Agenda Item
9-A

ENHANCING AUDIT QUALITY: PROJECT PROPOSAL FOR THE REVISION OF THE IAASB'S INTERNATIONAL STANDARDS RELATING TO QUALITY CONTROL AND GROUP AUDITS

> *This document was developed and approved by the IAASB. The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.*
>
> *The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.*

I. Subject

1. This project proposal addresses the revision of:

    (a) 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.*

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

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

II. Background, How The Project Serves the Public Interest, Project Objectives and Scope

Background

2. As highlighted in the International Auditing and Assurance Standards Board's (IAASB) *Strategy for 2015–2019*, understanding whether the IAASB's standards are operating as intended, and whether they are being consistently understood and applied, is essential for continuous improvement. The following sets out the background to the proposed projects on quality control and group audits.

3. In 2013, the IAASB published its findings on its post-implementation review of the clarified ISAs.[1] Key findings from the post-implementation review included aspects of quality control and group audits,

---

[1] In 2009, shortly after the clarified ISAs became effective, the Board embarked on a post-implementation review; which was referred to as the "*ISA Implementation Monitoring Project*". This project focused on obtaining input from a variety of different channels to learn about adoption and implementation issues related to the clarified ISAs. The findings of post-implementation review are discussed in the 2013 publication, *Clarified International Standards on Auditing-Findings from the Post-Implementation Review*. The IAASB's rigorous outreach program, in particular the strengthened collaboration with the International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group (SCWG), and the International Organization of Securities Commissions (IOSCO), as well as ongoing dialogue with audit firms, national auditing

Prepared by: Bev Bahlmann (November 2016)

indicating the necessity for further consideration about these aspects in the context of potential revisions to ISQC 1, ISA 220 and ISA 600.

4.   In developing its *Work Plan for 2015–2016*, the IAASB agreed to focus on those areas from the ISA post-implementation review where key and important findings had indicated a necessity for priority consideration of changes to some aspects of the relevant ISA. Accordingly, the IAASB included a project on both Quality Control and Group Audits in the 2015–2016 Work Plan.

5.   Inspection findings by audit regulatory bodies and audit oversight bodies have consistently highlighted issues with respect to firms' quality control, and audits of group financial statements. The International Forum of Independent Audit Regulators (IFIAR) 2015 *Survey of Inspection Findings* continues to identify matters relating to Group Audits and Quality Control as areas with higher numbers of inspection findings on public interest entities (PIE) audits (including but not limited to adequacy of supervision and review and engagement quality control reviews). In addition, dialogue with audit inspection bodies and audit regulators have also highlighted various aspects of group audits and quality control as requiring further consideration. In particular, concern has been expressed, and continues to be expressed, about the auditing standards addressing situations where the engagement partner is not located where the majority of the audit work is performed.[2]

6.   On an ongoing basis the IAASB undertakes extensive outreach to a wide variety of stakeholders, including regular meetings with regulators and audit inspection bodies, firms, national standard setters, and the International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee. The IAASB undertakes this outreach in a variety of forms, including through meetings with senior leadership and others, and through presentations and discussions at meetings, events and conferences, and roundtables.

7.   Understanding the issues and implementation needs of SMPs has been, and continues to be, an important area of focus for the IAASB. This includes consideration of whether the ISAs, and the IAASB's standard addressing quality control at the firm level, can be adapted appropriately based on the nature and size of the firm or engagements performed by the firm. In particular concerns about the ability to adapt the requirements of ISQC 1 and the ISA's to a wide range of circumstances are also consistently heard. Accordingly the IAASB has been actively engaging with relevant stakeholders to better understand the challenges of SMPs and others in this regard.

Initial Consultation on Quality Control and Group Audits

8.   Work commenced on quality control in June 2014, and on group audits in early 2015, with working groups reflecting on the issues identified through the ISA post-implementation review, h inspection findings and ongoing outreach. For both topics it was agreed that further consultation was needed to properly understand the issues and inform related standard setting proposals.

