

## **Proposed ISQC 1 and Proposed Revised ISA 220 – Issues Paper**

### **1. Introduction**

This Issues Paper provides an overview of the comments received and discusses the key issues raised by respondents on the Exposure Drafts (EDs) of the proposed new International Standard on Quality Control (ISQC) 1 and the proposed revised International Standard on Auditing (ISA) 220.

Respondents who submitted comment letters on the EDs numbered 39 in total, with 19 from IFAC member bodies, 6 from the firms, 2 from regulators and 12 from other backgrounds. Of the 39 responses, 24 were submitted after the August 31, 2003 closing date for comments. All the comment letters have been posted to and can be accessed from IFAC's website. The Appendix to this paper lists the respondents who submitted comment letters on the EDs.

Overall, there was broad support for the EDs and recognition of the significant role that the proposed Standards will play in improving firms' quality control practices worldwide. The majority of respondents supported the decision to have two standards dealing separately with quality control responsibilities at the firm level and at the engagement level, although one respondent (ICANZ) felt strongly that a single Standard could have adequately dealt with the responsibilities at both levels.

One respondent (IOSCO) also raised a concern about the clarity of the EDs, noting that the status of material that is not in bold letter was unclear, and that this lack of clarity could create significant potential for differences in interpretation among firms and engagement personnel. The Task Force notes, in response, that the Board has already set up as a matter of priority a separate Task Force that is actively looking into the issues relating to the clarity of the Board's pronouncements.

### **2. Key Issues**

Issues that the Task Force considers significant are discussed below.

#### **2.1 QC Requirements and Guidance Relating to Ethics**

##### **2.1.1 Interaction with the IFAC Code of Ethics**

Several respondents raised concerns about the way the standards and guidance in the EDs interacted with the IFAC Code of Ethics (the "Code"). There were perceptions that the EDs were going too far in trying to interpret the requirements of the Code and that the EDs were expanding the responsibilities set out in the Code. IFAC's Ethics Committee also voiced its concern that, as drafted, the EDs were not consistent with the Code and that these inconsistencies were created by paraphrasing and interpreting the Code, extending its requirements and using different definitions (the issue of definitions is further discussed in Section 2.2 below).

A number of respondents also expressed the view that paragraph 8 of the ISA (the bold-letter requirement that "the engagement partner should obtain an understanding of whether there are potential threats to compliance with ethical requirements and appropriate safeguards in place...") was weak and that there was insufficient guidance as to how the engagement partner was supposed to obtain that understanding and document such understanding. In addition, it was

unclear to several respondents to what extent the engagement partner could rely on the firm's quality control policies and procedures to obtain that understanding. Concern was also raised that it was unreasonable to hold the engagement partner ultimately responsible for concluding broadly on compliance with all ethical requirements, especially since not all the ethical principles are capable of being monitored, confirmed or observed.

In response, the Task Force:

- Acknowledges that inconsistencies with the Code were inadvertently created in trying to operationalize the ethical requirements of the Code in the EDs;
- Emphasizes that the intention of the requirements and guidance in the EDs relating to ethics is to raise firms' standards on quality;
- With input from the Ethics Committee's Chair and Technical Staff, significantly redrafted the sections pertaining to ethics in the revised documents to eliminate the inconsistencies;
- Redrafted paragraph 8 of the ISA to clarify the intention of the bold-letter requirement; and
- Redrafted paragraph 4(c) of the ISA to clarify that engagement teams are entitled to rely on the firm's systems unless advised to the contrary.

### **2.1.2 Written Confirmation of Independence**

One respondent (IOSCO) felt that the ISQC's bold-letter requirement for the firm to obtain confirmation, at least annually, from its personnel of compliance with independence requirements should be amended to require such confirmations to be in writing. The Task Force debated the merits of mandating that such a requirement should be in writing. In particular, the Task Force felt that this would likely result in additional administrative overhead for the smaller firms. However, the Task Force concluded that it would be difficult for the firm to demonstrate that it has complied with this ISQC requirement, and for firm personnel to demonstrate compliance with the firm's independence requirements, if confirmations were not obtained in writing. Accordingly, the Task Force recommends changing the original bold-letter paragraph 23 (now renumbered 24) in the ISQC to require confirmations to be in writing.

