



Agenda Item 7

Quality Management

Objective of Agenda Item

The objective of this Agenda Item is to:

- (a) Provide an overview of respondents' feedback on the IAASB's Exposure Draft (ED) of Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1); ISQM 2, *Engagement Quality Reviews*; and Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*; and
- (b) Inform the ASB about the IAASB's discussion of these exposure drafts at its September 2019 meeting.

ASB Task Force

Quality Control Task Force Members are Sara Lord, Chair; Jon Heath, Alan Long, Rick Reeder (Reeder & Associates CPA), Jeff Rapaglia (Dixon Hughes Goodman), and Kimberly Stazyk (Deloitte).

Materials

Presentations

[IAASB-Agenda-Item-4-A-ISQM-1-Presentation-Overview-of-Feedback-from-the-ED.pdf](#)
[Agenda Item 7 - ISQM 2 - Engagement Quality Review \(633K\)](#)

[Agenda Item 8 - ISA 220 \(Revised\) - Quality Management at the Engagement Level \(623K\)](#)

Issues Papers

[IAASB-Agenda-Item-4-Proposed-ISQM-1-Issues-FINAL.pdf](#)
[IAASB-Agenda-Item-7-Proposed-ISQM-2-Issues_Final.pdf](#)
[IAASB-Agenda-Item-8-Proposed-ISA-220-Issues_FINAL.pdf](#)
[IAASB-Agenda-Item-5-QM_Effective-Date-Issues-FINAL.pdf](#)

Highlights

IAASB September 2019 Quality Management Projects Meeting Highlights

Quality Management at the Firm Level

The Board discussed the comment letters received on certain areas of the Exposure Draft (ED) of Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) relating to the quality management approach, implementation challenges, the components and structure of the standard and the firm's risk assessment process. The Board concurred that four significant themes had emerged from the comments: scalability; prescriptiveness; addressing firms who do not perform audit or assurance engagements; and challenges with implementation.

The Board, in general, supported proposals to address the structure of the standard and clarify the nature of the components and how they interrelate. The Board also supported addressing the granularity of the quality objectives, introducing quality risk considerations, and refining the required responses. The Board agreed with the ISQM 1 Task Force's proposals to simplify the firm's risk assessment process, including addressing concerns about the threshold for the identification of quality risks.

The Board did not support the proposal to develop a separate standard for quality management for related services engagements and encouraged exploration of other ways to address scalability concerns.

The ISQM 1 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

Engagement Quality Reviews

The Board received an overview of the comment letters on the Exposure draft of ISQM 2, *Engagement Quality Reviews*, and discussed the ISQM 2 Task Force's initial drafting to address the key issues presented on the scope of engagements subject to an engagement quality (EQ) review, and on matters relating to objectivity and cooling-off period.

The Board generally supported the ISQM 2 Task Force's proposals on the scope of engagements subject to an EQ review and to address objectivity for individuals moving into the role of EQ reviewer after serving as the engagement partner.

The ISQM 2 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

Quality Management at the Engagement Level

The Board discussed the comment letters received to Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, and the ISA 220 Task Force's proposals for addressing the key issues respondents raised. The Board supported the fundamental principle that the engagement partner has overall responsibility for managing and achieving quality and being sufficiently and appropriately involved in the engagement. The Board also supported clarifying the requirement addressing circumstances when the engagement partner assigns procedures or tasks to other engagement team members, the principles underpinning the proposed engagement team definition and proposals to address scalability of the requirements to audits of larger or more complex entities. The ISA 220 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

Effective Date

The Board received an update on the comment letters addressing the proposed effective date of the quality management standards. The Board will discuss the proposed effective date again when the standards are finalized.