

## Enhancing Audit Quality

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Group

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Hong Kong, China  
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# Inputs to the Way Forward

- Invitation to Comment – 87 responses from broad range of stakeholders (including 4 from the Monitoring Group)
- Roundtables in Amsterdam, Paris and Kuala Lumpur
- Country visits (US, UK and other)
- Other outreach, including discussions with SMPC
- Many diverse views – across stakeholders and across stakeholder groups

# Public Interest Matters

- Investors—transparency, professional skepticism
- Regulators and audit oversight authorities—address emerging issues, timing of changes, focus on requirements for consistency in practice
- NSS—role of audit committees and regulators, management of certain pressures on auditors, IESBA coordination
- Accounting firms—standards “fit for purpose,” need for tailored approach to quality, ability to adapt ISAs in varying circumstances
- Member bodies—caution about overly complex standards, consider implementation guidance
- Academics—focus on professional skepticism
- Other—various comments

# Overarching Comments

- Standards need to be ‘fit-for-purpose’ – especially in evolving environment
- Maintaining ISAs so that they are adaptable in a wide range of circumstances – balancing needs of different stakeholders
- Supportive of further exploring what can be done re concept of professional skepticism
- Supportive of enhancing quality management at firm and engagement levels
- Need to get on with making changes as a matter of priority
- Continued coordination with IESBA

## Possible Way Forward – for Discussion

- Process – Enhancements Group views based on feedback from ITC, roundtables and outreach, individual working group meetings
- Discussed with CAG
- Possible way forward takes into account:
  - Scalability of standards for stakeholders with very different views
  - Crossover issues
  - Interactions between various projects
  - Finding a solution that is in the public interest while meeting the needs of the different stakeholders

## Possible Way Forward – Quality Control

- *Quality control at firm level* – develop three ISQC's to be applied based on the nature of engagements the firm undertakes—approach to quality control in each standard would be using a QMA, and changes will be made to address issues that have been raised in relation to ISQC 1

## Matters for Board Consideration

- Considering the diverse views and needs of the IAASB's stakeholders and in light of the expected benefits and possible drawbacks of the proposed three-standard approach, the IAASB is asked whether:
  - It agrees with the possible options to use the three-standard approach (i.e., develop ISQC 1, 2 and 3 to address quality control at the firm level)? If not, why not?
  - The proposed applicability of ISQC 1, 2 and 3 as set out in paragraph 67 above is appropriate? If not, why not?
  - There are any other benefits or possible drawbacks not considered by the Enhancements Group and how these could be taken into account?
- There any other matters that should be considered before the recommendation is included in the project proposal to understand standard-setting activities with respect to QC

## Possible Way Forward – Quality Control

- *Quality control at the engagement level* – Revise ISA 220 as appropriate, and develop a new standard – ISA 221 – to build on ISA 220 and address quality control when other auditors (not component auditors) are used



# Matters for Board Consideration

- The IAASB is asked whether:
  - (a) It agrees with the further consideration of the development of a new standard (i.e., ISA 221) to address situations where other auditors, that are not component auditors, are used on an audit.
  - (b) There any other matters that need to be considered before the development of this new standard is included in the project proposal on quality control.

## Possible Way forward – Group Audits

- Group Audits
  - Align requirements and guidance in ISA 600 with ISAs 220 / 221
  - Revise ISA 600 as appropriate to address group audits specific issues
  - Structure of ISA 600 – including consideration of a more ‘top-down’ approach to a group audit

## Matters for IAASB Consideration

- In addition to the possible options for new and revised standards relating to quality control at the firm and engagement levels, the IAASB is asked whether it agrees with the other proposed actions set out in paragraphs 105–107 above? If a specific action is not agreed with, why not?
- Are there any other actions that should be considered in moving forward in relation to professional skepticism, quality control and group audits?

# Timelines

- Project proposals for quality control and group audits – December 2016
- Quality control – ISQCs 1,2,3 – exposure draft in Sept 2017
- Quality control – ISAs 220 / 21 exposure drafts in Dec 2017
- ISA 315 (Revised) – exposure draft in March 2018
- ISA 600 – exposure draft in June 2018

## Matter for Board Consideration

- The IAASB is asked to for its views on the projected timelines, including the proposed timing for the issuance of the related exposure drafts.

IAASB

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