoring the effectiveness of remedial actions
- Extant standard viewed as "one size fits all" and not easily scalable
- EQC review requirements

## OUR INVITATION TO COMMENT - THEMES ON QUALITY CONTROL

- Support for emphasizing importance of “tone at the top” and leadership responsibilities and accountability
  - Driven down through the firm – importance of “tone at the middle” also highlighted
- Support for updating ISQC 1 to incorporate and emphasize the importance of and need for monitoring / remediation / root cause analysis / expectation of “continuous improvement” mindset
- Ongoing support for the importance of EQCR – a key quality control measure
  - But keep balance and perspective relative to engagement partner who is ultimately responsible for quality

## OUR INVITATION TO COMMENT - THEMES ON QUALITY CONTROL

- Support for looking at emphasizing and strengthening role of engagement partner (will also help in group audits)
  - Including in situations where the engagement partner is not located where the majority of the work is performed
- Mixed views on whether the IAASB should establish requirements for transparency reporting; however, calls from some to continue exploring the topic, including possible use of audit quality indicators

## OUR INVITATION TO COMMENT - THEMES ON QUALITY CONTROL

- General support for incorporating a QMA in revising ISQC 1
  - However, not enough understanding yet as to what this may entail and some reservations about extent of change that may be required
  - agreed that would enhance scalability, in particular for firms that may not perform audits or audits of listed entities
  - robustness of ISQC 1 cannot be lost in restructuring the standard
  - board encouraged to consider how QMA could be developed at engagement level