9.   The IAASB therefore agreed to consult publicly on the topics of quality control and group audits. As the various working groups further discussed the issues, it was also recognized that there was

---

standard setters (NSS) and others, continues to keep the IAASB apprised of areas where improvements to the IAASB's standards may be needed, or where other actions to enhance auditor performance may be appropriate.

[2]   Situations where the engagement partner is not situated where the majority of the audit work is performed are referred to by some as audits of "letterbox companies." The IAASB issued a Staff Audit Practice Alert in 2015 to highlight the requirements of the existing ISAs. The ITC included issues and possible actions to address issues highlighted in these situations.

overlap between some of the issues relating to quality control and group audits, and therefore a combined approach to consultation was deemed appropriate.

10. At the same time, the IAASB had also commenced work on professional skepticism (another priority project in the 2015–2016 Work Plan). Professional skepticism is a core concept and is foundational to performing a quality audit. The IAASB agreed that further consultation on this topic was also needed and also noted the likely interaction between this topic and the issues related to quality control and group audits. Accordingly, the topic of professional skepticism was also included in the combined consultation.[3]

11. Using the information gathered to date about the issues, and discussion by the IAASB working groups on each topic about possible actions the IAASB might take to address the issues, the IAASB published the Invitation to Comment (ITC), *Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits* in December 2015. In addition to posing specific questions on the issues relating to professional skepticism, quality control and group audits, and possible responses, the IAASB also sought input on the most significant public interest issues that should frame its responses to the projects on professional skepticism, quality control and group audits (see paragraph 21).

12. Eighty seven responses to the ITC were received from a broad range of stakeholders. In addition to the responses to the ITC, feedback was also received from numerous outreach activities, including:

    (a) Roundtables, involving a broad range of over 100 stakeholders, in Amsterdam, Paris and Kuala Lumpur.

    (b) Country visits to the United Kingdom and United States, involving roundtables or meetings with stakeholders including regulators and audit oversight authorities, national standard setters (NSS), member bodies and other professional organizations, and public sector representatives.

    (c) Other outreach in various countries and to a range of stakeholders, including regulators and audit oversight authorities, accounting firms and academics.

13. The comments and input from these various outreach events were generally reflected in, or consistent with, the comment letters received. The IAASB has the view that the outreach activities were very successful in driving stakeholder engagement on the topics addressed in the ITC, and were therefore an effective means of engaging different groups of respondents in constructive dialog and debate. The discussions at the outreach also helped provide additional context to the more formal comment letters.

14. The responses to the ITC and other input gathered during outreach, as well as discussions with the IAASB and CAG have informed the development of this project proposal for quality control and group audits.

---

[3] Notwithstanding that professional skepticism was included in the combined ITC, the topic is not addressed by this project proposal. The comments received from the ITC are being used to inform the work efforts of the combined working group (including members from the IAASB, the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB)) in progressing on this topic. The Professional Skepticism Working Group is continuing its work to determine the most appropriate way forward.

Overview of Key Responses to the ITC

15. Across stakeholder groups, a number of themes emerged both generally, and in relation to specific topics. Many respondents agreed that the public interest issues highlighted in the ITC (see paragraph 21) were the relevant public interest issues for the topics of professional skepticism, quality control and group audits. Respondents also noted that the principles in the international standards remained sound and should be retained. Respondents highlighted, however, that further consideration was needed to address various issues in ISQC 1, ISA 220 and ISA 600 in light of the evolving and increasingly more complex environments and ongoing implementation challenges in applying these standards.

16. Other themes in the responses to the ITC included:

- Support for keeping the standards principles-based, and therefore capable of being adapted to evolving circumstances.

- Diverse views, sometimes across stakeholder groups and sometimes within stakeholder groups, as to whether the IAASB's actions would need to focus on enhanced or new requirements, application material or other guidance outside of the standards, or a combination of these.

