



**INTERNATIONAL FEDERATION  
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## Agenda Item

# 7

**Committee:** IAASB  
**Meeting Location:** Melbourne  
**Meeting Date:** 17–21 March 2003

## Quality Control

### Objectives of Agenda Item

To review and issue for exposure the draft International Standard on Quality Control (ISQC) 1 and ISA 220.

### Activities Since Last IAASB Discussions

The quality control task force has had physical meetings in Miami (December 2002) and in London (January 2003). The task force has also held two conference calls.

### Specific issues

The quality control task force would appreciate IAASB having particular regard to certain specific issues which have been identified by the task force during its work in preparing the draft documents. In each case the task force believes that it has arrived at the best solution, however as these issues represent either additional ideas which have not previously been presented to IAASB or alternatively areas where the task force has decided not to follow advice previously offered by IAASB, the task force feels it is appropriate to draw the attention of IAASB to these specific issues. The specific issues are as follows:

- (a) The introductory text to ISQC 1;
- (b) The inclusion in both documents of a section on compliance with ethical requirements;
- (c) The requirement in ISQC 1 for the firm to establish policies and procedures which set out criteria against which audits of the financial statements of non-listed entities and assurance and related services engagements should be evaluated for the purpose of determining whether the engagement partner should be rotated after a specified period;
- (d) The guidance in ISQC 1 regarding which entities should have an engagement quality control review; and
- (e) The frequency of communication from the firm to its personnel regarding the outcomes of monitoring procedures other than those relating to independence.

### *Introductory text*

During the December 2002 meeting, the task force understood it to be the view of IAASB that the ISQC 1 “boilerplate” introductory text should be consistent with that used in the other ISAs,

including the comment that **the standard only applies to material items**. The task force believes that this sentence is in fact inappropriate in the context of the ISQC, which applies to a firm's system of quality control for its practices in the areas of audit, assurance and related services. The task force believes that the ISQC should not, and in fact cannot, be restricted to material matters.

#### *Compliance with ethical requirements*

Both ISQC 1 and ISA 220 now include sections addressing compliance with ethical requirements (ISQC paragraphs 8-11 and ISA 220 paragraphs 4-6). In the previous drafts of the documents, ISA 220 made no mention of the Code of Ethics or ethical requirements while ISQC 1 referred in several places to the fact that additional requirements were set out in the Code, without elaborating what these requirements were or clarifying that professional accountants should comply with them. The task force believes that it is appropriate to make explicit reference to the fact that the Standards are intended to be read in conjunction with the Code and to embed compliance with ethical requirements in the requirements for a firm's system of quality control. In this way, ethical requirements are given due weight and recognition.

#### *Rotation*

The task force believes that it is appropriate to require firms to establish policies and procedures regarding engagement partner rotation for engagements other than financial statement audits of listed entities. The task force believes that consideration of engagement partner rotation, both in the interests of safeguarding independence and in the interests of promoting quality, is an important component of that part of a firm's system of quality control addressing independence issues. The task force recognizes that a requirement to formulate (and then comply with) policies and procedures setting out criteria for determining whether engagement partners should be rotated may be onerous for some firms. However, it believes that such a requirement is ultimately both appropriate and desirable.

#### *Which entities should have an engagement quality control review*

During the December 2002 meeting, members of IAASB requested that the task force consider including examples of entities that might meet a firm's criteria for determining whether they should be subject to an engagement quality control review. The task force considered this issue carefully. On reflection the task force decided that the inclusion of such a list would not be helpful to the users of ISQC 1 and would undermine the point of what the task force is trying to achieve. The task force believes that to include such a list would inevitably encourage firms to move away from using a risk basis to make the decision and instead lead to a situation where firms relied upon the list of examples to make their decisions.

#### *Frequency of monitoring*

The task force believes that annual monitoring of independence processes is crucial to ensure a firm's compliance with independence requirements. It believes that a three year cycle is appropriate for the other elements of a firm's system of quality control. However, the task force recognizes that the frequencies suggested may prove onerous for some firms, particularly smaller firms.

**Material Presented**

Agenda Paper 7-A (Pages 231–248)	Draft ISQC 1, <i>Quality Control for Audit, Assurance and Related Services Practices</i>
Agenda Paper 7-B (Pages 249–256)	Draft ISA 220, <i>Quality Control for Audit Engagements</i>
Agenda Paper 7-C (Pages 257–278)	Draft ISQC 1, <i>Quality Control for Audit, Assurance and Related Services Practices marked from last draft</i>
Agenda Paper 7-D (Pages 279–288)	Draft ISA 220, <i>Quality Control for Audit Engagements marked from last draft</i>

**Action Requested**

1. IAASB is asked to review the drafts of ISQC 1 and the revised ISA 220 and issue them for exposure.
2. IAASB is asked to provide any editorial comments directly to staff.

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