

Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards: Issues

Objectives of the Agenda Item:

The objectives of this Agenda Item are to:

- (a) Provide an overview of respondents' feedback on the Exposure Draft (ED), [*Conforming and Consequential Amendments to the IAASB's Other Standards¹ as a Result of the New and Revised Quality Management Standards²*](#);
- (b) Obtain the Board's views about how the significant issues and concerns raised by respondents have been addressed; and
- (c) Obtain the Board's approval of the final conforming and consequential Amendments to the IAASB's Other Standards as a result of the new and revised quality management standards (QM standards). See **Section I**, paragraph 7 for information about the approval process.

I. Introduction

1. This project was undertaken as the IAASB's Other Standards and the International Framework of Assurance Engagements (Framework) include references to the International Standard on Quality Control (ISQC 1)³ in various ways, such as simple references to the title of the standard, references to paragraphs within the standard, and to terminology drawn from ISQC 1. As a result of the approval of the QM standards, the IAASB issued an exposure draft covering the necessary conforming and consequential amendments to address inconsistencies between the IAASB's Other Standards and Framework with the QM standards.
2. The purpose of making these amendments is solely to avoid conflicts with the QM standards and to ensure that the IAASB's Other Standards and Framework can continue to be applied together with the QM standards and that it would be ineffective to wait until these standards are revised at some point in the future.
3. The comment period for the ED closed on May 24th, 2021. 20 comment letters were received from stakeholders (**see Appendix 1**) within the exposure period. IAASB Staff reflected on all comments received to the ED and a summary of responses is provided in Section II.
4. In general, respondents were supportive of the IAASB's project of updating the IAASB's Other Standards to address inconsistencies between these Standards and the QM standards and concurred it is in the public interest that these be able to operate in concert. Exceptions to this general

¹ The IAASB's Other Standards comprise the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs), and the International Standards on Related Services (ISRSs).

² International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*. Collectively referred to as the QM standards.

³ International Standard on Quality Control (ISQC) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

view are discussed in paragraph 10 below.

Section I-A Materials Presented—Appendices and Other Agenda Items Accompanying This Paper

5. This paper is organized as follows:
 - **Appendix 1** to this Agenda Item sets out a list of respondents to the ED.
 - **Appendix 2** to this Agenda Item provides the listing of Nvivo reports and Excel spreadsheets for each question in the ED.
6. Other papers provided comprise:
 - **Agenda Item 3-A** is the draft final conforming and consequential Amendments to the IAASB's Other Standards and Framework as a result of the QM Standards.
 - **Agenda Item 3-B.1 - 3-B.2** are the Nvivo reports that include comments from the respondents on the questions summarized in Section II.

Section I-B Approval Process

7. At the September 2021 IAASB meeting, the IAASB will be asked to provide comments on the changes to the conforming and consequential amendments arising from respondents' comments. The IAASB will be asked to consider the due process and formally approve the conforming and consequential amendments at its meeting in October 2021.

II. Summary of Responses

8. Many respondents responded to the two questions in the ED but did not provide detailed comments. A summary of how the detailed and overall comments were addressed is provided in this Section.

Section II-A Summary of Respondents' Comments on Question 1 in the ED (see Nvivo Report 3-B.1)

Exposure Draft Question 1: Do respondents believe the proposed conforming and consequential amendments are sufficient to resolve actual or perceived inconsistencies between the IAASB's Other Standards and Framework, and the changes made by the IAASB in developing and approving the new and revised QM standards?

9. In general, respondents agreed that the proposed limited amendments are sufficient to resolve actual or perceived inconsistencies between the IAASB's Other Standards and the QM standards. Respondents also variously highlighted the importance of aligning these standards with the QM standards on a timely basis and supported undertaking this in a single step, rather than on a piecemeal basis as each standard is revised.
10. Two respondents (two public sector organizations) did not agree with the proposed conforming and consequential amendments as they believed that the conforming and consequential amendments for the standards on review engagements, other assurance engagements and related services should achieve the same level of integration and robustness as per ISA 220 (Revised). In their view, failing to use consistent structure and wording implies a lower quality outcome as compared to the ISAs. They believed that the IAASB should use the conforming and consequential amendments as a vehicle to align the IAASB's engagement standards with respect to quality management.