- Suggestions by regulators and audit oversight authorities generally that there was a need to strengthen the standards through enhanced or new requirements, with application material being developed as appropriate to help with implementation issues.

- Identification by accounting firms of areas where requirements or expectations in particular circumstances could be clarified, noting inconsistencies in practice and highlighting their own efforts to enhance audit quality in response to feedback from audit oversight authorities.

- Views from others (including many accounting firms) that the principles underlying the requirements were largely sufficient in many areas, but citing the need for additional guidance to illustrate the application of the principles-based requirements to particular circumstances not currently addressed in the ISAs (noting that this guidance could be provided either as part of application material or by other means).

- A call across stakeholder groups for the IAASB to identify implementation issues and address them accordingly, and not to make changes to the standards where they are already adequate or sufficient.

- The need for further consideration as to how the auditor's professional judgments (as well as the exercise of professional skepticism) could or should be better be reflected in the requirements and in particular as it relates to those addressing audit documentation, i.e., potentially through the inclusion of strengthened documentation requirements in key areas.

Moving Forward

17. Respondents generally agreed that the IAASB should take action to address the issues presented in the ITC, and for the most part were broadly supportive of the proposed actions suggested in the ITC. However, as indicated above, in some cases, there was more specific agreement with the possible actions, while in other cases, respondents encouraged further consideration of the issues as part of the projects in order to develop appropriate responses.

18.   Recognizing the importance of taking action to respond to the issues identified, it was concluded that taking action on the topics of quality control and group audits would therefore be in the public interest. Accordingly, projects to address revisions of ISQC 1, ISA 220 and ISA 600, and consideration of other outputs as necessary, should be undertaken on a priority basis.

19.   A combined project proposal for quality control and group audits has been developed because of the intrinsic links and crossover issues, at both the firm and engagement level, and also because of the interaction between management of quality at the firm level (i.e., ISQC 1) and at the engagement level (i.e., ISA 220).

20.   The IAASB recognizes that not all of the issues and challenges identified in this project proposal can be addressed by changes to the IAASB's auditing standards. Some of the issues and challenges may be best dealt with through non-authoritative guidance and support tools developed by the IAASB. Certain issues and challenges may be implementation issues and therefore best dealt with by others instead of through standard setting activities. While retaining a principles-based approach, the IAASB will consider how specific requirements and application material in ISQC 1, ISA 220 and ISA 600 could be further enhanced or clarified, to address the specific challenges that have been identified.

How the Project Serves the Public Interest

21.   The most significant public interest issues[4] that, in undertaking work in the areas of quality control and group audits, the IAASB will seek to address include:

   (a) *Fostering an appropriately independent and challenging skeptical mindset of the auditor*—professional skepticism is a fundamental concept and core to audit quality. These projects will further consider how the standards can articulate the requirements for auditors, especially engagement partners, to appropriately demonstrate the application of professional skepticism in carrying out the audit and also how the standards can address the firm's contribution to fostering the appropriate environment for effective application of professional skepticism.

   (b) *Enhancing documentation of the auditor's judgments*—these projects will consider how auditors can more appropriately demonstrate their decision-making process, essential interactions and communications, to support the auditors' judgments and audit opinion overall.

   (c) *Keeping the ISAs and ISCQ 1 fit for purpose*—as the standards are revised, consideration will be given to how the standards can, and continue to, be robust and adaptable to a wide range of circumstances in an evolving and increasingly complex environment.

   (d) *Encouraging proactive management of quality at the firm and engagement level*—consideration will be given to how the quality control standards, ISQC 1 and ISA 220, can encourage effective management of quality in the context of the firm and engagement that is fostered by proactive firm leadership and management, reinforced by a firm's culture and strategy.

   (e) *Exploring transparency and its role in audit quality*—as transparency reporting increases globally, the IAASB will consider further actions in relation to how firms provide transparency about how they support and achieve effective quality management.

---

4   The public interest issues listed are the public interest issues identified in the ITC, and which respondents generally supported.

