



## Agenda Item 5

### Quality Management

#### Objective of Agenda Item

To familiarize the ASB with the most recent drafts of the IAASB's Quality Management standards and to identify any potential convergence issues.

#### Background

In February 2019, the IAASB issued exposure drafts of Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), Proposed ISQM 2, *Engagement Quality Reviews* and Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements* (ISA 220 (Revised)), (collectively the "Proposed Standards").

The comment period ended on July 1, 2019. The AICPA submitted a comment letter that was generally supportive of the Proposed Standards.

The IAASB has discussed revised drafts of the proposed standards at its September 2019, December 2019, and March 2020 meetings. As part of the March 2020 meeting, the IAASB held a series of conference calls in April 2020 to review revisions to the proposed standards made during the meeting. The IAASB will discuss only targeted issues associated with the proposed standards at its June 2020 meeting agenda with a vote for issuance as final standards expected at its September 2020 meeting.

#### Task Force

Following the model used by the IAASB, the Quality Standards Task Force has been divided into two groups:

##### QM1

Sara.Lord, *Chair*  
Sherry Chesser  
Kathryn Fletcher  
Kristen Kociolek  
Alan Long  
Tania Sergott  
Kimberly Stazyk

##### QM2/220

Jon Heath, *Chair*  
Harry Cohen  
Jeff Rapaglia  
Rick Reeder

### **Convergence**

On December 17, 2019, the PCOAB issued a concept release entitled [Potential Approach to Revisions to PCAOB Quality Control Standards](#). The concept release outlines that the PCAOB is considering an approach that would use proposed ISQM 1 as a starting point. The PCAOB stated that

Information gathered through our oversight, outreach, and research activities persuades us that our QC standard should be built on an integrated risk-based framework, as Proposed ISQM 1 is. In addition, many firms that follow PCAOB standards are also subject to other QC standards (including the IAASB's and the AICPA's standards), so they are required to implement QC systems that comply with both PCAOB standards and those other standards. *Due to the foundational nature of QC systems, we believe that it would not be practical to require firms to comply with fundamentally different QC standards.* (emphasis added).

The comment period for the concept release ended on March 16, 2019. There were 35 respondents, as of April 22, 2020. Most respondents commented that they are supportive of a potential quality control standard that is principles based and scalable with *minimal incremental requirements to proposed ISQM 1.* (emphasis added).

### **Timing**

The ASB intends to follow the IAASB timing such that ASB exposure drafts could be issued shortly after the IAASB standards are finalized. Various timelines have been projected, based on the number of times that the ASB reviews drafts, the length of the exposure period, and the use of ASB conference calls. The Task Force plans on asking the AITF to discuss the viability of using a conference call to vote to issue proposed or final standards.

The short-term timeline is as follows:

June 2020	IAASB Meeting; discussion of targeted issues related to the proposed standards
July 2020	ASB meeting: discuss US-specific concepts and drafting issues
Sept. 2020	IAASB meeting: vote on final standards
Oct. 2020	ASB reviews first draft of proposed standards
Dec. 2020	ASB reviews second draft

### **Agenda Items Presented:**

- IAASB Proposed ISQM 1 – April 8, 2020, IAASB meeting draft
- IAASB Proposed ISQM 2 - April 1, 2020 IAASB meeting draft
- IAASB Proposed ISA 220 (Revised) — April 1, 2020 IAASB meeting draft

## Issues

### **Quality Control vs. Quality Management**

The IAASB changed the title of the ISQCs and other references to quality control in its standards to refer to quality management, to reflect a new approach to quality control at the firm level that emphasizes the responsibility of firm leadership for proactively managing quality of its assurance practice. In its comment letter on the IAASB Exposure Draft, the AICPA stated that “The change in title will not present significant difficulties for the ASB in converging with the standard. We have consulted with National Association of State Boards of Accountancy, and they have indicated that they do not foresee difficulties with respect to the change in title at the state level in the United States.”

#### ***Question for the ASB:***

**I.** Does the ASB agree to change the title of the quality control standards to “Statements on Quality Management Standards” and, accordingly, change references to quality control in its standards to refer to quality management?

### **Existing and Potential Future Differences Between the IAASB and the ASB Quality Standards**

The IAASB Proposed Quality Management Standards include some of the requirements from the extant IAASB Quality Control standards that are different in the extant ASB standards. The ASB is asked to provide preliminary views on whether those differences should continue to exist when the ASB converges with the IAASB Quality Management Standards.

#### ***Completion of Engagement Quality Review and Dating of the Auditor’s Report (SQMS 2/220)***

Par. 21 of proposed ISQM 2 requires that the firm establish policies or procedures regarding the performance of the engagement quality review that, among other things, that preclude the engagement partner from dating the engagement report until notification has been received from the engagement quality reviewer ...that the engagement quality review is complete. This is consistent with paragraph 36 of ISQC 1, which requires that the engagement quality review be completed before the report is dated, as does paragraph 36(d) of Proposed ISA 220 (Revised), consistent with paragraph 19 of ISA 220.

Paragraph .41 of QC section 10, and paragraph .21 of AU-C section 220, require that when an engagement quality control review is performed, the engagement quality control review be completed before the report is released. The Exhibit to QC section 10, and AU-C section Appendix B, *Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards*, both state that “The ASB believes that an engagement quality control review is an independent review of the engagement team’s significant judgments,

including the date selected by the engagement team to date the report. As noted in the application material to QC section 10, when the engagement quality control review results in additional procedures having to be performed, the date of the report would be changed.”

***Question for the ASB:***

2. Should the existing difference in the requirements regarding timing of the engagement quality review be retained, along with the additional application material?

***Inspection of Completed Engagements (SQMS 1)***

Paragraph 48(a) of ISQC 1 requires, as a monitoring procedure, including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner. As noted in the Exhibit to QC section 10, the ASB believed that this requirement is overly prescriptive and that a risk-based approach to inspections is more appropriate. This requirement is not included in QC section 10.

Paragraph 45 of proposed ISQM 1 requires the inspection of completed engagements, including inspection of at least one completed engagement for each engagement partner on a cyclical basis *determined by the firm*. The IAASB added the phrase “determined by the firm” to allow for a more risk-based approach to inspections.

The AICPA’s comment letter on the exposure draft of the Proposed Standards stated the following with regard to this requirement:

We believe that this requirement should include the flexibility to inspect completed portions of in-process engagements, not only completed engagements, because we believe this principles-based approach could provide for modernization and continuous improvement. We are aware of firms that are using cloud-based, data-visualization tools to provide real-time insights into their in-process engagements and inspection monitoring activities. These new tools provide avenues for continuous improvement and more timely and robust risk assessment. It also allows for faster root-cause assessment and remediation.

***Question for the ASB:***

3. Should the ASB standards require the inspection of at least one engagement for each engagement partner on a cyclical basis determined by the firm?

4. If so, should the inspection of completed portions of in-process engagements meet this requirement?

**Background materials presented:**

- IAASB Proposed ISQM 1 – April 8, 2020, IAASB meeting draft

Discussion Memorandum: Quality Management  
ASB Meeting, May 18-21, 2020

- IAASB Proposed ISQM 2 - April 1, 2020 IAASB meeting draft
- IAASB Proposed ISA 220 (Revised) — April 1, 2020 IAASB meeting draft