

Quality Control Project—Initial Scoping

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IAASB Meeting

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Quality Control Working Group

- Karin French (Chair)
- Sue Almond
- Jennifer Burns
- Maria Manasses
- Stefan Schmidt (supported by Wolf Böhm)

Key Topics For Discussion

- Engagement Quality Control Reviews (EQCR)
- Quality Control (QC) Processes Addressing Remediation
- Outsourcing and Shared Service Centers
- Modernization of ISQC 1
- Proportionality and Application of ISQC 1 to Assurance Engagements

Objective

To discuss the initial scoping of the quality control project proposal

EQCR – Key Differences

- Comparison of ISQC 1 / ISA 220, the EU Regulation and AS 7 highlighted differences for audit engagements in the following areas
 - Scope
 - Objective
 - Independence requirements
 - Performance requirements
 - Specific areas of the engagement
 - Significant engagement deficiency
 - Concurring approval of issuance
 - Documentation requirements

EQCR – Other Challenges and Matters

- Issues with performance of EQCR identified in inspections
 - Insufficient time allocated to the engagement reviewer
 - Engagement reviewer becomes involved too late in the process
 - Insufficient depth of review procedures performed
 - Insufficient relevant experience of reviewer
- Other Issues
 - Clarification of guidance for engagement selection
 - Other types of reviews

QC Processes Addressing Remediation

- Initial findings of issues with the guidance in ISQC 1 include
 - ISQC 1 only considers remediation with respect to deficiencies from internal reviews
 - Lack of specificity resulting in inconsistencies in how firms address inspection findings
 - Insufficient emphasis to ensure appropriate evaluation and corrective action with identified deficiencies
- Consider incorporation of monitoring procedures over network firms
- Consider requirement to incorporate a root cause analysis in QC systems

Outsourcing and Shared Service Centers

- Defining Off-shoring / On-shoring and Centers of Excellence
- Increase in volume of outsourcing suggests need for guidance on QC procedures (up to 15% experienced)
- Varying methodologies and approaches adopted by firms
 - ISA 600 Staff Survey
- Establishing requirements for QC procedures in this area is the highest priority of some regulators

Modernization of ISQC 1

- Comparison of ISQC 1 and the Framework for Audit Quality
 - Areas compared were at the firm level as follows
 - Values, Ethics and Attitudes
 - Knowledge, Time and Experience
 - Audit Processes and Quality Control Procedures
 - Comparison identified a number of differences
- More extensive update of ISQC 1 needed to become a risk based standard

Proportionality and Application to Assurance Engagements

- Feedback from SMPC has not yet identified specific issues with the application of ISQC 1
- WG will continue to explore if specific areas of concern exist that can be addressed in this project
- Sufficient application guidance already written
 - SMPC
 - NSS

WG Recommendations for the Way Forward

- The WG proposes updates ISQC 1 / ISA 220 to provide further guidance in respect of
 - EQCRs
 - Remediation
 - Outsourcing and shared service centers
 - Improved alignment with the Framework for Audit Quality
- The WG proposes raising awareness of existing guidance developed on the proportionate application of ISQC 1
- The WG proposes a more extensive modernization of ISQC 1 as a longer term project



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