(f) *Focusing more on accounting firms (including networks) and their internal and external monitoring and remediation activities*—consideration will be given to more explicitly address expected actions to remediate audit deficiencies from inspection findings, and to bring more emphasis to external inspections. The IAASB will also consider how accounting firms communicate, internally, and with other firms in the network, and including how they respond to findings from internal inspections.

(g) *Reinforcing the need for robust communication and interactions during the audit*—the IAASB will consider how to strengthen the standards in relation to interactions and communications from those involved in the audit.

Project Objectives

22. The project objectives are to:

(a) Propose revisions to:

(i) ISQC 1 to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.

(ii) ISA 220 to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.

(iii) ISA 600 to strengthen the auditor's approach to planning and performance of a group audit and clarify the interaction of ISA 600 to the other ISAs.

As the projects proceed, consideration will be given as to how best to structure the resulting revised standards, including possibly introducing new standards to deal with certain aspects if appropriate.

(b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISQC 1, ISA 220 and ISA 600.

(c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s). Non-authoritative guidance and support tools may include International Auditing Practice Notes (IAPNs),[5] Staff publications,[6] project updates, or illustrations / examples to provide assistance on how ISQC 1, ISA 220, ISA 600 and any new standards could be applied, in particular to address concerns regarding the ability of the standards to be applied to a wide range of circumstances.

---

[5] IAPNs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor's responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

[6] Staff publications are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements.

Project Scope

23.   The scope of the project extends to addressing the management of quality, both at the firm and engagement level, as well as the approach to group audits. Consideration of the auditor's responsibilities and procedures related to using the work of other auditors as part of the audit will also be addressed.

24.   With regard to the quality control standards (i.e., ISQC 1 and ISA 220), consideration will be given to how ISQC 1 can be revised to encompass the principles of quality management, and support the ability of the standards to be applied to a wide range of circumstances, but also retain the robustness of the existing requirements. In addition, the revisions to ISA 220 will include consideration of management of quality at the engagement level. The revisions to these standards will therefore likely be more substantial, in particular in relation to ISQC 1.

25.   The underlying premise of the projects will be to enhance audit quality through enhancing quality management at the firm and engagement level, and strengthening and clarifying the audit procedures and communications when auditing group financial statements, and when other auditors, who are not component auditors, are involved in the audit.

26.   The ITC included a significant number of issues for stakeholder consideration. As the Task Forces commence work on the projects, these issues and the related responses from respondents will be further considered in detail (see Section IV for further information about the development process and the work of the related Task Forces). The Task Forces may conclude that actions related to certain issues were not generally supported by respondents, which may then result in no further action in relation to certain issues. If any of these issues arise, the Task Force recommendations for no further action will be presented for discussion by the Board in the Board's public agenda papers, together with the related analysis and explanations as to why no further action on the relevant issue is recommended.

27.   The projects will consider challenges in relation to the ability of the standards to be applied to a wide range of circumstances, in particular for SMPs and those auditing SMEs. The impact of changes to the standards for network firms will also be specifically considered in the context of smaller networks, for whom the impact of the changes could be significant if they are not capable of being adapted to a potentially wide range of circumstances.

28.   Public sector stakeholders, and auditors in the public sector, raise unique issues in the areas of quality control and group audits. These issues arise because of the nature of the relationship between the auditor and the entities being audited, as well as the nature of group arrangements in the public sector. The revisions will further consider these issues and how best to address them.

Outline of the Project

Major Issues that Will Be Addressed

29.   Without pre-judging any matters that the relevant Task Forces may bring to the IAASB for discussion in the projects, the preliminary assessment of the issues that will need to be dealt with in the revisions as described in paragraph 22 above includes the matters set forth in paragraphs 30–38. The Task Forces will continue to coordinate on matters that cross over the relevant IAASB projects.