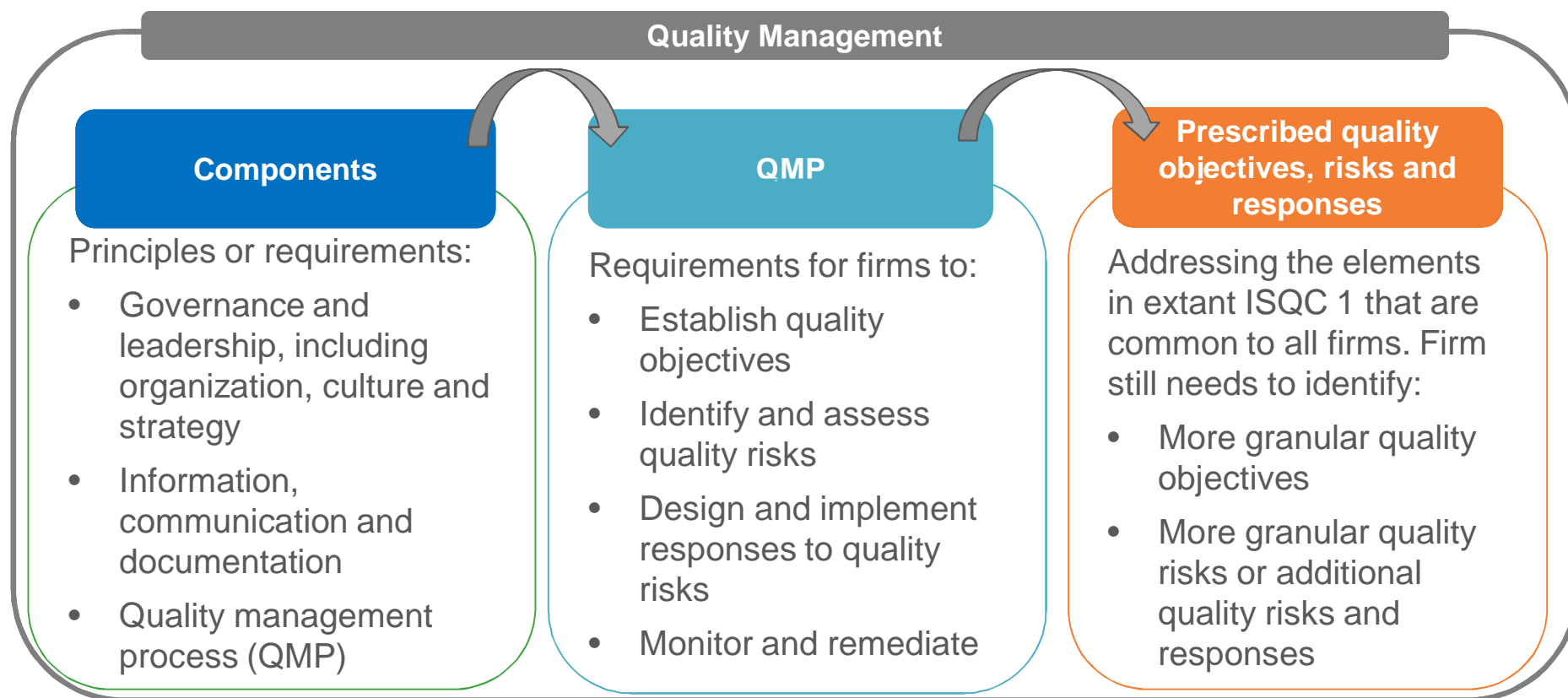
## MAKING PROGRESS

- Project Plan developed for Quality Control and Group Audits, approved by board in December 2016
- Task Force working through issues, proposing recommendations to board, performing outreach
- Goal of issuing EDs in December 2018

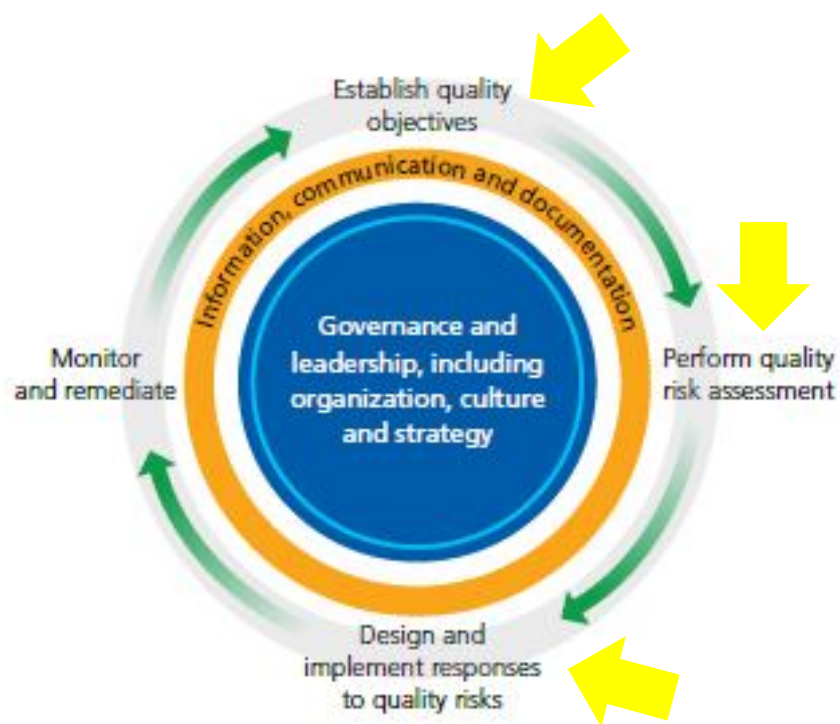
## QUALITY MANAGEMENT APPROACH (QMA)



