

### ISQM 1: Nvivo Report – Question 1 and Related Subquestions

#### Nodes\\ED-ISQM 1\_Firm Level\01(a) New quality mgt approach\2. Q1(a) - Agree

##### Files\\2. Regulators and Audit Oversight Authorities

###### Financial Reporting Council United Kingdom

Consistent with our response to the ITC, we strongly support the introduction of the quality management approach (QMA). We continue to observe tremendous change in the economic, technological, social and regulatory aspects of the markets in which firms operate. The audit profession plays an essential role in the functioning of the global capital markets by building public trust and confidence in the financial reporting process and stakeholders expect the audit profession to adapt and overcome these multiple and complex challenges, whilst remaining committed to delivering consistently high quality audits and assurance engagements. A key foundation for consistently delivering high quality engagements rests in the firm's system of quality control. Combined with the enhanced requirements in 'Governance and Leadership' that embed the oversight, control and discipline needed to embed a culture of quality, if implemented well, the QMA will help firms meet these challenges.

###### Independent Regulatory Board for Auditors (South Africa)

The risk assessment approach is supported. We are confident that the new approach will improve quality, if implemented as required. The extant standard, ISQC 1, is focused on compliance, while this new approach of being responsive to quality risks encourages integrated and systems thinking. Where firms have already implemented aspects of quality management, we believe that the risk assessment approach will be a helpful step to formalising, widening and embedding such practice.

We support the new quality management approach. However, its success will depend on the resolution of feedback received during this exposure period, and in the successful implementation by firms.

##### Files\\3. National Auditing Standard Setters

###### AICPA

We support the change from quality control to quality management, as it emphasizes the need to manage quality rather than to control quality. We believe the proposed standards provide an opportunity for firms to evaluate their existing quality control systems in the context of the risk assessment approach. This will allow firms to identify those areas already operating effectively and those areas where enhancements to controls and documentation are needed. We believe this will improve quality.

However, we cannot overemphasize the need for a long enough implementation period and development of implementation support materials in order to achieve the potential of ED-ISQM 1.

###### Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: We support the new quality management approach. It seeks the application of firms' efforts to the important points of quality control based on the nature and circumstances of the firm and the engagements it performs.

###### Hong Kong Institute of Certified Public Accountants

We support the proposed quality management approach focusing on proactively identifying and responding to risks to quality.

## Japanese Institute of CPAs

We support the new quality management approach. With regard to our view on the difficulty of understanding the overview of the standard, and the order of the eight components, see our comments on questions 2, 4, and 6.

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## Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:  
Yes, MIA supports the quality management approach adopted in the exposure draft.

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## Files\\4. Accounting Firms

### Baker Tilly International

Response: We support the move to a more proactive quality management approach in replacing the existing emphasis on quality control. Whilst supportive of the general direction, and the importance of the risk assessment process in driving the quality management approach, we identify below our concerns regarding the ability of many firms to effectively implement the risk assessment requirements.

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We fully support the move from a reactive standard on quality control to the more proactive approach to quality management, and overall the standard is moving in the right direction in that regard.

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### CAS International

Response:  
Yes, we support the new quality management approach recommended

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### Crowe Global

Response: We support the new quality management approach. The approach is a much-needed development representing how attitudes to quality control have changed since the issue of extant ISQC 1.

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### Deloitte Touche Tohmatsu Limited

Response: DTTL is broadly supportive of the new quality management approach and believes that its risk-based nature, if implemented as intended by the Board (see response to Question 1(b)), will improve the robustness and effectiveness of activities undertaken by the firm to address engagement quality. We also believe the approach will facilitate a more proactive response by the firm to changing circumstances, thereby promoting continual improvement and responsiveness for firms' systems of quality management. Responses to the further questions below provide specific considerations for the Board's deliberations with respect to specific attributes of the new quality management approach.

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### Duncan and Topliss

(a) Yes. A proactive approach to quality is essential and follows a trend across many areas of the audit industry to move to a proactive understanding and assessment of risk, from the existing reactive approach.

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### EY Global Limited

We support the new approach in ED-ISQM 1 for a firm to develop a system of quality management, which is focused on the achievement of the required quality objectives included in the standard by designing and implementing responses based on the identified and assessed quality risks of the firm. We believe the proposals will generate benefits for engagement quality as intended because ED-ISQM 1 requires a firm to develop a system of quality management that is tailored to the nature and circumstances of the firm and the engagements it performs. We also support the requirement to monitor all aspects of the system of quality management, compared to the requirement to monitor completed engagements under extant ISQC 1.

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We support the quality management approach overall and agree that ED-ISQM 1 should enhance a firm's management of engagement quality by incorporating the identification and assessment of quality risks, which we believe will improve the design of responses to address those identified quality risks. Better tailored responses together with tailored monitoring activities over the responses should set the right foundation for enhancing engagement quality.

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### **Grant Thornton International Limited**

We are supportive of the new quality management approach. See our responses to the specific questions below in respect of areas where we have specific concerns.

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### **Haysmacintyre LLP**

Yes, the adoption of a risk-based and more forward-looking quality management approach is a positive step.

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### **KPMG IFRG Limited**

We are supportive of the ED and in particular we support the intention to move towards an approach to drive identification and proactive management of risks, with an emphasis on addressing the more significant risks, with more targeted and relevant responses. We believe a risk-based approach provides an appropriate framework that, if well executed, should result in a more relevant and comprehensive SoQM. We have set out throughout this response specific considerations for the Board to clarify a number of requirements.

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We believe that the proposals represent considerable enhancements to the extant standard, as it provides a robust risk-based approach to establishing and evaluating the SoQM that forms the foundation for consistent engagement quality. We are generally supportive of the changes proposed in the ED, however, we set out below areas of concern regarding certain amendments as well as suggestions for further consideration and clarification to drive consistency in the interpretation and implementation.

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### **Kreston International**

Response: The new quality management approach is supported as it brings clarity to the expectations of the firm, firm management and the engagement partner.

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### **Mazars USA LLP**

Response: Overall, we support the quality management approach. Throughout our responses we have identified some specific modifications to ED-ISQM 1 to be considered before it is finalized. We indicated in certain circumstances additional guidance/examples are needed to support implementation and the intended quality improvements at the firm (and engagement) level.

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### **MGI Worldwide**

We support the new quality management approach as conceived, as it is more scalable and less prescriptive, allowing each firm to consider where their areas of risk exist and to design appropriate responses to those risks, in addition to the required response.

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### **MNP LLP**

Yes, we support the new quality approach as employing a risk-based approach to quality management will assist firms in articulating their objectives with respect to quality as well as what the specific risks are that require mitigation.

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## Nexia Smith & Williamson

Yes, we support the overall approach of identifying risks and designing responses. It fits with existing practice and makes conceptual sense.

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## PKF International Limited

In general, we support the new quality management approach.

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## PKF South Africa

In general, we support the new quality management approach.

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## PriceWaterhouseCoopers

We support the principle of a quality management approach. Refocusing the quality control standard to be based on an objective-driven and risk-based approach will encourage a more proactive focus on quality management. As a network, we are in the process of implementing such an approach and the experience and lessons we have learned to date have informed our recommendations in this response.

We believe the exposure draft presents a useful framework for implementing such an approach and we support many aspects of the proposals. Flexibility in the design of the system of quality management (SoQM) is important and critical to the success of the standard. The structure of a firm's system will need to be designed to enable the firm to effectively manage and support quality based on its nature and circumstances. National standard setters that base their local standards on the International standards, or law or regulation, may also set out a different, or more prescriptive, approach that firms may also need to comply with. Therefore, we support the guidance in paragraph A5 of the standard that a firm may use different terminology or frameworks to describe its SoQM, which allows firms to design their SoQM in the way they believe will be the most effective. We would have significant concerns if this flexibility were to be removed.

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We support the principle of a quality management approach. Refocusing the quality control standard to be based on an objective-driven and risk-based approach, will encourage a more proactive focus on quality management. In our view, this model is more reflective of how firms should be managing quality, and more aligned to risk management frameworks used by other organisations.

The exposure draft presents a useful framework for establishing this approach and we support many aspects of the proposals. We describe in our cover letter the specific areas where clarifications and refinements are, in our view, necessary to fully achieve the intended goals.

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## RSM International Limited

Response: We support the new quality management approach and believe it will facilitate a step change in quality improvement. We particularly like the change in focus from quality control to quality management as a more pro-active way of viewing this topic. See also our response to (b) below.

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## Files\\5. Public Sector Organizations

### Auditor General South Africa

Yes, we support the new quality management approach. The new approach will prompt firms to identify risks that impact the firm's own strategy and management of quality control objectives based on a respective firms unique operating environment and client portfolios and risks identified therein. This approach is therefore anticipated to be more effective in achieving the overall objectives set by the standard.

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### Australasian Council of Auditors General

Yes, ACAG supports the new quality management approach, which ACAG considers will enhance the management of engagement quality in combination with proposed ED-ISQM 2 and ED- 220.