Quality Control at the Firm Level

Quality Management Approach (QMA)

30. Respondents to the ITC generally supported the IAASB moving forward and continuing to explore ways to incorporate a risk-based approach to managing quality and designing responses that are appropriate and commensurate in addressing such risks, through the development of a QMA as the basis for its revisions to ISQC 1. However, the IAASB was cautioned that the development of a QMA and the approach to incorporating it into ISQC 1 would need further consideration by stakeholders, given that the ITC had only provided limited information for respondents about the proposed approach.

31. Respondents generally agreed with the IAASB's view that a QMA could assist with the ability of ISQC 1 to be adapted to a wide range of circumstances, however they indicated that guidance and examples would be necessary to support the implementation of the QMA and demonstrate proportionality and scalability. In addition, the IAASB was cautioned that revisions to ISQC 1 to incorporate a QMA should not simply result in add-ons to the existing requirements, resulting in compliance with the standard becoming even more onerous for smaller practitioners and for firms who do not perform audits, or audits of listed entities. There were also concerns from regulators and audit oversight authorities that a QMA should not diminish the robustness of extant ISQC 1.

32. In developing the QMA, the IAASB will focus on the importance of and need for effective governance and firm leadership as a foundational component within the firm's quality management that is necessary in achieving and effectively managing quality at the firm and engagement level.

Other Issues Being Addressed in ISQC 1

33. In revising ISQC 1 for a QMA, attention will be given to particular elements where the requirements can be enhanced or strengthened, taking into consideration their inter-relationship with the principles of quality management. The elements where specific consideration will be given relate to:

   (a) Governance and leadership—introducing governance principles and providing more specificity about leadership responsibilities for quality management through additional requirements and application material. The new governance principles will also include more emphasis on the importance of firm leadership setting an appropriate culture for the firm and taking responsibility and being accountable for driving that culture throughout the firm. The revisions will also encourage integrating the QMA into the firm's business processes so as to enable quality objectives to be more effectively integrated into the firm's overall strategy.

   (b) Engagement quality control (EQC) reviews—enhancing the requirements and application material in relation to the firm's EQC reviews, including setting more robust criteria for firms to apply when determining which engagements should be subject to an EQC review, establishing the objective of an EQC review, clarifying the nature, timing and extent of the EQC review and enhancing the requirements for the eligibility of the individuals who perform the review. In doing so, consideration will also be given to maintaining the appropriate balance between the respective roles and responsibilities of the EQC reviewer and the engagement partner who retains overall responsibility for the engagement.

   (c) Monitoring and remediation—enhancing the requirements and application material in respect of the firm's monitoring and remediation procedures, including in relation to the adequacy and

effectiveness of the firm's QMA, the results of external inspections and the performance of a causal factor analysis.

(d) Engagement partner performance and rewards systems, human resources and engagement partner competency—enhancing the requirements or application material to improve the relationship with audit quality, and the linkage to the engagement partner's competencies in IES 8.[7]

(e) Network firms—clarifying what is necessary to enable a firm to rely on quality management processes and procedures performed at a network-level, including in what circumstances and to what extent the firm may be able to do so.

(f) Transparency reporting—considering further actions in relation to how firms might provide transparency about how they support and achieve effective quality management.

Quality Control at the Engagement Level

34. Consideration will be given how to revise ISA 220 using an approach that more clearly focuses on identifying, assessing and responding to risks to quality at the engagement level, as well as clarifying and strengthening aspects of ISA 220. Specific consideration will be given to:

(a) Engagement partner roles and responsibilities—enhancing the requirements and application material in relation to engagement leadership, in particular clarifying what is appropriate in relation to the requirements for the engagement partner to take responsibility for direction, supervision, performance and review on each audit engagement. Specific consideration will be given to those situations where the engagement partner is not located where the majority of the audit work is performed. Consideration will also be given to enhancing the requirements and application material in relation to the two-way communication necessary between engagement team members, and other auditors involved in the audit engagement.

(b) Reliance on firm or network firm quality management processes and procedures—clarifying what is required at the engagement level in relation to reliance on applicable firm or network-level quality management processes and procedures.