# ISQC 1



# QUALITY MANAGEMENT PROCESS



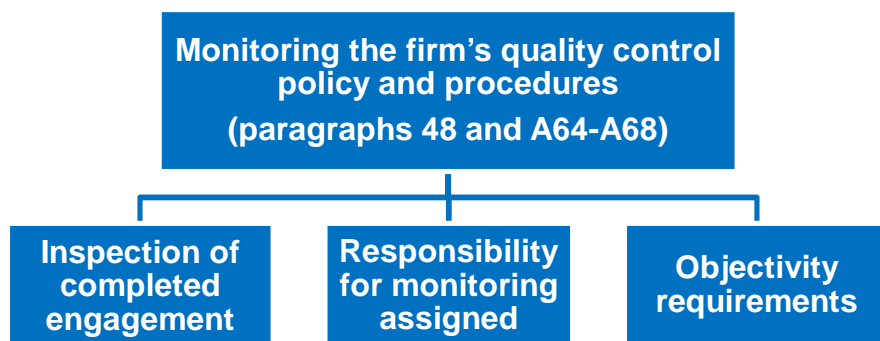
Establish Objectives

Perform Quality Risk Assessment

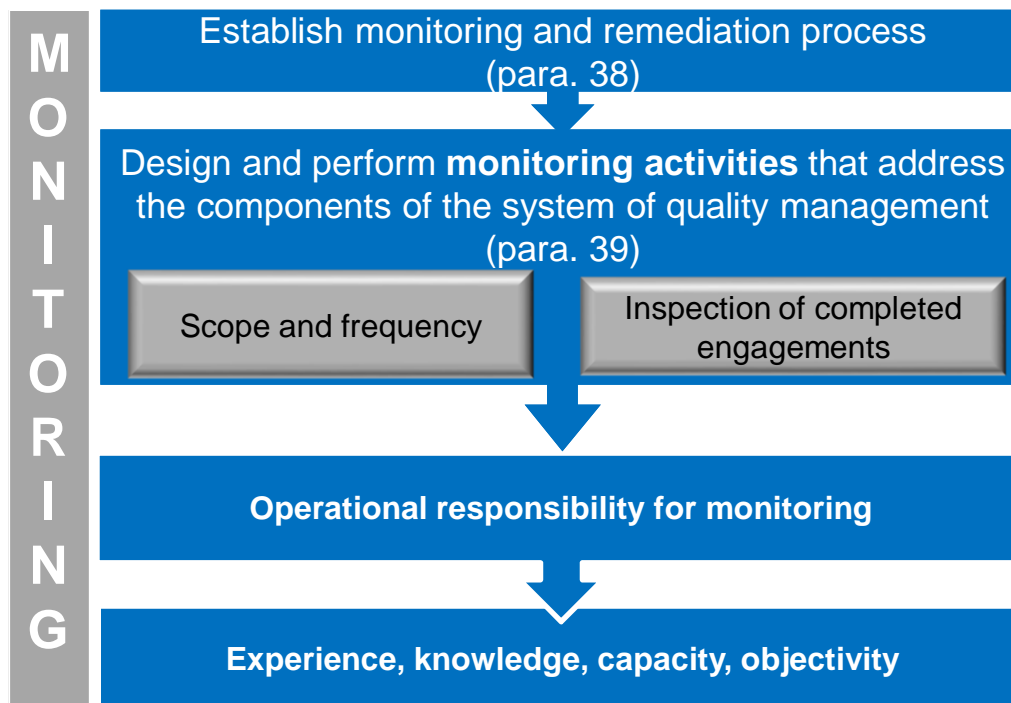
Design and Implement Response to Quality Risks