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## International Organization of Supreme Audit Institutions

We do support the fact of building the new quality management approach on similar principles to COSO 2013. This should allow the organisations to apply a coherent approach to the audit process with that of the internal control system in general. In principle, the new quality management approach will allow organisations to tailor their quality management framework to the needs and organisational governance along the lines of the basic components.

This updated approach is comprehensive and may result in significant implementation activities for firms/SAs depending on the extent of current business processes, controls and documentation in place.

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## National Audit Office of Malta

Yes.

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## Office of the Auditor General New Zealand

We support the new quality management approach which allows a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and engagements it performs.

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## Office of the Auditor General of Canada

Yes, we support the new quality management approach.

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## Provincial Auditor Saskatchewan (1)

While we support the new quality management approach, we do not feel that it will result in a significant change in practice within our firm.

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## US Government Accountability Office

We support the new quality management approach. A risk-based approach to quality management should permit firms and government audit organizations to focus on engagement risk areas that may be unique to the environments in which they conduct engagements. The new approach should permit firm management to allocate more time to areas with higher risks to engagements.

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## Files\\6. Member Bodies and Other Professional Organizations

### Belgian Institute of Registered Auditors IBR-IRE

Yes.

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### CA Ireland

Yes, we support the new quality management approach

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### Center for Audit Quality

We support the principle of a quality management approach. While we generally support ED-ISQM 1 and the overall approach to quality management, we offer in this letter specific recommendations for the Board's consideration to clarify the Board's intent related to certain requirements. Our comments are also provided to assist the Board in finalizing a standard that can be implemented in a risk-based manner by firms of all sizes.

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## Chartered Accountants Australian and New Zealand and ACCA

ACCA and CA ANZ support the quality management approach which can be described as a more “thinking” approach in comparison to ISQC1. We are also supportive of a risk assessment based approach, subject to specific concerns on aspects of the proposals. We also believe that separating ISQC 1 into two standards is sensible. Our detailed comments on ED-ISQM2 are available in our separate submission letter on that ED.

We note that in our discussions with stakeholders there was general concern that the proposed application date would not provide sufficient time for firms to make the necessary changes and encourage the board to provide a longer period before the standard becomes applicable.

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## Comision Interamericana de Control de Calidad de la AIC

Response: Yes, we support the new approach

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## Comite Control de Calidad del ICPARD

Response: Yes, we do.

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## Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

CNDCEC believes that the proposed approach, though more structured compared to the current one, enhances efficiency in the management of engagement quality since it introduces significant aspects of self-evaluation by the auditor, with the purpose of focusing attention on the areas the auditors deems at risk, as it happens when planning and carrying out audit engagements.

The method based on the preliminary evaluation of risk has by now become of common use in auditing and has proved to have undeniable pros. The application of such method to quality management will surely be beneficial in relation to a quality system designed and maintained in response to the identified and assessed risks, rather than a system requiring the adoption of policies and procedures that disregard the actual characteristics relating to the organization and size of the auditor and to the type of engagement performed.

In ED-ISQM 1 the exercise of auditor’s professional judgement in defining the size of his/her own quality management system is, therefore, significantly enhanced. As a result, there are evident benefits in terms of adaptability of the system to the nature and the circumstances in which auditors operate as well as to the characteristics of the engagements they perform.

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## CPA Australia

Response: We support the new quality management approach, as the design of the system is in response to identified risks and requires the nature and circumstances of the firm and the type of engagements it performs to be taken into account. This should make the system better suited to the firm and so more effective in managing quality.

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## European Federation of Accountants and Auditors for SMEs

We generally support the new quality management approach using a risk management approach.

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We strongly support the IAASB’s efforts in relation to quality management including the infusion of a risk assessment approach. SMPs have struggled to apply ISQC 1 arguing that it is mainly written with larger practices rendering audit in mind. ISQC 1 is also rather compliance driven. The focus on quality management is welcome since this promises to help practices continually improve the quality and relevance of their services to clients. In this sense it is more a practice development tool.

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## FAR (Institute for Accounting Profession in Sweden)

Overall, FAR supports the proposal of the new risk-based approach in ED-ISQM 1 and believes that the new standard will contribute to higher quality engagements.

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## Illinois CPA Society

Response: We do support the new risk-based quality management approach. As stated in paragraph 18 of ED-ISQM 1, “The objective of the firm is to design, implement and operate a system of quality management for audits and reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:  
The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and  
Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.”

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## Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)

Response: Yes, in general.

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## Institute of Chartered Accountants of Scotland (ICAS)

We support the IAASB’s new quality management approach, in particular, the transfer of the Engagement Quality Review elements to a separate standard, ED-ISQM 2, to reflect that this is not relevant to all firms.

The introduction of a new risk-based approach which can be tailored to an individual firm’s circumstances and nature of engagements is also a positive step as this may encourage better documentation of the quality management process by the firm. We also welcome the increased emphasis on the need for the firm to regularly review and update its risk assessment process.

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## Institute of CPAs of Uganda

ICPAU believes that ED- ISQM 1 substantively enhances the firm’s management of engagement quality. This is because the ED is introducing quality management, a more proactive approach to the identification and response to risks to quality. This approach is more advantageous than the extant quality control approach because it requires a firm to customize the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs. ICPAU supports this because firms will be in position to develop quality management systems that are relevant to the quality risks relevant to the circumstances of their firms.

ICPAU supports the new quality management approach because the approach requires a new mindset in which quality is an embedded and active aspect of a firm’s culture. With this approach, quality will permeate the entire firms’ norms and ethics, formal systems such as client acceptance and continuance systems, training programs, performance management systems as well as decision making processes and resource allocation.

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## Institute of Independent Auditors of Brazil (IBRACON)

We support the new quality management approach, as we acknowledge that the risk analysis would be beneficial for the firms in focusing their attention to what can affect engagement quality, driving consistency in processes for firms performing audits or reviews of financial statements, or other assurance or related services engagements.

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## Instituto Mexicano de Contadores Públicos

Yes, however, once it is published we suggest to broaden the explanatory material for an appropriate implementation.

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## National Association of State Boards of Accountancy

NASBA supports IAASB’s initiatives to improve audit quality and we are supportive of the new quality management approach.

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## Royal Institute of Chartered Surveyors

We believe the public interest will be served by the new quality management approach.

In addition, the new ED-ISQM 1 requires each firm to apply a risk-based approach in the design, implementation and operation of the system of quality management based on the nature of the firm as well as engagements performed by the firm. We believe a bespoke system of quality management will result in improved utilization of firm resources.

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## Self-Regulatory Organization of Auditors Association

Yes

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## South African Institute of Chartered Accountants

SAICA is fully supportive of the new quality management approach. We have not identified any significant concerns with the principles relating to the quality management approach during our outreach activities.

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## The Finnish Association of Authorised Public Accountants

We support the new quality management approach and the risk approach.

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## Files\\9. Individuals and Others

### Vera Massarygina

Yes

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## Nodes\\ED-ISQM 1\_Firm Level\01(a) New quality mgt approach\3. Q1(a) - Agree but with further comments

## Files\\1. Monitoring Group

### Basel Committee on Banking Supervision

The Committee supports a principles - and risk - based approach to quality management. Nevertheless, we encourage the IAASB to ensure that such an approach can be subject to effective oversight by audit regulators and that enforcement action can be taken if appropriate. For example, the level of assurance for the quality management system appears to be left to the professional judgements of the audit firm (see ED-ISQM1: The firm's system of quality management and acceptable level of risk below). This heightens the risk that the level of assurance provided is designed to a different risk tolerance than that of the audit firm's stakeholders, and it is unclear whether audit regulators would be able to require change in those circumstances. Additional guidance on the application of the audit firms' judgement would therefore be helpful in this regard.

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### International Forum of Independent Audit Regulators

One of the key public interest issues raised by the IAASB at the onset of this project was the desire for more proactive firm leadership and management of quality. The exposure draft puts more emphasis on leadership and governance and introduces a new riskbased approach for managing quality; however, the exposure draft should go further in requiring firms to be proactive. We recommend greater emphasis on preventative required responses that enable the firm to identify and resolve audit quality issues in a timely manner through early identification, escalation and intervention, i.e., before risks materialize. For example, the requirements for the Monitoring and Remediation process stress the need for engagement inspections, but place less emphasis on other actions that can be taken to proactively address risks to audit quality. Further, firms should be explicitly required to demonstrate that their responses, whether preventative or detective in nature, are present and functioning.

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IFIAR supports the IAASB's efforts to renew and strengthen the requirements regarding quality management at the audit firm level and the related name change to International Standards on Quality Management. This reflects the evolving environment in which firms operate, the intensifying focus on quality and the increasing expectations of firms' stakeholders that a quality standard that is based on fairly high level procedures is not fit for today's environment and a more proactive approach to managing quality at both the firm and the engagement level is required.

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## Files\2. Regulators and Audit Oversight Authorities

### Canadian Public Accountability Board

#### Overall Comments

CPAB oversees all firms that audit reporting issuers; we have experience in overseeing firms that vary in size and nature. We have found that the most relevant factor to consider in assessing the need for a quality management system is the nature of the engagements that a firm performs, and not the firm's size, nature or circumstances. The exposure draft provides significant latitude to firms to opt out of the requirements due to their nature and circumstances (para 5), which we believe dilutes the proposed standards. We would strongly encourage the IAASB to reconsider its approach in this area.