(c) Audit delivery models—considering and demonstrating how the requirements for managing quality at the engagement level address evolving audit delivery models that result in engagement teams with different structures and involve other auditors.

(d) Other matters, including:

(i) Clarifying the required understanding for accepting or continuing an engagement, including further consideration of situations where necessary access to the financial information or other auditors who will be involved in the audit is restricted or precluded. For situations where restrictions to information or management do exist, clarifying the auditor's considerations about what appropriate actions could be.

(ii) Considering the interaction of firm quality management with managing quality at the engagement level, for example in relation to monitoring and EQC reviews.

---

[7] IES 8 (Revised), *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements*

(iii)   Strengthening the communication requirements to promote effective two-way dialogue, in particular with other auditors.

Group Audits

35.   The IAASB will challenge the current requirements of ISA 600 as they relate to the scoping of a group audit[8] and consider whether revisions are required in order to sufficiently focus the auditor's attention on identifying and responding to the risks of material misstatement to the group financial statements. This analysis will include consideration of the wide variation in the structure of group entities and their environments, and the need for a principles-based approach that is adaptable to a wide variety of circumstances.

36.   The IAASB will further clarify and reinforce in ISA 600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to ISA 315 (Revised)[9] and ISA 220 (as revised). In making the changes to ISA 600, the IAASB will build on the principles in the revised ISA 220 and illustrate how these should be applied in a group audit.[10] The IAASB will also build on any revised requirements and guidance from the revision of ISA 315 (Revised) in ISA 600 as appropriate, at the same time clarifying as necessary how the fundamental concept of identifying, assessing and responding to risks of material misstatement, including significant risks, is undertaken for a group audit engagement. In undertaking these changes the IAASB will also consider how the requirements could be adapted and applied to differing group audit circumstances.

37.   While undertaking the changes described above, that IAASB will also look to strengthen and clarify how ISA 600 addresses:

(a)   Communication between the group engagement team and component auditors, facilitating a stronger two-way communication. This would also include any changes considered necessary to address amendments to the IESBA's Code of Ethics for Professional Accountants relating to reporting of the non-compliance with laws and regulations (NOCLAR).

(b)   Various aspects of using the work of component auditors, including understanding the independence, competence and capabilities of the component auditor, and determining the appropriate extent of involvement by the group engagement team in the work of the component auditor.

(c)   The work effort and types of procedures that are appropriate in relation to:

(i)   Components identified for further work effort; and

(ii)   Non-significant components. This includes considering the 'residual risk' in the non-significant components and whether this risk is adequately addressed by the planned audit procedures.

---

8   I.e., the approach that includes the identification of significant components and a description of the expected work efforts to be directed at such components.

9   ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

10   For example, this could include building on the principles in ISA 220 for acceptance and continuation of a group audit engagement, communication between the group engagement team and the component auditor, and direction, supervision and review by the group engagement partner and the group engagement team.

(d) The work effort of the group engagement team in relation to the consolidation process.

(e) The group engagement team's evaluation about whether sufficient appropriate audit evidence has been obtained.

38. The IAASB will also explore what more can be done in ISA 600 in relation to component materiality and the concept of aggregation risk. The IAASB does not however contemplate that this project will involve broader changes to ISA 320.[11]

Definitions, Language and Structure of the Standard

39. The IAASB will give further consideration to the definitions and use of terms in the relevant standards being revised, with the objective of improving understandability and addressing areas of uncertainty for firms, practitioners and auditors in applying the standards.

40. In revising ISQC 1 to incorporate the use of a QMA, the standard will be restructured to facilitate the key concepts and components of a QMA. Changes, as appropriate, will be made in ISA 220 to manage quality at the engagement level. ISA 600 may also need to be restructured to align with revisions to ISA 220 and ISA 315 (Revised) and to incorporate any changes as a result of reconsideration of the approach to scoping of group audits.