Staff Responses

11. Staff notes the overall support for the approach taken and believes that no change to the approach is warranted.
12. In relation to the concerns about the differences between ISA 220 (Revised) and the standards on review engagements, other assurance engagements and related services, staff notes that the explanatory memorandum to the ED explained the project scope as follows:
 - “6. The ED includes those conforming and consequential amendments to the IAASB’s Other Standards and Framework that the IAASB has determined would be necessary to address inconsistencies with the new and revised QM standards.
 7. These conforming and consequential amendments have a narrow scope and do not involve reconsideration of the objectives, requirements, and application material of the IAASB’s Other Standards, in their own right. The conforming and consequential amendments are limited to, for example, updating titles of standards, updating references to the QM standards, and aligning terminology. The amendments also include limited changes to align concepts, specifically the conceptual changes in ISQM 1 to deal with resources more broadly. The conforming amendments do not address other potential amendments to the IAASB’s Other Standards that may have been considered in a project to improve those standards.”⁴
13. The project proposal⁵ also noted the limited nature of the project and in much the same words as the explanatory memorandum. The project proposal also noted that the project was primarily focused on removing conflicts or inconsistencies with the QM standards. It also highlighted that “When necessary and appropriate (e.g., when wording was previously aligned with ISA 220), analogous wording in ISA 220 (Revised) is taken into consideration” but did not suggest any further attempt be made to align the standards on review engagements, other assurance engagements and related services with the ISAs.
14. Staff also notes that, in the development of the standards on review engagements, other assurance engagements and related services, the IAASB was well aware of the ISAs and consciously chose to have differing requirements from the ISAs with respect to many matters, including quality control. This is because the market for these engagements is often fundamentally different from the market for financial statement audits. A possible project to make these types of changes would need to go through the IAASB’s [Framework for Activities](#) (and following applicable due process for the Work Plan) and is not within the scope of the current project.

Section II-B Detailed Comments on the Conforming and Consequential Amendments

15. To assist the IAASB in reviewing the changes proposed by staff, respondents’ comments giving rise to changes to the proposed limited conforming and consequential amendments due to the QM standards were grouped into the following broad categories:
 - (a) Category A: Editorial comments;

⁴ ED, paragraphs 6–7

⁵ https://www.ifac.org/system/files/meetings/files/20201111-IAASB-Agenda-Item-2-A-Project_Proposal-FINAL.pdf

- (b) Category B: Improvements to the alignment with the terminology and references used by the QM standards;
 - (c) Category C: Improving consistency throughout the proposed amendments;
 - (d) Category D: Comments where the changes proposed are not necessary and/or where the change was inconsistent with the limited nature of the project; and
 - (e) N/A: Indicates that no comments were received on the proposed conforming and consequential amendments
16. The changes to the ED as result of respondents' comments are shown in **Agenda Item 3-A**. In **Agenda Item 3-A**, changes since the ED have been marked and are highlighted in green for easier identification. It is noted that where no comments were received (N/A) on the proposed conforming and consequential amendments and changes are highlighted, that these are further proposed changes by staff and the proposed changes have also benefited from the input of staff of certain national standard setters. IAASB staff wishes to thank those individuals for their contributions.

ISRE 2410⁶

17. Among other comments received, a respondent (Accounting firm) noted that ISRE 2410 continues to be excluded from the scope of conforming and consequential amendments. They agreed that it would not be appropriate to make conforming and consequential amendments for the QM standards in isolation and, instead recommended that the IAASB consider ISRE 2410 in its forward strategy and work plan.

Staff responses

18. As noted in the minutes of the November 2020 IAASB meeting, the IAASB is aware of ISRE 2410's status. At the time, the IAASB noted that there is a need to update the standard but that capacity to do so would likely not be available in the next few years. As such, staff recommends that the revision of ISRE 2410 be considered in light of comments on the strategy and workplan.⁷

The Definitions of "Engagement Team"

19. The ED had common definitions of "engagement team" such as this one proposed for ISAE 3000 (Revised):⁸

Engagement team—All partners and staff performing the engagement, and any other individuals engaged by the firm or a network firm who perform procedures on the engagement. ~~This excludes~~ excluding a practitioner's external expert engaged by the firm or a network firm.

20. Two respondents (National Standard Setters) noted that the changes to the definition of the engagement team in ISQM 1 may have an unintended consequence if the assurance engagement involves certain types of sustainability information that requires information from upstream or

⁶ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

⁷ Refer to [Agenda Item 4](#) of the September 2021 IAASB meeting for feedback on the public consultation on the IAASB Work Plan 2022–2023.