## **2.2 Definitions**

### **2.2.1 Quality Control**

Some respondents favored an upfront definition of what is meant by "quality" or "quality control," noting that the ISQC treats quality control in a narrow sense to mean "compliance with professional standards and applicable regulatory and legal requirements." The common belief expressed by these respondents was that a wider definition of "quality" would help users understand the context in which the detailed requirements for quality control systems are established.

The Task Force discussed the views expressed and recognizes that there may be other considerations regarding quality that a firm might be interested in, for example, the quality of its client service or the quality of its staff welfare policies. However, a discussion of these would go beyond the scope of the ISQC and accordingly, the Task Force recommends that the ISQC

maintains its focus on setting standards that allow firms to obtain reasonable assurance that they are complying with professional standards and applicable regulatory and legal requirements.

### **2.2.2 Reasonable Assurance**

A number of respondents questioned the use of the term “reasonable assurance” throughout the EDs, noting that no definition or discussion of the term was provided in the EDs and pointing to the fact that the existing definition in the Glossary<sup>1</sup>, which pertains to the audit, could not be applied here.

In response, the Task Force has now included a definition of “reasonable assurance” in terms of a “high but not absolute level of assurance,” and notes that the Board is considering starting a project to address the broader meaning and implications of “reasonable assurance.”

### **2.2.3 Definitions Common to Both the EDs and the Code**

Several commentators raised issues relating to definitions that are common to both the EDs and the Code, i.e. “firm,” “listed entity” and “network firm.” The concerns raised were not so much that there were minor inconsistencies between the definitions used in the EDs and those in the Code but whether the basic definitions provided in both the EDs and the Code were adequate and sound.

The Task Force worked together with the Ethics Chair and Staff to consider whether changes to the existing definitions were appropriate. On the basis of these discussions, the definition of “firm” has been changed by the inclusion of “‘or other legal entity’ of professional accountants” in order to close an unintended loophole in the existing definition. However, the Ethics Chair and Staff concluded that proposed changes to “listed entity” and “network firm” would have significant implications for the Code and accordingly decided to postpone these changes until the next revision of Section 8 of the Code. Because of this and in order to avoid having two different sets of definition co-existing in the QC Standards and the Code, the Task Force recommends that no changes are made to the definitions of “listed entity” and “network firm” until Section 8 of the Code is revised.

### **2.2.4 Definitions that are Similar in the EDs and the Code**

The Ethics Chair and Staff also identified a need to minimize differences between different terms used in the EDs and the Code but that have essentially the same meaning, i.e. “Engagement Partner” in the EDs v/s “Lead Engagement Partner” in the Code, and “Engagement Team” in the EDs v/s “Assurance Team” in the Code. The Ethics Chair and Staff concluded that it would be preferable to change the definitions in the Code to align with those in the EDs since the latter more appropriately described the nature of the terms.

### **2.2.5 Definition of “Staff”**

The original definition of “staff” in the EDs, and therefore that of “personnel,” included “any experts engaged by the firm in connection with an engagement.” One respondent (FSR) pointed out that this definition was flawed, since, if taken literally, it would imply that the firm would subject such external experts to its internal quality control policies, and reward these experts for

<sup>1</sup> The Glossary defines “Reasonable Assurance” as follows: “In an audit engagement, the auditor provides a high, but not absolute, level of assurance, expressed positively in the audit report as reasonable assurance, that the information subject to audit is free of material misstatement.”

compliance, and sanction them for non-compliance, with the firm's QC policies. The Task Force agreed with the comment made and, consequently, has changed the definition of "staff" in the EDs to exclude experts engaged by the firm.

In addition, the Task Force also identified a need for a conforming change to ISA 620, "Using the Work of an Expert," which refers to the need to use the work of an expert employed by the firm in the employee's capacity as an expert instead of an "assistant" on the audit as contemplated in ISA 220.