We believe the IAASB could further enhance the exposure draft in a few key areas, by:

Adopting a more proactive approach to achieving quality results in the design and implementation of responses to quality risks, with greater emphasis on preventative measures;  
Adding greater specificity to how the quality management system framework is defined so that it can be tested for operating effectiveness; and  
Identifying the potential for conflict within the firm structure and including further guidance to foster skepticism and an appropriately independent mindset at different levels and locations.

We are supportive of leveraging other risk management and governance frameworks, including the COSO Integrated Framework (2013) ("COSO"). We believe the IAASB could go further to align this draft with other frameworks. We have identified in our letter where it would be worthwhile for IAASB to re-examine its exposure draft to better incorporate COSO.

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### Irish Auditing and Accounting Supervisory Authority

In our view, quality is an ongoing objective which should be actively managed by a firm while also focusing on continuous improvement of its quality management system. Whilst the Quality Management standards appear to embrace that notion, most of the requirements appear to focus on compliance with the standards. We recommend an increased focus on quality management, including the balance between preventive measures and enforcement activities (monitoring, remediation and follow-up, including sanctioning where needed).

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## Files\3. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

We support the new quality management approach, as we believe it is more proactive and allows firms to tailor their system of quality management. Extant ISQC 1 is prescriptive, requiring firms to establish policies and procedures without appropriate room for tailoring. However, we believe that for many firms, the risk assessment process will be difficult to implement, as ED-ISQM 1 does not set out examples of risks. It is also not clear if responses implemented to address quality risks will be significantly different from firms' existing policies and procedures. We recommend developing non-authoritative guidance for sole practitioners and SMPs that will assist them in identifying, assessing and responding to firm risks.

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### Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

We support the work done by the IAASB to enhance quality management and are in favor of the risk assessment approach to drive quality. However, we are concerned about the length of the proposed standard. We consider that the standard is too long compared to ISQM2. This forced the IAASB to develop:  
Specific FAQ regarding proposed ISQM1 and;  
Examples to explain how the nature and circumstances of the firm and the engagements it performs affect the implementation of proposed ISQM1.  
We would have preferred the following option: an implementation guide and a shorter standard.

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## Kammer der Steuerberater und Wirtschaftsprüfer

Answer: We support the work that has been done by the IAASB to enhance quality management and we favor the risk assessment approach. Although it should be stated somewhere in the final ISRM 1 that managing quality should be aligned with firms overall strategy.

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## New Zealand Auditing and Assurance Standards Board

Yes, the NZAuASB supports the new quality management approach. The risk-based approach proposed in ED ISQM 1 aligns with other well-established frameworks, for example the ISO 9000 series of standards on quality management and ISO 31000 standard on risk management.

The proposals will be beneficial if practitioners focus efforts on quality, and continuously think about how to improve quality. However, the NZAuASB is concerned that the extensive use of prescription in the standard will detract from achieving those benefits. Effective management of engagement quality should involve a methodology by which firms and practitioners focus on identifying and managing risks, rather than complying with checklists of quality requirements.

The extensive prescription of the proposals suggests that the IAASB's approach is, in effect, a hybrid of risk-based quality management and prescribed procedures, with requirements to apply risk assessment and mitigation techniques while retaining a level of prescription (largely from the extant standard) which has the potential to predetermine outcomes in relation to specific risks. In other words, the standard may be viewed as taking a risk-based plus checklist approach; the NZAuASB is concerned that overly prescriptive objectives may hinder the proper application of a true risk-based approach.

Most notably, we are concerned the proposed quality objectives are too granular. This was also the view of most New Zealand practitioners we spoke to. We recommend that the proposals be enhanced by lifting the quality objectives to a less granular level. This is further explored in response to question 6(b).

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## Saudi Organization for CPAs

I believe using a word like "Dynamic" instead of "continual" will reflect better the quality management proactivity with the changes occurred either in firm or engagement, due to mechanism of risk assessment with changing conditions. As well as, changes in such conditions will probably need more procedures, which will affect quality risk assessment process and time, nature and extent of responses.

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I believe that the new quality management approach will enhance both the quality of engagement management as well as the quality attributed to firm but I have some cautions that may affect the approach in some areas as follows:

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## Files\\4. Accounting Firms

### BDO International

Effectiveness of the proposed approach: the proposed quality management framework may inadvertently provide false comfort about a system of quality by over-emphasising documented processes and controls (which can be more easily designed, observed and monitored directly by firms) but providing less focus on the 'softer' (and arguably more impactful) behavioural outcomes associated with quality systems. Areas such as coping with the pace of change, ongoing automation, continuing to meet stakeholder needs and reflecting how people actually apply these quality management systems, may need an increased emphasis within the quality management framework and implementation materials. While the proposed framework may lead to an improved flow of documentation, it could also result in excessive documentation which may detract from other more effective ways to boost audit quality.

Part (a) Yes, on balance, and after reviewing the significant matters outlined in the ED-ISQM 1 explanatory memorandum, we take the view that the proposed new standard has the potential to enhance firms' management of engagement quality and to generate benefits for engagement quality. We also agree with the IAASB's ED-ISQM 1 focus of requiring firms to have as a foundation an effective system of quality control which can respond to a rapidly changing business environment and the need for firms (of all types) to lead in the area of audit quality.

We further support the notion that strengthening how firms approach quality, particularly in the context of audit & assurance, is in the public interest and support the emphasis in ED-ISQM 1 on a change in mindset away from compliance-driven approaches to one which further enables firms to focus

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on audit quality.

Potential advantages of the proposed Quality Management Framework (QMF)

This new approach will likely cause firms and networks to redirect resources towards certain areas of risk within a system of quality management, rather than maintain a system of quality control that complies generically with standards but may not otherwise ensure sufficient audit quality within a firm.

The overall approach is clear, well laid out and unambiguous in terms of the components it is designed to cover.

The proposed 'Firm's risk assessment process' presents in a logical manner the steps that decision-makers should be undertaking to establish quality objectives, identify & assess quality risks, and design & implement their responses.

By providing quality objectives (at a minimum level) across most component areas, the IAASB has also given a steer to firms of all shapes and sizes about the starting point for the given framework while maintaining a risk-based approach.

The approach also has the potential to provide more focus on quality at the engagement level – resulting in better connection between firm-level 'quality' measures and the day to day experience of engagement teams. This should help support an appropriate level of professional skepticism being applied at the engagement level.

Potential risks of the proposed QMF

In our covering letter we outlined four thematic areas of concern relating to: streamlining the standards to improve implementation, promoting a more consistent approach, effectiveness of the proposed approach, and providing for a successful implementation. In addition, we have specific concerns that:

As currently presented, this enhanced set of requirements (especially when compared to extant ISQC 1), combined with the potential impact on many areas of cross-firm functional departments and the integrative nature of the proposed QMF components, is likely to place a high burden on firms (and networks).

While there is the potential for this standard to enhance firms' management of engagement quality, the likelihood of success may be jeopardised by a need for additional engagement and firm-level resources, a significant increase in planning time by key decision-makers (on an ongoing basis) combined with a standard that is much longer.

Whether in totality this package of proposed changes is likely to lead to increased quality is debatable, and can really only be confirmed by successful design, piloting and implementation.

Part (b) Yes, the proposed changes

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## ETY Global

(a) Yes we do. However, think it would be a good idea to use the same terminology for the components where there are inspired by other framework like COSO for education, training and communication facilitation purposes.

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## Mazars

Response: Yes, we support the overall approach, but we believe that more guidance should be given to help identifying "quality risks" in the risk-based approach.

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## Moore Stephens International

Response: We do support the adoption of a quality management approach. However, we feel that the articulation of the approach in ED-ISQM 1 could be improved in order to better describe the process, to provide a more coherent flow in the standard (thus enhancing its readability and adoption) and to provide a more useful framework for the firms who will be applying the standard (in particular, but not only, smaller firms). To be specific, we believe that the ordering of the components of the SOQM is unhelpful. While we fully support the contention that governance and leadership are vital, we feel that the risk assessment process is the key to the Quality Management approach. Without the risk assessment process, there is no quality management. Furthermore, the current placement of the section addressing governance and leadership leads directly to references to risk assessment before risk assessment has even been properly addressed. While one could argue it makes a good object lesson about the non-linearity of the whole endeavour, unnecessary non-linearity in the standard itself may lead to confusion. This is another example of the less than clear language and presentation that has been identified by some as an issue with other ISAs and which has had the unintended consequence of making them less scalable than they could be, as a result of being more difficult to understand than they should be. We therefore strongly feel that the components of the SOQM should be reordered with the Risk Assessment being placed first, followed by governance and leadership and so on.

In addition to the above we also believe that the lack of mandated audit quality risks (or possibly audit risks where there is a rebuttable presumption that they will be there) is unhelpful and illogical and undermines the whole QM process. We appreciate that risks that would always apply (or which are generally assumed may apply) may be difficult to articulate but since IAASB has identified risk responses which would always apply, we believe that this makes the existence of risks which would always (or could be generally presumed to) apply, implicit.