⁸ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

downstream supply chains. In these circumstances, these respondents are of the view that the inclusion of “any other individuals who perform procedures on the engagement” may result in an inability to comply with the ISAEs because the assurance practitioner may not be able to direct, supervise and review the work of the assurance practitioners of the other parties in the supply chain. These respondents noted that changing law or regulation, such as laws that impose obligations on an entity related to its supply chain, may make such circumstances more likely in the future.

21. One respondent suggested that the changes to the definition of an “engagement team” in ISAE 3000 (Revised), ISRS 4400 (Revised)⁹ and ISRS 4410 (Revised)¹⁰ could be better aligned with that used in ISQM 1. In particular, this respondent believes that the following amendment should be made to the phrase “excluding a practitioners’ expert ~~engaged by a firm or network firm~~” as these words are not present in ISQM 1 and should therefore not be used in these standards either.

Staff responses

22. Staff agrees that an assurance engagement covering upstream and downstream supply chain activities will present challenges to assurance practitioners if the engagement is scoped to include such activities. Staff recommends that the issue be explored further to determine (a) how such engagements are scoped in different jurisdictions and how practitioners are currently dealing with these engagements and (b) how any identified issues can be appropriately addressed.
23. In relation to the words “engaged by a firm or network firm,” staff notes that, instead of the words proposed for deletion by the respondent, the definition in ISQM 1 has a cross reference to ISA 620,¹¹ which contains a definition of an external expert in the context of an audit of financial statements and implicitly contains the same additional information about the “firm or network firm”. Following the same logic, ISAE 3000 (Revised) and ISRS 4400 (Revised) both have definitions for “practitioner’s expert” and so the reference to “engaged by the firm or network firm,” while helpful, is strictly not necessary and can be deleted to align better with ISQM 1. ISRS 4410 (Revised), by contrast, does not have a definition of a practitioner’s expert and so the additional words are necessary to explain what is meant by a “practitioner’s external expert.”

Engagement Quality Reviews

24. While most respondents did not comment on the addition of requirements or application material (as appropriate) to the Other Standards addressing the requirements for dating the engagement report when an engagement quality review is performed, various comments stated that
- ISRS 4400 (Revised) alone did not include a requirement to not date the engagement report until the engagement quality review is complete (if one is required). This respondent noted that the application material proposed for A58A (which was intended to achieve the same effect) should be made consistent with other similar amendments.
 - As engagement quality reviews are expected to be rare for these engagements, the added requirements and application material referring to the dating of the engagement reports when an engagement quality review is performed is unnecessary.

⁹ ISRS 4400, *Agreed-Upon Procedures Engagements*

¹⁰ ISRS 4410 (Revised), *Compilation Engagements*

¹¹ ISA 620, *Using the Work of an Auditor’s Expert*

Staff response

25. On balance staff believe that the additional material in the requirements referring to the dating of the engagement report when an engagement quality review is performed may assist in application of the standards. This is because, while ISQM 2 contains a similar requirement, a casual reader may not immediately recognize the implications for the engagement report. Accordingly, staff agreed with the respondent who suggested aligning ISRS 4400 (Revised) with the other standards, even if engagement quality reviews may be a rare occurrence in for these engagements. Staff has proposed elevating paragraph A58A of ISRS 4400 (Revised) to become an additional consideration at the end of paragraph 30(q).

Other Comments

26. In addition to the matters summarized above, respondents also provided other comments that were generally in the nature of suggestions for alternative wording and commentary on pre-existing intentional differences between the IAASB's International Standards on Auditing and the IAASB's Other Standards. Staff do not believe the changes proposed are necessary and/or where the change was inconsistent with the limited nature of the project. The paragraphs concerned are shown as category D in the Agenda Item 3-A. Some of these are related to the matters above and a brief summary of other selected comments is below:

- **Requests for further wording alignments between the Other standards, the QM standards or with ISA 220 (Revised)** - While some of these were accepted and categorized accordingly, other comments were not necessary to remove inconsistencies with the QM standards and, accordingly were not accepted. It is noted that extant Other standards, in places, differ in how they describe or address matters related to the QM standards and congruency in these matters was not the aim of the project.
- **Comments about the level of detail being added to specific requirements** – For example, a respondent (Member Body and Other Professional Organization) commented that the additional detail added to paragraph 19 of ISRS 4400 (Revised) are more granular than extant and would accordingly add costs that may be disproportionate on small engagement teams. Staff reviewed the material and noted that the main additional material added to this paragraph concerned the sufficiency and appropriateness of resources to perform the engagement. On balance, staff believe that this requirement is consistent with the IAASB's intent in revising the quality management standards and should be maintained.