## 2.3 Rotation

### 2.3.1 Rotation of Engagement Partner for Non-Listed Engagements

Several respondents voiced concern about the requirement in the ISQC for the firm to "set out criteria against which all other audit, assurance and related services engagements should be evaluated for the purpose of determining whether the engagement partner should be rotated after a specified period, and requiring the rotation of the engagement partner for all engagements meeting such criteria."

There were views that this could be interpreted as effectively requiring partners to be rotated on non-listed engagements, especially since this was set out in bold letter. Others thought that this was creating a broader requirement to rotate engagement partners than in the Code, and that the IAASB should not be setting ethical standards. Still others pointed out that partner rotation was only one of a number of possible safeguards against the familiarity threat, and that the ISQC should not be singling out partner rotation to address the familiarity threat on non-listed engagements.

In addition, a number of respondents questioned whether the ISQC should be requiring rotation for related services engagements, since these were not subject to independence requirements. One respondent (IDW) suggested that if this requirement were to be retained, then it should be limited to agreed-upon procedures only.

One other respondent (KPMG) also pointed out that major inconsistencies will result across firms because of the lack of detailed guidance in the ISQC on criteria for partner rotation on non-listed engagements, and recommended that additional guidance be incorporated to ensure that the public interest argument for introducing the requirement will be met.

In response, the Task Force:

- Reiterates that it was neither the Task Force's nor the Board's intention to set ethical standards;
- Reaffirms its belief that, as a safeguard for maintaining quality, firms should set out criteria to consider the necessity of rotating engagement partners on non-listed engagements, including related services engagements;
- Points out that ultimately, the firm needs to exercise its professional judgment in setting out the relevant criteria for considering the necessity of rotation and determining whether rotation should be applied in respect of non-listed engagements;

- Recommends that this requirement be retained;
- Recognizes that inconsistencies will necessarily arise across firms because firms will set criteria based on their particular local circumstances (however, the Task Force recommends that the need for detailed implementation guidance on this requirement be addressed in a new Practice Statement); and
- Has redrafted the original paragraph 25 (now renumbered 26) to make the intention of the ISQC clearer.

### 2.3.2 Rotation of Senior Personnel on Listed Engagements

Two respondents (IOSCO & HKSA) believed strongly that the rotation requirement for listed engagements should encompass all senior members of the engagement team, not just the engagement partner. This comment was made in light of the October 2002 statement by the IOSCO Technical Committee relating to “Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence” that stated that *“standards on auditor independence should address specifically the need to ensure appropriate rotation of the audit engagement team such that senior members of a team do not remain in key decision-making positions for an extended period.”*

The Task Force was of the view that this issue would be more appropriately dealt with by the Ethics Committee since this essentially concerned independence. In addition, the Ethics Committee would need to consider whether it would be necessary to define the terms “senior members” and “key decision-making position.”

### 2.4 Engagement Quality Control Review (“EQCR”)

A number of issues were raised by respondents on the EQCR as follows:

*“Cooling-off” Periods and Rotation of Engagement Quality Control Reviewers.* Varying views were expressed about the merits of having a “cooling off” period before the engagement quality control reviewer could act as the engagement partner for the client, about the length of time the engagement quality control reviewer should act in that role before being rotated, and whether the engagement quality control reviewer should be rotated at all. By contrast, the Chair and Staff of the Ethics Committee were of the view that rotation of the engagement quality control reviewer and the issue of having a “cooling-off” period should be matters dealt with in the Code.

*Objective of the EQCR.* A few respondents thought that there was an inherent inconsistency between the description of the responsibilities of the engagement quality control reviewer (that seemed to suggest a detailed compliance review that could mean effectively a second independent audit opinion) and the objectives of the review (i.e. to provide an objective evaluation of significant judgments made by the engagement team). They pointed out that the level of work implied in a “detailed compliance review” was significantly more than where there is only an “objective evaluation of significant judgments.” In addition, some of the respondents pointed out that the bold-letter paragraph introducing the EQCR section did not state clearly the objective of the EQCR.