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We accept that such risks would likely be high level and might need considerable tailoring to most appropriately suit a firm's nature and circumstances, but we still feel that an articulation of those risks is really important. Firstly, this would remove confusion for firms, since there would no longer be a black hole in the middle of the process. Secondly, it would help firms to see (perhaps in the application material or additional guidance) how the mandated high-level risks matched up with both the mandated objectives and the mandated risk responses.

We believe it will be highly likely that many of the high level risks that would make sense in the context of the already identified mandated objectives and responses, would relate to either more than one objective or be mitigated by more than one response and this could be a useful point to draw out in the application material especially for firms that are unused to risk assessment as a result of a limited client base or service offering.

An alternative approach might be to continue with no articulation of risks in the requirements, and to remove the mandated responses also, putting both risks and responses either in application material or additional other guidance. This would reduce the length of the requirements thus making the standard easier to read and putting a maximum focus on the objectives which arguably is the key thing. It would then be possible to develop significant targeted application and guidance material that was not only scalable but also that specifically addressed different sizes or types of firm.

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## Nexia International

It appears to make conceptual sense but for SMPs it will be a significant challenge to comply.

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## Files\\5. Public Sector Organizations

### Office of the Auditor General of Alberta

Response: Yes, we support the quality management approach. ED-ISQM 1 provides a good framework for firm management to use to establish a quality management approach. However, ED-ISQM 1 does not clearly communicate how quality management is incorporated into enterprise risk management (ERM). Our view is that ERM is the primary tool for risk management and quality management is a function of risk management, therefore the quality standard should account for the firm's ERM and strategic and operational processes. In addition, the standard does not clearly incorporate features of the legislative audit community, including value-for-money or performance auditing.

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### Swedish National Audit Office

We are supportive of the risk-based approach, however we find the revised standard to be two-folded. It is intended to be risk-based but at the same time IAASB defines several quality objectives, requirements for defining additional quality objectives, risk-assessments and responses to the risks and above that mandatory policies and procedures. This becomes quite overwhelming and we question whether the standard is entirely risk-based or if it could be understood as providing more detailed and specific demands than intended?

We also find it to be a bit contradictive and confusing. As we have understood the process is that audit firms need to:

implement the quality objectives specified by the IAASB and identify any additional, identify any quality risks for not fulfilling these quality objectives mentioned above and also assess the probability before designing response design responses for the identified risks.

But at the same time the requirements specify that firms need to implement mandatory responses (example in §24). Are these mandatory responses to be considered as mandatory irrespective of the risk for not fulfilling the quality objectives?

We believe this needs to be clarified.

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## Files\\6. Member Bodies and Other Professional Organizations

### Accountancy Europe

Furthermore, although the approach as proposed is noted as risk-based, it is still very detailed and prescriptive. The list of quality objectives is very long and complex. Some quality objectives do not seem to be objectives, but rather the description of risks for not achieving a quality objective; we do not think that this will work in practice. We refer to our response to question 6 in the appendix below. We would favour an approach with strong and overarching objectives combined with fewer quality objectives per quality management area, and in some instances even one could be enough. Revising these quality objectives would make the standard easier to apply for SMPs.

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We support the work that has been done by the IAASB to enhance quality management and are in favour of the risk assessment approach to drive quality. We have nevertheless a number of important points below that could help improve the ED and its implementation.

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We support the work that has been done by the IAASB to enhance quality management and are in favour of the risk assessment approach to drive quality. We recognise the need for audit quality to be incorporated within the audit process at an earlier stage. Separating the overall quality control aspect from the engagement quality review (EQR) one is also helpful. Nevertheless, as explained in our response to ISQM 2, by creating a separate standard for EQR, the IAASB should be cautious not to overemphasise the role of the EQR, as opposed to the role of the firm and the role of the engagement partner. An EQR is only one possible response to quality risks in engagements and not in all circumstances the most effective one. Many large firms are already managing quality using a similar approach to that proposed by ISQM1, in a way that is consistent with their own overall objectives and strategies. In this context, the IAASB should recognize somewhere in ED-ISQM 1 the importance of aligning quality management with individual firms' overall strategies.

Despite the desire to follow a risk assessment approach, the draft appears to have the intent to cover everything in prescriptive detail. This makes the process as proposed rather prescriptive, not providing sufficient room for flexibility. In particular, the long list of quality objectives is very detailed and overcomplex. As the approach lacks simplicity, we fear it will lead to inconsistency and will generate scalability issues. As an attempt to solve this, we would favour an approach with strong and overarching objectives combined with fewer quality objectives – and even trying in some instances to have only one - per quality management area.

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## Australian Accounting Professional and Ethics Standards Board

Subject to APESB's significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1 (as detailed in our covering letter and in this response template), APESB supports the IAASB's overall aims of ED-ISQM 1 and ED-ISQM 2 to enhance consistent engagement quality, the principles of the proposed standards, the separation of EQR responsibilities to the proposed ED-ISQM 2 and the adoption of a risk-based approach. However, we believe further work needs to be done for these proposals to enable them to be applicable across all firms and in particular sole practitioners and SMPs. We also encourage the IAASB to consider the likely future developments of technology and its impact on quality management.

We favourably note there was broad support from APESB stakeholders during our webinars for a risk-based approach for the system of quality management (82%) and the proposed enhanced monitoring, remediation and evaluation process (87%).

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## California Society of CPA's

It appears that the 'improvement in scalability' is expected to occur as a result of more effective use of firm and external resources as well as enhanced use of judgment, potentially eliminating the need for redundant or ineffective processes. We are generally supportive and agree that, if implemented properly, the new standard could improve, not diminish scalability.

If not implemented properly, however, we are concerned with the potential amount of effort to implement the new approach. While the proposed risk-based model appears to be a gold-standard, we specifically question both the scalability of the model and the level of engagement required in terms of the evaluation of whether a firm's system of quality management effectively provides reasonable assurance.

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## IFAC Small and Medium Practices Committee

In general, the SMPC supports the new QM approach using a risk management lens.

This notwithstanding, we believe that the IAASB needs to seriously consider the cost/ benefit of the proposed changes in terms of increased quality it anticipates from ISQM 1, as we suspect that under the current work effort in ED ISQM 1, the cost/ benefit ratios may differ depending on the size of firms affected.

Particularly sole practitioners, complying with the Standard in an efficient manner may be especially challenging.

The Committee is of the view that the current proposed risk-based approach with all the eight components can be further refined. For example, the establishment of a separate quality objective for "information and communication" in para 40 could be confusing. Information should be used to identify risks, assess risks, and address risks. Communication is a means of implementing policies and procedures, as well as being a risk response in and of itself. Hence, "information and communication" is relevant to all quality objectives, rather than being a stand-alone component. As such, SMPs may struggle to understand the rationale to require firms to establish quality objectives, quality risks and risk responses for this aspect.

Similarly, establishing quality objectives for "monitoring and remediation" is equally confusing, because monitoring and remediation are an integral part of the firm's QM process for each quality objective by element (or component). Hence, the need for such granularity is debatable. It could also be questioned whether the risk assessment process should be treated as a separate component, again for a similar reason.

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## Institute of Chartered Accountants in England and Wales

We support an approach to quality management based on risk assessment.

We welcome the new, more proactive approach to quality management based on risk assessment. It is widely understood by auditors and similar to the threats and safeguards approach we advocated in our responses to previous consultations.

IAASB should take the opportunity of the attention the revisions will attract to emphasise the need for practitioners to use the new material in a thoughtful and holistic manner, and to avoid excessive emphasis on process.

We have concerns about the effectiveness of these proposals for smaller firms and in particular the risk of over-elaboration in the design of quality management systems. A simple and straightforward approach to quality management may be appropriate in many cases but this is not clear from the proposals. IAASB needs to consider what it can do to manage expectations, particularly those of regulators, in terms of what is expected of smaller firms or firms with low risk engagement portfolios.

We note in our main points above our belief that the proposals lack internal consistency in that mandatory responses have been included without corresponding mandatory risks. We suggest that IAASB consider this issue carefully, and should at least consider providing examples of the related risks, and/or factors to be taken into account, outside the standard, if it concludes that including them within the standard is not feasible.

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## Institute of Chartered Accountants of Pakistan

We support the new quality management risk based approach. However, as explained in response to question 2 (below) first time establishment and implementation would be a challenge for the SMPs.

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Further, the transition period of 18 months requires reconsideration as this period would create unnecessary pressure on the firms. We also suggest that more guidance on implementation is provided through application material and examples. In context of technological advancements and their impact on accounting profession, we suggest consideration of the likely future developments of technology and its impact on quality management.

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## Instituto de Censores Jurados de Cuentas de España

In our opinion, the quality risk management approach is appropriate because it's in line with ISAs' approach and because it will probably give more flexibility to firms depending on their circumstances and on the services that they provide.

However, we consider that there are a lot of objectives to fulfil and that moving from a requirement approach to a risk approach will require firms to consider their current procedures as responses to risks and to direct them to their firms own risks, so they will need to work in a realistic identification of their risks.