# MONITORING

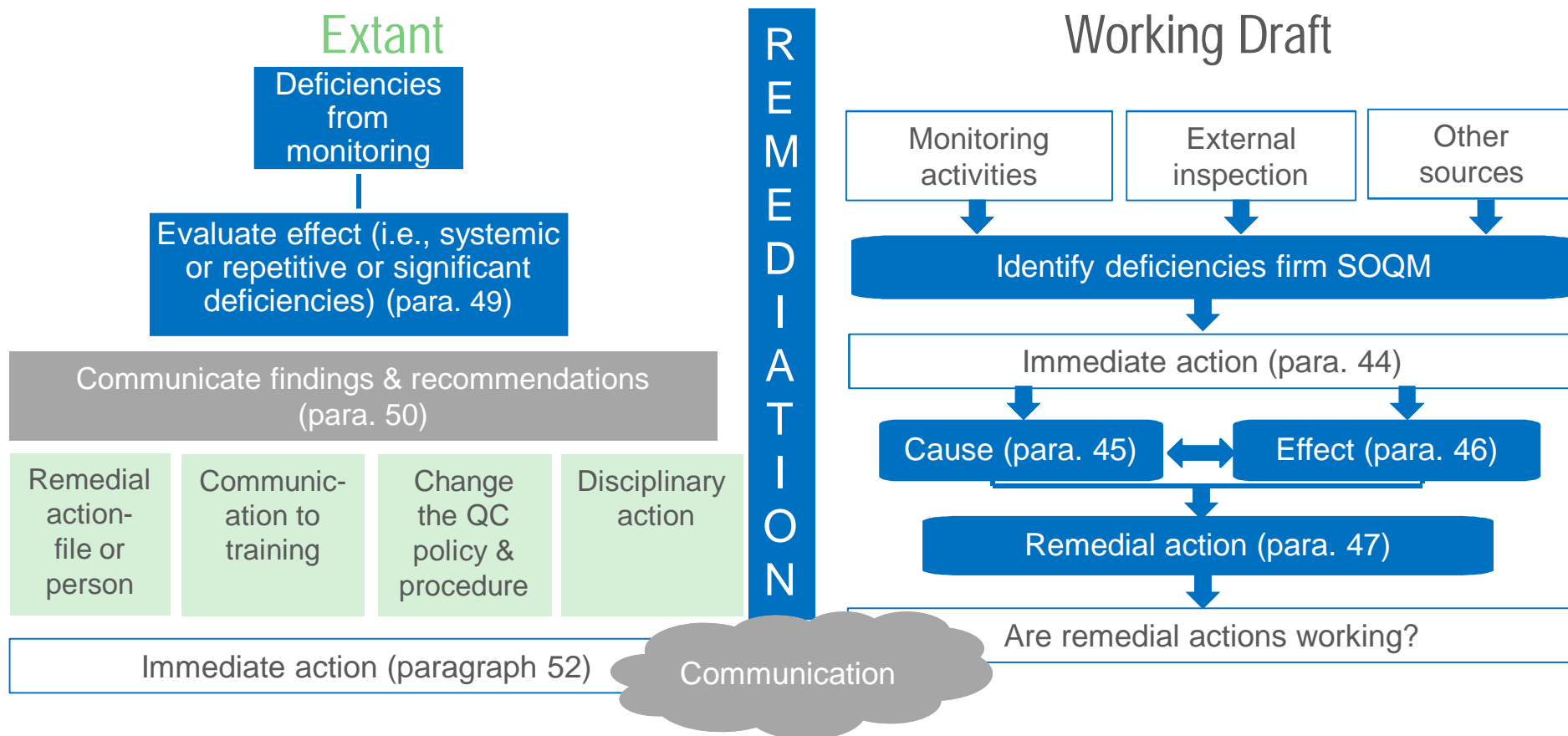
## Extant



## Working Draft



# REMEDIATION



## ENGAGEMENT QUALITY CONTROL REVIEWS

### Enhancing requirements and application material related to

- Engagements subject to review
- Criteria for eligibility of reviewer
- Execution of the review
- Documentation of the review

In June 2017, Board approved the development of a separate firm-level EQCR standard

## OTHER TOPICS TO BE DISCUSSED WITH BOARD

- Engagement partner performance and rewards, competency and human resources
- Documentation
- Transparency reporting
- Networks



## NEXT STEPS

- Working draft of ISQC 1 and accompanying power point presentation to be used as outreach tools
- Meeting with Forum of Firms, GPPC in the fall
- Continuing outreach with SMPs through SMP correspondent task force member and other outreach opportunities
- Roundtables and other events planned in 2018



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