*Requirement to review key working papers.* Two respondents (IOSCO and Basel) felt strongly that the EQCR should always include a review of key working papers, and questioned whether it

was appropriate for the ISQC to qualify the review of selected working papers by the phrase “*to the extent considered necessary by the engagement quality control reviewer.*”

*Additional guidance on criteria.* Some respondents wanted more specific guidance regarding the setting up of criteria to identify which engagements other than listed audits should have EQCRs. Two respondents in particular (FEE and FSR) believed that the ISQC should address the EQCR from a risk-based perspective, arguing that the driving factor for the EQCR should be a risk assessment instead of whether the subject entity was a listed entity per se.

*EQCR for non-listed audit engagements.* One respondent (CICA) pointed out that the reference in bold letter to the “firm’s criteria” in the original ISA paragraph 37 (now renumbered 36) had the effect of incorporating the firm’s criteria in the engagement standards. This respondent pointed out that these criteria will vary by firm, and thus the engagement standards will vary. Also, there would be a risk that for every audit of a non-listed entity where there is a legal claim and such an EQCR was not performed, one party could argue that there was an engagement (“GAAS”) failure even if there were no other engagement problem. For example, two firms could have an identical non-profit organization to audit, but because they had set different criteria, one firm could have performed an EQCR but not the other. Consequently, parties could charge that the latter firm had breached ISAs. This respondent therefore recommended that the requirement for EQCRs for non-listed audits be set out in grey letter.

*Definitions and Repositioning of the Section.* Respondents also suggested that the Board provides definitions for “engagement quality control review” and “engagement quality control reviewer,” and that the “engagement quality control review” section in the ISQC should be a part of the “engagement performance” section.

After significant debate, the Task Force:

- Agreed with the Ethics Chair and Staff that rotation and cooling-off should be dealt with in the Code and not in the ISQC;
- Agreed that to require the engagement quality control reviewer’s work to be “designed to provide a basis to conclude whether any matters have come to the reviewer’s attention that would cause the reviewer to believe that the engagement was not performed in accordance with professional standards...” was not appropriate, and accordingly, agreed to eliminate this requirement and instead focus the reviewer’s responsibilities on the objective evaluation of significant judgments made by the engagement team;
- Agreed to provide a clear statement of the objective of the EQCR in the original bold-letter paragraph 57 (now renumbered 61) of the ISQC introducing the EQCR section;
- In respect of the review of selected working papers, agreed to delete the qualifying phrase in the original paragraph 62 (now renumbered 65) of the ISQC “*to the extent considered necessary by the engagement quality control reviewer*” on the basis that a review of working papers will be necessary to meet the objective of the EQCR;
- In respect of additional guidance on criteria, (a) did not agree that it was necessary to change the ISQC’s approach to EQCRs, since it was the intention of the ISQC to address listed audits separately because of their public significance; (b) was of the view that “risk assessment” for

determining the need for an EQCR should be an implementation matter that the firm should address in its specific criteria and procedures; and (c) felt that the need for more specific implementation guidance would be better addressed in a new practice statement;

- With respect to EQCRs for non-listed audit engagements, agreed to set out in the original ISA paragraph 37 (now renumbered 36) in grey letters the requirement when such an EQCR is performed, even though this could be perceived as creating an inconsistency with the ISQC, which sets out the requirement in renumbered bold letter paragraph 61(b) for firms to establish criteria for these reviews.
- Agreed to provide definitions of “engagement quality control review” and “engagement quality control reviewer;” and
- Moved the section on EQCR to a subsection of engagement performance.

## **2.5 Overlap and Interaction between ISQC 1 and ISA 220**

Several commentators expressed disagreement with the way the ISA ED had been structured, arguing that there was a significant amount of repetition between the ISQC and the ISA, a mixture of cross-referencing and repetition in the ISA, and inconsistencies in wording between equivalent paragraphs in the ISQC and the ISA.

Other respondents (particularly IOSCO and IDW) felt strongly that the ISA’s focus at the engagement level was insufficiently clear and that instead of repeating various aspects from the ISQC, the ISA should be providing significant additional guidance on the specific policies and procedures that apply at the audit engagement level.

Views were also expressed about the lack of clarity in the inter-relationship between the two documents and the need for a clearer statement of the responsibilities of the firm and the engagement team in the two proposed Standards.