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## Malaysian Institute of CPAs

It is good to link the firm's risk assessment process to the overall quality of the firm and allow flexibility in applying the standards based on the size and structure of the firm and the size and nature of their clients. If this is implemented appropriately and effectively, it is believed to improve the engagement quality and utilization of firm resources.

However, the ED appears to be principle-based and not much information or guidance had been provided about the new approach, especially with regards to the identification of risks and the responses to the identified risks, in the firm's risk assessment process. It leaves to professional judgment in determining the significance and possibility of occurrence of the risks and hence any further action required. There are also other areas involving professional judgements, refer to A4 of the ED. Hence, the effectiveness of this quality management approach to the extent depends on the appropriateness of judgements exercised by the individual firms. This may create a challenge to SMPs with limited resources to implement the approach effectively. Hence, it would be helpful to provide further implementation guidance, especially to SMPs

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## Nordic Federation of Public Accountants

In general, we support the new approach and the overall objective to focus on the responsibilities of management. We believe that the overall length of the standard and the amount of requirements will require resources for implementation that, at least for SMPs and sole practitioners, will not correspond to the expected benefits and that there is an imminent risk that firms will lose sight of the overall objective when trying to keep up with very prescriptive and detailed requirements.

At the same time as we believe that the suggested approach makes sense, we also believe that the standard has become very complex and difficult to navigate. This is probably because of the mixture between a few outcome-oriented objectives followed by a great amount of detailed requirements, unclear scalability options and an emphasis on applying professional judgment.

We do not support having information and communication as a stand-alone objective, but rather believe that these factors should be included as a natural feature in all the other objectives.

We are especially concerned with how the threshold for risk assessment should be interpreted, i.e. on risks that are "more than remote", according to

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para. A55. We believe that this description is very unclear and sets the threshold too low. Also, we think that “more than remote” does not correspond with the description in the related requirement paragraph (para. 28).

We also believe that the objectives relating to the monitoring and remediation process are overshadowed by the length and details of the requirements and application material.

We are concerned about the time spent and the amount of documentation that implementing the standard will take. A212 states: “In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective.

Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.” In order to feel safe with external inspection, the firms might feel a need to document out of a “comply or explain approach” and hence document more than is necessary.

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We believe that quality management standards, based on a pro-active, risk-based approach and customized to the specific firm and its engagements will most likely contribute to higher quality engagements. The proposed process, i.e. establishing quality objectives, identifying and assessing quality risks and designing and implementing responses, seems like a logical way to address this overarching objective.

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## Wirtschaftsprüferkammer

In a time of rapidly changing environment the new quality management approach is basically well sound. The new approach is focused on proactively identifying and responding to risks to quality. We therefore support the work that has been done by the IAASB to enhance quality management.

Already, larger audit firms manage their risks rather than just controlling them.

However the implementation of the new approach seems to be very complicated and prescriptive, leaving only little flexibility. Already the scope reveals the challenge: the proposed revised standard covers nearly 70 pages plus around 14 pages ISQM 2. Extant ISQC1 comprises only 34 pages and is relatively “short”.

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We basically support the new QM approach which focusses on how audit firms manage their risks to quality. However we would ask the IAASB to develop a mapping of extant requirements to the new requirements in ED-ISQM 1.

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## Files\\9. Individuals and Others

### Training and Advisory Services and Chartered Accountants Academy

Yes

We support the new quality management approach since it is more risk-based aligning with the ISA audit which is also risk based. The new approach emphasizes the responsibility of firm leadership for proactively managing quality, while at the same time being scalable to deal with differences in the size of firms and nature of the services they provide. However, the new approach involves more judgment, if a firm is unable to identify risk their quality management judgement will be incorrect or incomplete therefore, some of the requirements of ED-ISQC 1 the extant standard may not be adapted to the risk-based approach appropriately removing the robustness of ISQC1. There may be need, to get guidance in ED ISQM 1 on basics to cover in quality management

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## Nodes\\ED-ISQM 1\_Firm Level\01(a) New quality mgt approach\4. Q1(a) - Disagree

### Files\\3. National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board

The AUASB supports a quality management approach to ISQM 1, however the AUASB is not supportive of the overall standard in its current form. The AUASB considers the proposed standard to be a hybrid of risk-based quality management requirements that retains a granular level of prescriptive requirement carried over from the extant ISQC 1 standard, which undermines the proper application of a risk-based approach.



The AUASB supports a quality management approach to ISQM 1, however the AUASB is not supportive of the overall standard in its current form. The AUASB considers the proposed standard to be a hybrid of risk-based quality management requirements that retains a granular level of prescriptive requirement carried over from the extant ISQC 1 standard, which undermines the proper application of a risk-based approach. The main theme expressed by Australian stakeholders throughout the AUASB's outreach on ISQM 1 was related to its size and level of granularity. All practitioners, large and small, were concerned with the cost and resources needed to develop a quality management framework in line with the proposed standard as currently drafted. The AUASB encourages the IAASB to refine its drafting approach to reduce the length and complexity of the proposed standard, as well as the other proposed Quality Management Standards being exposed concurrently – ED - ISQM 2 and ED - ISA 220. The AUASB considers that a quality management approach to ISQM 1 drafted on the same basis as the proposed new drafting approach to ISA 315 [that is the requirements are the “what”, the application material, appendices and guidance constitutes the “why” and “how”] would facilitate a better risk-based approach that is scalable to the specific circumstances of a firm which may help mitigate the potentially large cost and resourcing burden the implementation of this proposed standard imposes on practitioners. The AUASB particularly highlights to the IAASB that the large volume of application material, appendices and guidance in the proposed standard needs to be reconsidered. Whilst these examples being included in the proposed standard may assist with implementation, the AUASB suggests the IAASB review the underlying principles in the requirements to make them simpler and more straightforward, which should alleviate the need for extensive examples and illustrations being included in the application guidance and appendices. Additionally, the AUASB considers that the risk assessment process as designed has the potential to be particularly onerous for practitioners when considering the overall number of prescribed quality objectives required by the proposed standard. Furthermore, to further support a risk-based approach, the AUASB recommends the removal of pre-defined required responses to quality risks in the standard as the AUASB considers that firms should determine their own specific responses tailored to their specific risk circumstances.

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## Institut Der Wirtschaftsprüfer

We support a new quality management approach in principle, but we do not support how the draft approaches quality management. We refer to the body of the comment letter for our reasons.

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Although we support the move from “quality control” to “quality management” and the introduction of a risk-based approach to such management, we are deeply concerned about the direction the project on quality management has taken at the IAASB. The IDW introduced the concept of quality management and a risk-based approach to the IAASB at National Standard Setters meetings and at an IAASB meeting several years ago prior to the issuance of the IAASB's “Invitation to Comment” with the objective of both having the IAASB issue standards to improve the management of quality at firm level so as to contribute to the maintenance and improvement of quality at engagement level and providing greater scope for scalability of the management of quality at firm level. We have concluded that the current draft will not meet any of these objectives and worse, will likely lead to a misallocation of resources in firms due to the draft leading to the treatment of quality management as a compliance exercise. We support the introduction of quality management at firm level through an ISQM, but do not believe that the current draft properly reflects a real quality management system.

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## Royal Nederlandse Beroepsorganisatie van Accountants

We support the quality management approach (QMA) including risk assessment. In general, the proposals are scalable because the quality management system can be tailored to the specific needs of a firm based on their risk assessment.

We struggle with the manner in which the QMA is implemented in the standard. In short the concept of the QMA is: Define relevant quality objectives, identify the risks that the objectives are not met and implement responses to control the risks.

In the standard quality objectives and responses are defined. In our opinion some of these detailed objectives reflect risks instead of quality objectives. Since the responses are not linked to risks and as such it is not clear why these responses are necessary (which influences scalability). We understand and support that from the perspective of the profession it is necessary to set some detailed requirements for a quality management system, but the manner in which this is currently implemented blurs the concept of a QMA and might impact the effective implementation of the standard.

Last but not least we feel that there is a possibility to combine certain quality objectives and responses and that there is a need to work on the wording of quality objectives and responses. This could make the standard easier to understand and better scalable. The current level of required objectives and required responses is not necessary and too prescriptive for smaller firms and reduces scalability.

The IAASB might even think about splitting the new ISQM 1 in two standards. A standard with requirements for the implementation of a Quality management system and one setting requirements (currently quality objectives / responses) for such a system.

We are willing to explain our thoughts further and share more detailed ideas if this is helpful to the IAASB.

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For very small firms ('micro' firms) we do not support the QMA approach. Quality management is only important if there is something to manage. We do not feel that in a 'micro' firm, for instance with one partner, a QMA approach drives quality. Neither would we expect to implement COSO in a small local grocery store. There are some issues regarding quality that should be taken care of, for instance a that there should be a policy to have an engagement quality review based on predetermined criteria. See Q1c.

We support that culture and tone at the top are mentioned as important factors. However, we are of the opinion that these factors should receive much more attention. In the new COSO ERM model, governance and culture receive much more attention as well. In recent business and audit failures, the deficiencies in 'soft controls' played an important part. See also Q7. The proposals mention the expected behavior of personnel, but it is difficult to influence this behavior. In order to influence behavior, a quality management system should meet the following criteria:

Clarity: Does personnel understand which behavior is expected from them?

