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Agenda Item
5

Committee: IAASB

Meeting Location: Warsaw

Meeting Date: July 9–13, 2007

Quality Control

Objectives of Agenda Item

1. To approve as an exposure draft proposed ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements."

2. To approve as an exposure draft proposed ISA 220 (Redrafted), "Quality Control for Audit Engagements".

Task Force Members

3. The members of the Task Force are:

   Phil Cowperthwaite (Chair)
   Will Rainey
   David Swanney
   John Fogarty (as an advisor)

   Further assistance was provided to the Task Force by Jon Grant, IAASB Technical Advisor. The redrafting support was provided by Jacqui Bridel, a principal with the Canadian Institute of Chartered Accountants' Auditing and Assurance Standards Department.

Activities Since Last IAASB Discussions

4. The Task Force held two meetings to discuss the comments received from the IAASB at the April 2007 meeting on the first read of the proposed redrafted ISQC 1. A revised redrafted ISQC 1 was distributed to representatives of the Clarity Task Force, INTOSAI and the IFAC Small and Medium Practices Committee (SMPC) for their comment.

5. The SMPC commented that "sole practitioners and those with less than 4 partners will find some of the requirements very difficult to comply with." They further noted "the balance of requirements to application material in this redrafted standard (ISQC 1) is higher than most, if not all, of the redrafted ISAs. This begs us to question whether some requirements deserve demoting to application material." The Task Force notes that a total of 15 and 10 "grey text" paragraphs (or portions thereof) in extant ISQC 1 and ISA 220, respectively, have been elevated to requirements in proposed ISQC 1 (Redrafted) and proposed ISA 220 (Redrafted).

Matters for IAASB Consideration

6. The Task Force is presenting a revised draft of proposed ISQC 1 (Redrafted) for approval as an exposure draft. Specific issues for IAASB consideration are identified in the appendix to this paper.

7. The Task Force is also presenting a final draft of proposed ISA 220 (Redrafted) for approval as an exposure draft. Proposed ISA 220 (Redrafted) was discussed in detail at the IAASB's April 2007 meeting. At that time, the IAASB agreed that it would not approve the redrafted ISA 220 for exposure until July 2007.

Material Presented (Note: Agenda Items 5-A and 5-E will be used for the purpose of the discussion at the meeting.)

Agenda Item 5-A (Pages 1705-1734)	Proposed ISQC 1 (Redrafted) (Clean)
Agenda Item 5-B (Pages 1735-1786)	Proposed ISQC 1 (Redrafted) (Mark up from the Sydney IAASB meeting)
Agenda Item 5-C (Pages 1787-1804)	Disposition of Present Tense in Extant ISQC 1
Agenda Item 5-D (Pages 1805-1838)	ISQC 1 Mapping Document
Agenda Item 5-E (Pages 1839-1852)	Proposed ISA 220 (Redrafted) (Clean)
Agenda Item 5-F (Pages 1853-1866)	Proposed ISA 220 (Redrafted) (Mark up to reflect revisions made following the Sydney IAASB meeting)
Agenda Item 5-G (Pages 1867-1876)	Disposition of Present Tense in Extant ISA 220
Agenda Item 5-H (Pages 1877-1892)	ISA 220 Mapping Document

Action Requested

8. The IAASB is asked to consider the accompanying material and approve ISQC 1 (Redrafted) and ISA 220 (Redrafted) for issue as exposure drafts.

Appendix

Issues for the IAASB's Consideration

A. ENGAGEMENT QUALITY CONTROL REVIEW FOR ENGAGEMENTS OTHER THAN AUDITS OF LISTED ENTITIES

A1. Paragraph 65 of extant ISQC 1 includes a list of items that are considered when performing an engagement quality control review for audits of financial statements of listed entities. Following the list of considerations is a note that these items may be considered when performing an engagement quality control review for other engagements.

A2. Proposed ISQC 1 (Redrafted) splits the extant paragraph into two paragraphs. Paragraph 47 includes a requirement that certain items be considered in all engagement quality control reviews. Other considerations remain as application material in paragraph A38.

A3. The Task Force believes that some readers will perceive that the scope of an engagement quality control review of non-listed public entity has been expanded.

A4. The Task Force believes that, while the requirement is more stringent, in practice the items that are now included in the requirement are items that would be considered in all engagement quality control reviews and not just those for audits of listed public entities. This is especially true given that engagements are usually selected for engagement quality control review based on risk profile. The Task Force believes that there would be no cases when the items in paragraph 47 a-c would not be considered in an engagement quality control review.

A5. The Task Force believes that the change from extant ISQC 1 is appropriate, but believes that it would be useful to highlight this issue in the memorandum accompanying the exposure draft.

Matters for IAASB Consideration

Q1. Does the IAASB agree with this approach?

B. OBTAINING INFORMATION ON RELATED PARTIES WHEN ACCEPTING AN ENGAGEMENT

B1. Extant ISQC 1 paragraph 28 requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements. As part of this paragraph, the firm is required to consider the integrity of the client. Paragraph 29 of extant ISQC 1 provides a list of matters that the firm considers with regard to the integrity of a client. At its April 2007 meeting, the IAASB asked the Task Force to elevate the first bullet, which reads "the identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance."

B2. On reviewing the requirement in paragraph 32 of proposed ISQC 1 (Redrafted), the Task Force believes that the inclusion of related parties resulted in a requirement that was too

prescriptive as it would be very difficult, in practice, to consider the integrity of all related parties prior to the acceptance of an engagement.

B3. As a result, the Task Force recommends that related parties be removed from paragraph 32 and included as a bullet point in paragraph A14 as application material.

Matters for IAASB Consideration

Q3. Does the IAASB agree with the Task Force's recommendation?

C. INSPECTION CYCLE

C1. The first two sentences of extant ISQC 1 paragraph 78 have been elevated to a requirement in paragraph 59 of proposed ISQC 1 (Redrafted). The new requirement sets out the inspection of a selection of completed engagements on a cyclical basis such that there will be at least one engagement selected for each engagement partner over an inspection cycle spanning no more than three years.

C2. At its April 2007 meeting, the IAASB asked that these sentences be elevated to a requirement to prevent firms from selecting an unreasonably long inspection cycle (for example, a cycle of 10 years or longer).

C3. The Task Force is concerned that this new requirement may be perceived to be overly prescriptive, but believes that it should remain as a requirement. This issue should be highlighted in the memorandum accompanying the exposure draft.

Matters for IAASB Consideration

Q4. Does the IAASB agree with this approach?