The Task Force acknowledges that there is a certain level of repetition in the ISA but notes that this is inevitable in order to produce a standalone Standard. In addition, the Task Force has rewritten sections of the ISA to eliminate cross-references to the ISQC and to eliminate the minor inconsistencies in the wordings of equivalent paragraphs in both EDs. Changes have also been made to the first paragraphs of both the ISQC and the ISA to provide a clearer statement linking the proposed Standards to the responsibilities of the firm and its engagement personnel respectively.

With regards to respondents’ request for a significant level of additional guidance in the ISA, the Task Force felt that it was more important to focus on the principles instead of providing detailed procedural guidance. However, to address the concerns raised, the Task Force recommends that the Board considers undertaking a separate project to develop an International Auditing Practice Statement for the purpose of providing more detailed implementation guidance on quality control at the firm and the engagement levels.

## **2.6 Leadership Responsibilities for Quality within the Firm**

A number of respondents pointed out that there was a lack of appropriate emphasis in the ISQC on the need for the firm’s business strategy and commercial objectives to always be subject to the

overriding requirement for the firm to achieve quality in all the firm's engagements. For some respondents, a critical issue that needed to be addressed in promoting a commitment to quality was the design and implementation of incentive systems, including the firm's performance evaluation, compensation and promotion policies for its partners and staff. Others were of the view that the design of the firm's management structure was also worthy of emphasis in the discussion of leadership responsibilities for quality. In addition, some respondents pointed out that compliance with the firm's quality control policies and procedures should be expected of all firm personnel, instead of actually being rewarded.

The Task Force agreed with these comments and, in response, has:

- Significantly redrafted the section on leadership responsibilities and changed the section title from "Leadership and Responsibilities within the Firm" to "Leadership Responsibilities for Quality within the Firm;"
- Changed the original bold-letter paragraph 7 (now renumbered 8) introducing the section on leadership from the original procedures-based requirements to one that establishes the principles that (a) the firm should promote an internal culture focusing on quality; and (b) the firm's CEO or managing board of partners should be ultimately responsible for the firm's quality control system; and
- Provided additional guidance that places greater focus on the need for the firm's leadership and management structure to prevent commercial considerations from overriding the firm's commitment to quality.

## 2.7 Differences of Opinion

Two respondents (CICA and IOSCO) were of the view that the ISQC should be clearer in its guidance on the conflict resolution process and should refer to the need to establish a consensus on an issue as it proceeds up the conflict-resolution chain. One particular question raised was whether it was ever appropriate for a firm's policies and procedures to permit an engagement team alone to override specialist technical advice obtained during the consultation process. In addition, one respondent (IOSCO) highlighted the need to consider providing more explicit guidance on appropriate conflict resolution procedures, including the key elements of an escalation process that might be followed to determine the firm's position on a complex issue.

On the issue of additional guidance on the conflict resolution process, the Task Force agreed to expand the original paragraph 55 (now renumbered 59) of the ISQC to that effect. However, the Task Force felt that explicit procedural guidance on what the key elements of an escalation process might be was an implementation issue that would be best addressed outside the scope of this project.

On the issue of override, the Task Force debated two possible positions:

- a) The engagement partner should not be the person with responsibility for the final resolution of the issue.
- b) The engagement partner should be the person who determines the final decision based on the advice received from other personnel including the person(s) responsible for quality.



Position (a) advocated by the respondents effectively prevents the engagement partner from overriding any advice received on consultation. However, the Task Force recognized that this position created a potential implementation difficulty (that position (b) resolves) in that in those countries where the signing partner is named, that partner could not sign a report with which he had disagreed. After significant discussion, the Task Force concluded that instances falling within position (b) would be rare in practice and accordingly, recommends that position (a) be adopted.

## **2.8 Reliance on an Independent External Monitoring Program**

Two schools of thought were expressed by respondents regarding the extent to which a firm could rely on an independent external monitoring program to determine the scope of the firm's own internal monitoring program, particularly inspections. On the one hand, strong views (e.g. SMPs, Australian Institutes) were expressed that the ISQC should allow firms the flexibility to take advantage of external regulatory monitoring programs to determine the scope of their internal inspections. These respondents argued that not allowing firms this flexibility would place a significant burden on firms that are already subject to regular mandatory regulatory inspections and increase their compliance cost through unnecessary duplication of effort.