Possibility to discuss: Does personnel feel free to share their opinion and learn from mistakes?

Appropriate behavior/conduct of management: Does management act as role models and do they comply visibly?

Involvement: Is personnel motivated and taken seriously?

Practicality: How is personnel facilitated?

Transparency: How is behavior visibly corrected?

Accountability: Are responsibilities clear? and

Enforcement: What are the consequences of unwanted behavior?

We recommend to take these elements into account to evaluate whether the behavioral aspects are considered sufficiently in the proposals.

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## Nodes\\ED-ISQM 1\_Firm Level\01(a) New quality mgt approach\5. Q1(a) - Unclear

### Files\\1. Monitoring Group

#### International Organization of Securities Commissions (IOSCO)

The objective of ISQM 1 is to design, implement and operate a system of quality management (SQM). We believe that distinct criteria are needed to assess a firm's responsiveness to the objectives of ISQM 1 (as well as compliance with the requirements).

This could include the definition of minimum thresholds (for public-interest companies as well as smaller entities) to serve as benchmarks for distinguishing when requirements are complied with or breached.

Amongst others this may include certain examples currently only listed in the application material (such as A 40, A92-93, A 104, A 109 (last sentence)) which should be relocated to the requirements section as to introduce enforceable criteria obliging the personnel in charge with corresponding responsibilities.

Other requirements may include duties such as documentation or transparency disclosure which could enhance enforceability in view of a predominantly principal based implementation.

Currently the standard appears to be tilted towards applicability at firm/network level as opposed to usability for regulators, also when enforcing cases.

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Areas for improved guidance include:

The need to balance compliance requirements with the aim to assure adequate quality objectives by avoiding compliance focused checkbox-lists of requirements.

The exposure drafts as currently written seem to focus on compliance requirements. Instead focus should rest on setting minimum thresholds for quality objectives to align achievable objectives of firms' engagement partners, engagement quality reviewers or key audit partners charged with responsibilities with the intended overall quality objectives included in the framework.

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### Files\\4. Accounting Firms

#### SRA

We note, that the ED requirements, in conformity with the present standard, relate to the firm and not to the auditor. In our view it is vital to clearly distinguish in standards the responsibilities of the firm and the auditor. This approach is also followed in present Dutch legislation. In a recent verdict of a Dutch court this approach has also been confirmed. We concur with the approach regarding this issue in the ED, as explained in par 14 of the overall explanatory memorandum.

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## Nodes\\ED-ISQM 1\_Firm Level\01(b) Benefit Engagement Quality, incl. Professional skepticism\2. Q1(b) - Agree

### Files\\1. Monitoring Group

#### Basel Committee on Banking Supervision

Recognising the importance of professional scepticism to audit quality.

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The Committee is supportive of the IAASB's approach and, in particular, of the following features:

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### Files\\2. Regulators and Audit Oversight Authorities

#### Financial Reporting Council United Kingdom

Consistent with our response to the ITC, we strongly support the introduction of the quality management approach (QMA). We continue to observe tremendous change in the economic, technological, social and regulatory aspects of the markets in which firms operate. The audit profession plays an essential role in the functioning of the global capital markets by building public trust and confidence in the financial reporting process and stakeholders expect the audit profession to adapt and overcome these multiple and complex challenges, whilst remaining committed to delivering consistently high quality audits and assurance engagements. A key foundation for consistently delivering high quality engagements rests in the firm's system of quality control. Combined with the enhanced requirements in 'Governance and Leadership' that embed the oversight, control and discipline needed to embed a culture of quality, if implemented well, the QMA will help firms meet these challenges.

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### Files\\3. National Auditing Standard Setters

#### AICPA

We believe that ED-ISQM 1 has the potential to substantively enhance firms' management of engagement quality and improve the scalability of the standard. Implementation support materials will be essential in order to for firms to achieve that potential.

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We believe that ED-ISQM 1, if implemented as intended, will generate benefits for engagement quality. We believe that professional skepticism is appropriately addressed in ED-ISQM 1, at a firm level, and with greater focus on engagement performance in ED-ISQM 2 and ED-ISA 220.

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#### Hong Kong Institute of Certified Public Accountants

We believe that the proposals will generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level. For example:

The firm's culture and the tone set by leadership should promote the importance of quality, and the need to exercise professional skepticism when performing audit, review or other assurance engagements.

Allocating appropriate resources to perform engagements may prevent impediments to professional skepticism, such as limited time, knowledge or experience.

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#### Saudi Organization for CPAs

Yes , I suggest for answer of this question, after taking in account previous questions' answers , enhancing professional skepticism ,as relates to many pervasive pronouncements ,will be improved by issuance of separate guide for professional skepticism including activities , methods , technique to improve and action to be taken as remedial action for firms

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## Files\4. Accounting Firms

### Crowe Global

Response: ED-ISQM 1 does substantially enhance firms' management of engagement quality. The proposed standard reflects the evolution in thinking about attitudes to quality control since the issue of ISQC 1. It rightfully embraces the role of leadership and governance in firms and the integration of quality into objective setting by firms.

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Response: It can be anticipated that the proposals will generate benefits for engagement quality. A risk-based approach is consistent with how attitudes to governance have evolved. Focusing on managing risk ought to support the exercise of professional scepticism.

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### Duncan and Topliss

(b) Again, yes. The requirements of ISQM1 (and associated standards) requires firms to sit down and spend time assessing quality objectives and risks (in a clear and structured manor) relevant to them. The standard also requires firms to then clearly document their responses to those risks and, vitally, to monitor the process. The standard clearly includes assessment of the appropriate level of use of professional scepticism

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### ETY Global

Yes the ED-SQM 1 enhance firms' management of engagement quality by including the quality management in the overall risk management framework taking account all its relevant components. The ED improve the scalability on the quality management by requiring the setting of the quality management system proportionate to the nature, situation and context of the engagement.

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(b) In our view, the proposals will general benefits as intended and support appropriate exercise of professional skepticism at the engagement level by emphasizing it in the standard and by explicitly requiring its use.

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### EY Global Limited

Yes, we agree that the proposals will generate benefits for engagement quality as intended because ED-ISQM 1 requires a firm to develop a system of quality management that is tailored to the nature and circumstances of the firm and the engagements it performs. We also support how the standard addresses professional skepticism, which is supported by the requirements related to the firm's culture and tone set by leadership and the allocation of appropriate resources.

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### Haysmacintyre LLP

Response: Yes, the proposals in ED-ISQM1 should substantively enhance the management of audit quality.

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Yes, the emphasis on professional scepticism throughout the ED should promote better and clearer exercise of professional scepticism at the engagement level.

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### MNP LLP

In our view the approach as outlined in ED-ISQM1 will generate benefits for firms in understanding what their objectives and associated risks are with respect to overall quality. However, it remains to be seen how this will translate to engagement quality. We believe that by implementing a consistent approach to quality that is embedded and supported by the appropriate culture and tone at the top of the firm, this would have a positive impact on engagement quality.

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### PKF International Limited

In our view the proposed requirements in ED-ISQM 1 in general will enhance firms' management of engagement quality.

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The proposals are likely to generate benefits for engagement quality. They will also support the appropriate exercise of professional skepticism at the engagement level.

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## PKF South Africa

The proposals are likely to generate benefits for engagement quality. They will also support the appropriate exercise of professional skepticism at the engagement level.

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## Files\\5. Public Sector Organizations

### Australasian Council of Auditors General

If a firm or audit office establishes appropriate responses to meet the quality objective proposed at paragraph 36(b), considering the related application and other explanatory material at A94-97, this will assist in supporting the exercise of appropriate professional scepticism.

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Yes, ACAG believes that the proposals generally generate benefits for engagement quality through: - The emphasis on organisational culture and leadership commitment to quality; - The root cause identification of deficiencies identified through monitoring activities and targeted remedial actions to address the root causes of identified deficiencies; and Increased accountability and transparency.

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### National Audit Office of Malta

Yes. In our view, exercising professional skepticism with respect to the possibility of fraud and corruption and lack of compliance with rules and regulations is very important.

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## US Government Accountability Office

We believe that the proposals will generate many of the intended benefits, including an appropriate exercise of professional skepticism at the engagement level.

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## Files\\6. Member Bodies and Other Professional Organizations

### CA Ireland

Yes we believe that the new standard has the potential to substantively enhance firms' management of engagement quality. The risk-based focus of the standard may assist with its scalability and application guidance and examples will be needed in particular to assist in implementing the standard in smaller firms and in smaller firms within networks.

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If adopted appropriately then the quality of individual engagements should improve. The increased focus on professional scepticism at the firm level in the standard, including, paragraphs A94 – A96 is welcomed.

The same focus on professional scepticism should be reflected in the ISAs at an engagement level with additional application guidance as is in the draft ISA 220.