Professional Skepticism

41. Each project will consider, as applicable, how the importance of the role of professional skepticism can be emphasized or how the revisions might be structured to encourage and support the appropriate exercise of professional skepticism. The Task Forces will work with the Professional Skepticism Working Group to assess how best this can be done in the context of each of the related projects.

Consequential Amendments to Other Standards

42. Revisions to ISQC 1, ISA 220 and ISA 600 could result in consequential amendments to other standards, including the ISAs and other IAASB International Standards, and this will be determined as the projects progress.

Impact Analysis Considerations

43. The primary expected benefits of these projects is that they help to address public confidence in the audit. The expectation is that these benefits will be achieved through improved quality management for firms and better management of quality at the engagement level and an increase in audit quality as relevant, through more robust requirements and appropriately detailed guidance.

44. Regardless of whether the outcome of these projects results in new or revised requirements or application material or guidance, there will be cost and benefit implications for firms, audits and all other engagements The impact of implementing the revised standards will depend on the size and complexity of the firm, the nature of services the firm provides, including the entities to whom those services are provided. The impact at the firm level will also depend on quality control policies and procedures, and risk management, that the firm currently has in place.

---

[11] The IAASB's Work Plan for 2017–2018 sets out the IAASB's considerations about a new project on ISA 320, *Materiality in Planning and Performing an Audit*.

45.   Other stakeholders, such as NSS, audit inspection bodies and regulators, and others are also likely to be impacted by the changes.

46.   The IAASB will specifically consider the likely costs and benefits to SMPs.

III.   Implications for Any Specific Persons or Groups

47.   The project has implications for all participants in the financial reporting supply chain, in particular for auditors who perform audits of financial statements under the ISAs and firms that perform engagements using the IAASB's other International Standards. As ISQC 1 and the ISAs apply to firms of all sizes and who perform a variety of engagements that may not necessarily encompass audits of financial statements, the risk of unintended consequences to audits of smaller entities needs to be considered. In addition to other outreach by the IAASB to SMPs,[12] IFAC's SMP Committee will be kept informed of developments to ensure appropriate input is received at key stages of the projects.

48.   In addition, liaison with public sector auditors will help the IAASB understand public sector specific issues that need to be addressed in these standards.

49.   The project also has implications for, and linkages with, other IAASB initiatives, including work on the topics of ISA 540, Professional Skepticism, ISA 315 (Revised) and Data Analytics.

IV.   Development Process, Project Timetable and Project Output

Development Process and Project Timetable

50.   The project will be conducted in accordance with the Public Interest Activity Committees' Due Process and Working Procedures.[13]

51.   Three Task forces will work on progressing changes to ISQC 1 (Quality Control Task Force), ISA 220 (ISA 220 Task Force) and ISA 600 (Group Audits Task Force) (see Section IV for further information about the development process and the work of the related Task Forces).

52.   Subject to the IAASB's approval of this project proposal, the following sets out a preliminary timetable, noting that specific project milestones and outputs may change as the various projects develop. The timing of the various milestones takes into account sequencing of actions within these projects, as well as with other IAASB projects including ISA 315 (Revised) and professional skepticism.

Timing	Action – ISQC 1	Action – ISA 220	Action – ISA 600
November 2016	Obtain the IAASB CAG's input on project proposal	Obtain the IAASB CAG's input on project proposal	Obtain the IAASB CAG's input on project proposal
December 2016	IAASB approval of project proposal and consideration of specific issues	IAASB approval of project proposal and consideration of specific issues	IAASB approval of project proposal

---

[12]   The IAASB will continue its dialogue with stakeholders such as the IFIAR's Standards Coordination Working Group, IOSCO, European Audit Inspection Group, the Forum of Firms, Global Public Policy Committee.