Matters for IAASB Consideration

1. Do members support the proposed changes to the conforming and consequential amendments shown in **Agenda Item 3-A**?
2. Are other changes warranted to address respondents' comments on the ED?

Section II-C Summary of Respondents' Comments Relating to Question 2 in the ED (see Nvivo Report 3-B.2)

Question 2: Do respondents support the proposed effective date?

27. Overall, respondents agreed with the proposed effective date of application for reviews of financial statements for periods beginning on or after December 15, 2022, and for other assurance and related services engagements beginning on or after December 15, 2022.
28. Respondents who disagreed included:
- a) A respondent (Member Body and Other Professional Organization) who was concerned about the burden caused by the volume of changes arising from the IAASB's recent approved standards;
 - b) A respondent (Regulator and Audit Oversight Bodies) noted that, in their view, aspects of the proposed changes relate to designing, implementing and operating a system of quality management and those aspects should be aligned to ISQM 1's effective date.¹²

Staff Responses

29. Staff recommends that the IAASB continue with the effective date proposed in the ED, which was:
- a) Reviews of financial statements for periods beginning on or after December 15, 2022; and
 - b) Other assurance and related services engagements beginning on or after December 15, 2022.
30. This effective date continues to be preferred because:
- a) This timeline is in line with the effective date of the QM Standards. As all the standards being amended are engagement standards, nothing in them changes the firm's responsibilities as set in ISQM 1. Accordingly, the effective date paragraph needs to be drafted in terms of engagements rather than in terms of the firm's system of quality management. In this way, the close alignment between the effective dates of the QM standards continues to be maintained through these conforming and consequential amendments.
 - b) Delaying these amendments would not reduce any perceived burden from the QM standards. Instead, it would make the QM standards harder to apply and risk misapplication due to inconsistencies.
31. Staff believe that the Basis for Conclusions that accompanies the approved conforming and consequential amendments should draw attention to the effective date of ISQM 1 so that readers of the amendments are alerted to the firm's obligations relating to the system of quality management. Staff also note that implementation support material is planned to address circumstances when an engagement begins before the implementation of the system of quality management but ends after it is implemented.

Matter for IAASB Consideration

3. Does the IAASB support the effective date as recommended in paragraph 29?

¹² ISQM 1's effective date is "Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this ISQM is required to be performed within one year following December 15, 2022" (paragraph 13)

Appendix 1

List of Respondents

No.	Written Respondents	Region
Regulators and Audit Oversight Authorities		Total: 2
1.	Canadian Public Accountability Board (CPAB)	North America
2.	Independent Regulatory Board for Auditors (IRBA)	Middle East and Africa
National Auditing Standard Setters		Total: 6
3.	Australian Auditing and Assurance Standards Board (AUASB)	Asia Pacific
4.	Canadian Auditing and Assurance Standards Board (CAASB)	North America
5.	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables (CNCC-CSOEC)	Europe
6.	Institut der Wirtschaftsprüfer (IDW)	Europe
7.	Korean Institute of Certified Public Accountants (KICPA)	Asia Pacific
8.	New Zealand Auditing and Assurance Standards Board (NZAuASB)	Asia Pacific
Accounting and Assurance Firms¹³		Total: 6
9.	Deloitte Touché Tohmatsu (DTT)	Global
10.	Ernst & Young Global Limited* (EYI)	Global
11.	Grant Thornton International	Global
12.	KPMG*	Global
13.	PwC*	Global
14.	RSM International Limited* (RSM)	Global
Member Bodies and Other Professional Organizations		Total: 4
15.	Botswana Institute of Chartered Accountants (BICA)	Middle East and Africa
16.	Federation of Accounting Professions of Thailand (TFAC)	Asia Pacific
17.	International Federation of Accountants' Small and Medium Practices Advisory Group (SMPAG)	Global
18.	Malaysian Institute of Certified Public Accountants (MICPA)	Asia Pacific
Public Sector Organizations		Total: 2
19.	Office of the Auditor General of Canada (AGC)	North America
20.	Office of the Auditor General of Alberta (AGA)	North America

¹³ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#).

Appendix 2

Listing of Nvivo Reports

Description:	Question # in Explanatory Memorandum	Nvivo Word Report Reference:
Proposed Conforming Amendments	1	1-B.1
Effective Date of Application	2	1-B.2