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### Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

CNDCEC believes that the proposed approach, though more structured compared to the current one, enhances efficiency in the management of engagement quality since it introduces significant aspects of self-evaluation by the auditor, with the purpose of focusing attention on the areas the auditors deems at risk, as it happens when planning and carrying out audit engagements.

The method based on the preliminary evaluation of risk has by now become of common use in auditing and has proved to have undeniable pros. The application of such method to quality management will surely be beneficial in relation to a quality system designed and maintained in response to the identified and assessed risks, rather than a system requiring the adoption of policies and procedures that disregard the actual characteristics relating to

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the organization and size of the auditor and to the type of engagement performed.

In ED-ISQM 1 the exercise of auditor’s professional judgement in defining the size of his/her own quality management system is, therefore, significantly enhanced. As a result, there are evident benefits in terms of adaptability of the system to the nature and the circumstances in which auditors operate as well as to the characteristics of the engagements they perform.

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### **FAR (Institute for Accounting Profession in Sweden)**

Overall, FAR supports the proposal of the new risk-based approach in ED-ISQM 1 and believes that the new standard will contribute to higher quality engagements.

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### **Illinois CPA Society**

Response: Yes, we agree, there will be engagement benefits generated at the engagement level, including appropriate exercise of professional skepticism.

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### **Malaysian Institute of CPAs**

Consideration for fraud and exercise of professional skepticism at the engagement level is already a requirement in ISA 240. ED now reinforces and puts the emphasis on the leaders of the firms (i) to promote the importance of quality, and the need to exercise professional skepticism when performing audit, review or other assurance engagements; and (ii) to allocating appropriate resources to perform engagements may prevent impediments to professional skepticism, such as limited time, knowledge or experience.

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## **Files\9. Individuals and Others**

### **Training and Advisory Services and Chartered Accountants Academy**

Yes

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Yes

We are of the view that the proposals will generate benefits, in that an objective evaluation will be performed, over the significant judgments the engagement team makes, and the conclusions reached in formulating the engagement report. There will also be a link with ISA 200 which requires the use of professional skepticism as a means of enhancing the auditor's ability to identify risks of material misstatement and to respond to the risks identified.

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## **Nodes\ED-ISQM 1\_Firm Level\01(b) Benefit Engagement Quality, incl. Professional skepticism\3. Q1(b) - Agree but with further comments**

### **Files\1. Monitoring Group**

#### **International Forum of Independent Audit Regulators**

Professional scepticism is a key attribute for high quality audits. The lack of professional scepticism continues to be a driver for inspection findings. The standards need to reflect the importance of professional scepticism. We support the references to professional scepticism in the engagement performance sections of ISQM 1 (36(b)) and leadership sections of ISA 220 (12e) and paragraph 22(d)(i) of ISQM 2. We believe that the importance of professional scepticism should also be highlighted in the leadership and governance and engagement performance sections of ISQM 1 and ISA 220, 2

respectively, and make clear reference to professional scepticism in relation to engagement quality reviewers (“EQ reviewers”) for engagements for which professional scepticism is required (including audits), both in the assessment of whether the engagement team applied appropriate professional scepticism and the application of professional scepticism to the evaluation of significant judgements by the engagement quality reviewer.

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## Files\2. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (South Africa)

We believe that the proposals will generate benefits for engagement quality as intended. However, we suggest that the IAASB includes more emphasis on professional skepticism in ISQM 1. The lack of evidenced professional skepticism is a recurring finding in our inspections. We urge the IAASB to emphasise professional skepticism in all the individual component's requirements, but at a minimum in the governance and leadership component, the acceptance and continuance of client relationships and specific engagements component, and the relevant ethical requirements component. Also, in paragraphs where "when applicable" is a condition attached to the exercise of professional skepticism, we recommend that this condition be removed (paragraphs 36(b), A94 and A95). Professional skepticism is always applicable.

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## Files\3. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

We believe that expected benefits will vary from firm to firm. We understand that, as a result of inspections by regulatory bodies, some firms have made changes to policies and procedures over the past several years, moving towards a risk-based approach to managing quality. Canadian stakeholders believe the new standard may result in enhanced documentation of policies or procedures, but not necessarily different responses to firm risks.

We believe the proposals may lead to increased consistency in the application of policies or procedures within a firm, addressing execution risk (i.e., where engagement teams currently are not following the firm's policies and procedures consistently). However, it is not clear to what extent ED-ISQM 1 will change practitioners' behaviour.

We believe that the proposals support the appropriate exercise of professional skepticism at the engagement level.

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### Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: The proposals consider the firm and its engagements' nature and circumstances. It allows that firms have a focus on the key risks of quality. However, the concept of professional skepticism needs additional clarification, especially describing the requirements the firms shall adopt to ensure the appropriate professional skepticism on application material or either on the standard.

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### Malaysian Institute of Accountants - Auditing and Assurance Standards Board

The ED-ISQM 1 does substantively enhance firms' management of engagement quality and improve the scalability of the standard.

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Response:

We certainly do believe that the proposals in the standard will generate the benefits for engagement quality as intended, as well as supporting the exercise of professional skepticism by firms at the engagement level. However, we are skeptical of the benefits that will be reaped by all firms as small and medium practitioners may find the compliance of the proposals challenging.

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### New Zealand Auditing and Assurance Standards Board

Further, to ensure the standards are embraced it would be helpful to focus the message on why the standards are changing and the benefits to practitioners of the risk-based approach, and to encourage practitioners to start early, looking at what is new and what they are not doing now.

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More work needs to be done to improve the scalability of the standard. Feedback from the New Zealand constituency indicates that, for small to medium-sized practices and sole practitioners (together in this submission described as SMPs), both the cost to transition to the new requirements and ongoing cost to apply the proposed approach will be significant and may not significantly improve engagement quality if such firms are unable to appropriately resource meeting the requirements.

We expand on these points in the specific questions below.

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The NZAuASB considers that a risk-based approach to quality management should substantively enhance firms' management of engagement quality. The Board has been advised that many of the mid and larger tier firms in New Zealand already apply a quality risk management approach, with some variation in practice; and that the proposals largely codify what is being applied as best practice.

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The NZAuASB considers the proposals will generate benefits and should assist to focus practitioners on the importance of quality at both the firm and the engagement level. The NZAuASB is also supportive of the emphasis on professional scepticism in the proposals. However, the benefits for engagement quality will not be achieved if the requirements cannot be appropriately and effectively applied. Feedback from the New Zealand constituency indicates that the practical implementation of the proposals will be challenging, resource intensive, and therefore costly. The NZAuASB urges the IAASB to take further actions to address these challenges, both in the requirements and application guidance and in providing support for implementation.

From our targeted outreach it became clear that implementation support will be needed to assist, especially for SMPs. Feedback from SMPs was that the need to identify risks will be time consuming for individual practices. It was observed that many of the risks would be identical for such firms. Practitioners saw little value in requiring each firm to identify similar risks.

We raise with the IAASB for consideration the benefit of developing a "thinking list" of standard types of quality risks, that firms and practitioners could consider for their circumstances and be required by the standard to add to as appropriate. We do not think of this approach as creating a "checklist". To the contrary, we have in mind a description of the generic types of risks to engagement quality which could be identified and assessed by each firm when it is undertaking its assessment of risks in relation to the quality objectives, having regard to its own circumstances as the standard contemplates. To further assist in implementation, there may also be benefit in extending that type of generic risk approach by developing a matrix of the quality objectives which could be mapped to common quality risks and responses. This guidance could be provided by the IAASB, or others, as part of the implementation approach.

In considering such an approach, the NZAuASB encourages the IAASB to specifically consider the implications of the quality management approach, and the requirements of the standard, for sole practitioners. This should be addressed in application material, and in other ways that enable a consistent and effective approach by SMPs to implementing the standard.

The NZAuASB also emphasizes the need for ongoing support by professional accounting bodies and others to assist over the transition period. However, we have heard concerns from practitioners that any guidance developed should be consistent with the principles of the standard (when it is finalised) rather than establishing a professional body's (or regulator's) own interpretation of the standard. A co-ordinated effort at an international level may be the best way to develop this support.

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To ensure that the proposals, as a whole, operate in the public interest, the NZAuASB recommends:  
a clearer articulation of the cost benefit analysis of the risk-based approach to quality management, to ensure that those applying the standard can understand how the benefits outweigh the costs in the public interest. This could be of benefit both to firms and to regulators.

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## Files\4. Accounting Firms

### BDO International

In our view, the proposed new and revised requirements, and accompanying explanatory memoranda, set out an ambitious set of proposed changes which have the potential to improve the quality of engagements and management of quality at firm and engagement levels. As a globally diverse organisation consisting of many firms, BDO recognises the value proposition of having a quality management approach that is fit for purpose and is substantively able to enhance firm's management of engagement quality.

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Part (b) Yes, the proposed changes do, in our view, have the potential to generate the engagement quality benefits outlined in the explanatory memorandum. Had the IAASB focused solely on revising ISQC 1 then there might have been a danger that the focus of revision would be targeted only at firm decision-maker levels. However, by presenting the planned reforms as part of the issuance of new standards such as ED-ISQM 2 and/or revisions through ED-220, this provides for a more comprehensive impact across individual engagement leaders as well as firm leadership responsibilities.