[13]   https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

Timing	Action – ISQC 1	Action – ISA 220	Action – ISA 600
March 2017 – September 2017	Obtain input from the IAASB CAG on the issues and proposals, including an exposure draft of ISQC 1 (Revised) (including possible revisions or conforming amendments to other International Standards, including the ISAs)	Obtain input from the IAASB CAG on the issues and proposals, including an exposure draft of ISA 220 (Revised) (including possible revisions or conforming amendments to other ISAs)	Obtain input from the IAASB CAG on the issues and proposals
	IAASB deliberation of issues, proposals and a first and second read of the exposure draft. This includes consideration of whether additional pronouncements, such as IAPN or other non-authoritative guidance, are necessary to address specific issues	IAASB deliberation of issues, proposals and a first and second read of the exposure draft. This includes consideration of whether additional pronouncements, such as IAPN or other non-authoritative guidance, are necessary to address specific issues	IAASB deliberation of issues and proposals
	Dialogue with stakeholders on key issues and proposals	Dialogue with stakeholders on key issues and proposals	Dialogue with stakeholders on key issues and proposals
December 2017	IAASB approval of exposure draft, with a 120-day comment period, including possible conforming amendments to other ISAs and the IAASB's other International Standards	IAASB approval of exposure draft, with a 120-day comment period, including possible conforming amendments to other ISAs	IAASB first read of exposure draft
March – June 2018	IAASB consideration of responses to exposure draft	IAASB consideration of responses to exposure draft	IAASB second read and approval of the exposure draft with a 120-day comment period, including possible conforming amendments to other ISAs. This also includes consideration of whether additional pronouncements, such as IAPN or other non-authoritative guidance, are necessary to address specific issues

Timing	Action – ISQC 1	Action – ISA 220	Action – ISA 600
September 2018	Obtain IAASB CAG input on consideration of the responses to the exposure draft and proposed changes ISQC 1 (Revised) as a result of those responses	Obtain IAASB CAG input on consideration of the responses to the exposure draft and proposed changes to ISA 220 (Revised) as a result of those responses	-
	IAASB deliberation of responses to the exposure draft and resulting proposed changes to ISQC 1 (Revised)	IAASB deliberation of responses to the exposure draft and resulting proposed changes to ISA 220 (Revised)	-
December 2018	IAASB approval of ISQC 1 (Revised) and publication of possible IAPN or other non-authoritative guidance	IAASB approval of ISA 220 (Revised) and publication of possible IAPN or other non-authoritative guidance	IAASB deliberation of responses to the exposure draft and resulting proposed changes to ISA 600 (Revised)
March 2019	-	-	Obtain IAASB CAG input on consideration of the responses to the exposure draft and proposed changes to ISA 600 (Revised) as a result of those responses
	-	-	IAASB approval of ISA 600 (Revised) and publication of possible IAPN or other non-authoritative guidance

Project Output

53.   The expected outputs of the project are:

(a)   Revised ISQC 1.

(b)   Revised ISA 220.

(c)   Revised ISA 600.

(d)   Conforming amendments to other ISAs and IAASB's other International Standards as appropriate.

As the projects proceed, consideration will be given as to how best to structure the resulting revised standards. As a result, new standards might possibly be introduced to deal with certain aspects if appropriate.

54.   The various Task Forces will, throughout the revision of the standard, consider and advise the IAASB as to the need for, and potential timing of, development of other non-authoritative guidance, in the form of IAPNs, Staff publications, project updates or other materials.

V.   Resources Required

55.   Project Task Forces will be responsible for the relevant projects as follows:

(a)   Quality Control Task Force—responsible for revisions to ISQC 1.

(b)   Crossover Task Force—responsible for revisions to ISA 220.

(c)   Group Audits Task Force—responsible for revisions to ISA 600.

Because of the need to coordinate between these projects, there will be individuals who are members of more than one of these Task Forces as appropriate.

56.   The Task Forces will be comprised of IAASB members, technical advisors, and external experts, as appropriate, with diverse backgrounds and relevant experience.

57.   IAASB Staff will provide support to the Quality Control, Crossover and Group Audits Task Forces.