

Enhancing Audit Quality

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CAG Meeting – Breakout Sessions Feedback

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Suggestions to Improve the Readability of the Forepart and Usability of the ITC Overall

- Primary means to solicit feedback from certain stakeholders on most significant public interest issues
 - Focus on better describing the crossover/common issues and the implications in the context of the individual projects
 - More open-ended questions to solicit potential responses on what actions may be most appropriate by the IAASB and others
 - Look to be more strategic, don't constrain options to ISAs alone
 - Flag questions up front to facilitate respondents' consideration
 - Table of Contents for both documents to aid navigation overall and help those who wish to do a deeper dive on one or more issues

Suggestions to Improve the Readability of the Forepart and Usability of the ITC Overall (Cont.)

- Streamline wording wherever possible, but not at the expense of obscuring the descriptions of the issues
- Guides for Different Categories of Respondents to facilitate outreach and responses
 - Breadth and depth of outreach will be important
 - Look for opportunities for IAASB representation at CAG Member Organizations' events
- Part II strikes right balance of issues and possible actions for purpose of gathering information to scope projects

Suggestions to Improve the Readability of the Forepart and Usability of the ITC Overall (Cont.)

- Explore use of technology and other format improvements
 - Highlight key terms
 - Enable reference to ISAs where needed
 - Supplemental list of acronyms available on website
 - Design elements (color, columns, etc.)

Quality Control

- Monitoring and remediation
 - Consideration of implications / communications of findings at individual engagement level
- Engagement acceptance
 - Consider skills / competence & capabilities / ability to comply with all necessary requirements
- Engagement partner performance and rewards system
 - Need to understand and set forth what a quality audit is to effectively link reward

Quality Control

- Engagement partner roles and responsibilities
 - Need to continue focusing on importance of the role of engagement partner; foundational to performance of quality audit
- Consideration of cultural matters
 - Filter of culture affects implementation

Quality Control – Network Firms

- Interrelationship between firms and network firms
 - Support for ability of engagement partner to be able to consider firm and network firms system of quality control
 - But subject to effectiveness and sufficient work at engagement team level
 - Also applicable to group audit situations

Quality Control – Engagement Quality Control Review

- Recognize importance of role
- Potential areas to explore:
 - Transparency in audit report whether engagement was subject to EQCR
 - Communicating with audit committee
 - Assignment of EQC reviewer by appropriate person at firm + rationale for why assigned
 - Considerations to include not assigning someone who was most recently the engagement partner
- Support for posing question in ITC about whether EQC reviews should be required beyond listed entities (set out advantages and disadvantages)

Quality Control – Explicit Reference to the Public Interest

- Important to highlight the premise an audit in accordance with ISAs is designed to serve the public interest, and this is at the forefront of the auditor's responsibilities
 - Linkage to relevant material in the IESBA Code of Ethics
- However, including a requirement to act in the public interest may go too far
 - Suggests there is a universal, measurable definition
 - May have unintended consequences from a legal perspective

Quality Control – Audit Delivery Models (ADM)

- Key issue not currently addressed in the ISAs
 - Regulators' concerns relate to access to workpapers, but positive developments by Basel Committee and others about cross-border interaction
 - Need to explore the different legal structures that might exist at the firm level
 - Explore the fundamental principles when used
 - Standard should be neutral (i.e., not promoting or discouraging the use of ADMs) and allow for future developments

Quality Control – ADMs (Cont.)

- Emphasis of engagement partner responsibilities
- Development of staff - challenges

Quality Control – Quality Management Approach to ISQC 1 and ISA 220

- Support for a holistic approach to quality, incorporating risk management, preventive controls, continual improvement, remedial actions
- May have benefits to SMPs to address the issue of scalability
- However, take care not to weaken the QC requirements as they exist today in providing flexibility in the design of the system of QC

Quality Control – Other Matters

- Documentation of system of quality control
- Increased transparency into effectiveness of firms system of quality control
 - External reporting
 - Implications for network firms, especially where levels of quality are not seen as consistent across a network

Group Audits – Audits of Complex Structures

- Recognition of increasing complexity of group structures
 - Situations where audit partner is not located where the work was performed
 - Shared service centers

Group Audits – Component Auditors

- Supportive of asking question for more requirements and guidance for component auditors
- Agree procedures for component auditors needs clarification depending on circumstances

Group Audits - Acceptance

- Need to be careful about granularity of new requirements as ability to address them if not yet appointed may be problematic
- Need to consider laws and regulations impacting information needed for acceptance

Group Audits – Other Matters

- Agree that should ask question about ability to use the report of another auditor

ISA 540 / Financial Institutions

- Clarity needed on reliance on both auditor's and management's experts
- Implications of third-party pricing sources
 - Use of proprietary models pose threats to audit quality if auditor is not able to understand the models
 - Transparency in auditor's report?
- Importance of dialogue between auditors and regulators
- May be useful to explore changes to language to further emphasize a challenging mentality



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