On the other hand, one respondent (IOSCO) believed strongly that it would be inappropriate for a firm to reduce the scope of its internal inspections on the basis of positive findings from an independent external inspection program. This respondent argued that such an approach could become circular since the scope of the independent external inspection program at a subsequent date could well need to be expanded to compensate for the reduced scope of the firm's internal inspection program.

The Task Force debated at length the views presented and came to the conclusion that it would be difficult to specify criteria that could be applied in determining under what circumstances firms could use the scope of independent external inspections to establish the scope of their own internal inspection programs. The Task Force considered two options to address this issue:

- a) Leave the guidance in the ISQC unchanged, i.e. the guidance will continue to read: "In determining the scope of the inspections, the firm may, where appropriate, have regard to the scope of conclusions of an independent external monitoring program;" or
- b) Delete the guidance, in which case, the ISQC would remain silent on the issue but there would be no implication that firms could not rely on the scope of independent external inspections to determine the scope of their internal monitoring programs.

The Task Force concluded that, on balance, firms should be allowed the flexibility to determine the scope of their internal inspections based on the scope of any independent external inspections to which they have been subject, and that it would be preferable for the ISQC to be explicit on the matter. In coming to that conclusion, the Task Force was persuaded by the need for flexibility such that the scope of the internal and external inspections could be coordinated to avoid unnecessary duplication. Accordingly, the Task Force recommends that there be no change to the guidance in the ISQC.

## 2.9 SMP Issues

Several commentators expressed concern about the lack of more specific guidance for SMPs, noting in particular that the ISQC appeared more geared towards the requirements of the larger firms than the needs of the smaller firms. The concerns raised touched upon a variety of matters, including:

- Bold-letter paragraphs that appear not relevant to the sole practitioners, for example, engagement partner rotation considerations;
- Perceived increased bureaucracy and excessive compliance cost resulting from the implementation of the proposed standards that will decrease, and not increase, quality;
- Lack of flexibility for the smaller firms, since the ISQC is uncompromising in prescribing each area of a firm's quality control system that needs to be documented, and requiring the implementation of systems to ensure documented evidence is maintained of the operation of each QC element;
- Risk of the smaller firms being forced into non-compliance because of the perceived difficulties they will face on implementation; and
- Lack of guidance as to how the smaller firms should implement the requirements of the ISQC.

The Task Force debated the concerns raised and has sought to address some of these through the inclusion of additional guidance addressed to the smaller firms (for example, paragraphs 43 and 97). However, the Task Force firmly believes that the new standards introduced by ISQC 1 are necessary to drive behavior in firms of all sizes towards the achievement of quality control objectives that are in the public interest.

In respect of the need for additional detailed implementation guidance geared specifically towards the smaller firms, the Task Force notes that it had recognized this need earlier and had in fact recommended, in the May 2003 Issues Paper, that the IAASB invites IFAC's SMP Task Force to develop appropriate implementation material for SMPs. In this connection, IFAC's SMP Task Force recommended in its comment letter that IFAC should provide or procure practical assistance to SMPs in the initial formalization and documentation of systems of internal quality control as required by the QC standards, for example, through the provision of model QC operating handbooks applicable to SMPs.

## 2.10 Retention of Guidance in Appendix to Extant ISA 220

Some commentators believed that the detailed guidance in the Appendix to extant ISA 220, particularly that relating to professional development and staff advancement, was very useful and should be carried forward to the ISQC.

The Task Force agrees that some of the material in the existing Appendix to ISA 220 remains relevant and useful but believes that adding such material to the ISQC would lengthen the Standard and not improve its clarity. However, the Task Force understands that IFAC's Education Committee is considering undertaking a project in the near future to develop an education standard for "audit specialists." Accordingly, the Task Force recommends that IFAC's Education Committee considers utilizing the material in the Appendix to ISA 220 in the development of such an education standard.

## 2.11 Change of Titles

A number of commentators questioned whether the title chosen for the ISQC, i.e. “Quality Control for Audit, Assurance and Related Services Practices,” was appropriate given that:

- “Practices” was not a defined term in the ISQC and could be ambiguous, especially on translation; and
- Distinguishing between “audit” and “assurance” in the title risked creating confusion in the marketplace since this implied that an audit was not an assurance engagement.

One respondent suggested that it might be more appropriate to adopt a title that reflected the chart included in the recently approved revised Preface. The Task Force agreed with this suggestion and, accordingly, proposes that the title of the ISQC be changed to: “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, Other Assurance and Related Services Engagements.” Consequential changes have been made throughout the rest of the ISQC.

In view of this proposed change in title for the ISQC, the Task Force also decided to change the title of the ISA to be more consistent with the ISQC’s: “Quality Control for Audits of Historical Financial Information.”

## 2.12 Corporate Governance in Firms

Some commentators were of the opinion that the ISQC should address corporate governance issues in the firms, particularly the larger firms. One commentator (Basel), for example, recommended that the governing body in a larger firm should be assisted by a “quality control committee” that would:

- a) Review and comment to the governing body on the CEO’s proposals for quality control policies; and
- b) Review and comment to the governing body on the CEO’s reports over the firm’s quality and quality control work.

The Task Force agreed in principle that it would be beneficial for firms, especially the larger ones, to establish corporate governance processes to monitor the firms’ adherence to their quality control policies and achievement of their quality control objectives. However, the Task Force was of the view that this was an implementation issue that would be best addressed outside the scope of this project.

## 2.13 Effective Date of ISA 220 and ISQC 1

Currently, the ISA 220 ED states that the Standard is applicable to audits of financial statements for periods commencing on or after January 1, 2005. However, the Audit Risk Standards just issued are effective for audits of financial statements for periods beginning on or after December 15, 2004. The Task Force discussed whether the effective date of ISA 220 should be aligned with that of the Audit Risk Standards, and if so, whether the ISQC’s effective date should also be changed.

The Task Force concluded that if the ISA’s effective date were to be aligned with that of the Audit Risk Standards, the ISQC’s effective date should also be changed. However, the ISQC

applies to a firm's QC system and not to a single engagement, and having an effective date as of December 15, 2004 would appear somewhat untidy. Accordingly, the Task Force recommends that the effective dates in the EDs remain unchanged.

**List of Respondents**

#	Respondents	IFAC Member Bodies	Firms	Regulators	Others
1	AICPA	✓			
2	CICA	✓			
3	CGA Canada	✓			
4	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	✓			
5	Foreningen af Statsautoriserede Revisorer	✓			
6	Föreningen Auktoriserade Revisorer	✓			
7	Hong Kong Society of Accountants	✓			
8	IDW	✓			
9	Institute of Chartered Accountants in Australia & CPA Australia	✓			
10	Institute of Chartered Accountants in India	✓			
11	Institute of Chartered Accountants in Ireland	✓			
12	Institute of Chartered Accountants in Zimbabwe	✓			
13	ICAEW	✓			
14	ICANZ	✓			
15	Institute of Cost & Management Accountants of Pakistan	✓			
16	Royal NIVRA	✓			
17	The Association of Chartered Certified Accountants	✓			
18	The Institute of Internal Auditors	✓			
19	JICPA	✓			
20	DTT		✓		

#	Respondents	IFAC Member Bodies	Firms	Regulators	Others
21	E&Y		✓		
22	Grant Thornton International		✓		
23	KPMG		✓		
24	PwC		✓		
25	RSM International		✓		
26	Auditor General New Zealand				✓
27	Australian Accounting Research Foundation				✓
28	Fédération des Experts Comptables Européens				✓
29	IFAC Ethics Committee				✓
30	IOSCO			✓	
31	INTOSAI				✓
32	Muddassar Mehmood, Pakistan				✓
33	Orenburg State University, Russia				✓
34	Richard Regal, USA				✓
35	IFAC Small and Medium Practices Task Force				✓
36	The Auditing Practices Board, UK				✓
37	The Auditors-General of the Commonwealth of Australia & the States of New South Wales, Victoria, Tasmania and Western Australia				✓
38	The Basel Committee on Banking Supervision			✓	
39	The Public Accountants' and Auditors' Board, South Africa				✓