We agree with the IAASB that having in place an appropriate system of quality management within a firm can help support the exercise of professional skepticism at the engagement level. This is particularly true in areas such as the impact of tone at the top (set by leadership at firm and engagement levels), an emphasis on the importance of cultural factors and prioritising resources appropriately to ensure sufficient time, knowledge and experience on each engagement.

We note that ED-ISQM 1 emphasises the importance of professional skepticism at the engagement level (paragraph 7 and 36(b)) and we also support the references made in ED-220 via explanation of potential impediments to the exercise of professional skepticism (as well as engagement partner actions). We note that unlike ISQC 1, ED-ISQM 1 specifically requires greater exercise of professional judgement in applying the requirements of the new standard (specifically by firm and engagement decision-makers). We fully support this approach as it assists in ensuring that the identification of quality risks (and the responses that flow from them) are tailored to the nature of the firm and its engagements.

There is a danger that the proposed QMF approach leaves the engagement quality of a firm (and the level of professional skepticism applied by its professionals) entirely up to the operating effectiveness of each firm's quality management. One consideration could be to include in the application guidance (or as Frequently Asked Question (FAQ)) examples of how key areas of the components could directly or indirectly support application of professional skepticism by engagement teams.

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Streamlining the standards to improve implementation: while the IAASB has done a good job of ensuring interdependent changes have been reflected across all three EDs, the volume of content, when combined with a prescriptive quality management framework outlined in ED-ISQM 1, has the potential to result in an over-complicated approach to quality management. This may be further exacerbated by some drafting issues and changes in terminology which we have highlighted in our responses. Taken together, these issues could affect how firms implement the standards and highlight the need for sufficient lead-in time to enable successful evaluation of the impact through piloted use of the new framework in firm or network-specific scenarios. From an audit quality perspective, this has the potential to result in a distraction for firm management – moving their focus away from other aspects of audit quality and resulting in a compliance-based mapping exercise solely to satisfy the requirements of the EDs.

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We acknowledge that the IAASB has identified an approach to quality management that has the potential to strengthen the focus of quality management within firms. Notwithstanding our comments made in each response letter, in our view there are improvements that can be made to the proposed suite of EDs to ensure a positive impact on firms' quality management processes and, most importantly, a successful implementation.

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## CAS International

Response:

We do believe that the proposals in the standard will generate the benefits for engagement quality as intended, as well as supporting the exercise of professional skepticism by firms at the engagement level.

On the other hand, we are concern about the real benefits to be derived by the small and medium practitioners.

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## Deloitte Touche Tohmatsu Limited

Response: DTTL believes that ED-ISQM 1 provides a basis for generating the intended benefits for engagement quality. However, whether such benefits will ultimately be achieved depends upon the mindset and dedication of the firms in adopting the new quality management approach (e.g., "compliance" versus "transformational" in nature), as well as the willingness of regulators to embrace the scalability and flexibility provided for within the proposed standard.

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Response: DTTL believes the new quality management approach, as proposed in ED-ISQM 1, provides a framework from which to substantively enhance firms' management of engagement quality while at the same time improving the scalability of the standard. The responses to Questions 1(a)-(c) below provide further comments.

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## Grant Thornton International Limited

We are of the view that a proactive approach to managing quality will provide a sound foundation that creates an environment for improved engagement quality and the opportunity to exercise professional skepticism at the engagement level. However, enhancing standards will only address part of the issue. A quality engagement also requires those performing the engagement to have a questioning mind and to be committed to achieving quality. This is not something that can be achieved through standard setting alone. We would recommend that the IAASB consider working with others, such as national auditing standard setters in its efforts to improve the practitioner's exercise of professional scepticism. For example, consideration could be given to current projects on audit quality indicators.

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## KPMG IFRG Limited

We believe that the ED covers the appropriate components that support and drive audit quality at the engagement level. In our view the proposals will benefit engagement quality by providing a framework for the identification of quality risks and appropriate responses.

We support the emphasis on professional skepticism in paragraph 36(b) of the Engagement Performance component. However, we believe the aim of ISQM1 is to help support the appropriate exercise of professional skepticism by creating an environment and culture that supports and enhances the application of professional skepticism. We therefore encourage the Board to consider emphasising the exercise of professional skepticism within paragraph 23(a) of the ED, as well as including a clear reference between ISQM1 and ISA 220, where professional skepticism is appropriately dealt with in detail.

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## Kreston International

Response: The proposals will improve engagement quality if they are implemented and adopted on a consistent basis across firms. This will depend on the expectations that are set at the firm level and that these are supported by engagement partners and fully understood by the engagement team. The language of the standard is complex and simplification of this could assist with adoption and the generation of benefits.

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## Mazars

Response: Yes, we believe that the proposals will help improve engagement quality and encouraging professional skepticism, although time and costs associated with the initial implementation may be significant (additional resource in particular).

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Yes, we believe scalability of the standard is enhanced, as well as the management of engagement quality. However, we believe more guidance and examples are needed for implementation by smaller firms and countries where international standards are not yet fully embedded.

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## Mazars USA LLP

Response: The Proposed Standards will generate benefits for engagement quality as intended. We note ED-ISQM 1 only includes guidance for exercising professional skepticism in the engagement performance component of the proposed standard (paragraph 36(b)) and the related application material (paragraphs A94 and A96). The IAASB should consider whether other components of ED-ISQM 1 should include requirements for professional skepticism.

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## MGI Worldwide

Whether the proposals will generate the expected benefits will, of course, depend on how well they are understood and applied by firms. On their own, the proposals will not suddenly increase the exercise of professional scepticism on engagements or change culture within firms. The application material helps here but the key will be how well the new standard is embedded and compliance monitored in territories around the world. Rather than improvements to the standard, the IAASB need to be clear and robust in its communications around the key changes from ISQC 1 and provide examples and guidance to firms on what this may mean for them, aimed especially at SMPs who do not have large technical teams to interpret what the requirements mean for them and how best to adapt.

In the application material, paragraph A41 indicates that a “firm may take corrective actions to address a negative performance evaluation that may affect the firm’s achievement of its quality objectives” (our emphasis). As the standard’s aim is to help firms improve engagement quality, we consider there should be a requirement to take corrective actions in such cases. The extent of those actions would be determined by the firm but indications of potential deficiencies in quality management should be robustly dealt with.

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## Moore Stephens International

Response: The proposals are unlikely to damage the appropriate exercise of professional scepticism, or engagement quality in general. Whether or not they benefit them will depend on implementation and on the amount of support provided to firms and, in particular, to smaller firms who will likely find some of the proposed requirements challenging. If firms find the proposed requirements too challenging, we expect to see a further reduction in the number of audit firms in the market.

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We do, on balance, believe that ED-ISQM 1 could substantively enhance firms’ management of audit engagement quality (with some caveats as set out below); however, we have some concerns (which are set out below) regarding the management of the quality of non-audit assurance engagements.

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## Nexia International

It is very much dependent on the attitude of individual firms and personnel. Those with the right mind set will get to the right outcome but others may just go through a ticking exercise.

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The ED does assist in improving audit quality but scalability needs to be further explained with appropriate detailed examples.

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## PriceWaterhouseCoopers

A robust System of Quality Management (SoQM) and focus on proactive quality management, particularly when demonstrated through a firm's culture and leadership, create an environment that supports quality and reinforces the importance of professional scepticism.

However, in our view, the intended benefits to quality will be dependent upon:

effective implementation by firms, including at the engagement level; and

addressing the matters we have identified in our cover letter.

Other actions

We suggest that ISQM 1 could highlight the importance of the IAESB's proposed education standards, in particular IES 8, in supporting competencies, including the application of professional scepticism. Emphasising the role and responsibility of experienced team members in setting the tone within the engagement team, and in coaching and mentoring junior engagement team members, through this linkage to IES 8, is important as this underpins the behaviours that support professional scepticism.

We note that IES 8 explicitly references extant ISQC 1 and ISA 220, and includes a relationship diagram. It would be helpful to see this relationship mirrored consistently in the IAASB standards.

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## RSM International Limited

Response: Yes, we believe that ED-ISQM 1 will substantively enhance firms' management of engagement quality. However, the challenges of implementation should not be underestimated.

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Response: We believe implementation of the proposals in ED-ISQM 1 will enhance firms' management of engagement quality. They will enable firms to evaluate their existing quality control systems and enhance controls or documentation in areas which require it. We agree that the emphasis for managing quality is with individual firms and audit partners. We believe the proposed standards will ensure that accountability for audit quality will be clearer.

The topic of professional skepticism is more prevalent in ED-ISQM 2 and ED-ISA 220 than in ED-ISQM 1. This seems to us to be the correct balance.

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## Files\5. Public Sector Organizations

### Auditor General South Africa

Yes, the ED-ISQM 1 substantively enhances firms' management of engagement quality, and at the same time improve the scalability of the standard. The move to a 'principle-based' approach to quality management allows for a firm to apply the principles of quality management in a non-prescriptive manner for which the identification and response to quality risks can be tailored to the firm and its divisions based on professional judgement.

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Yes, the risk-based approach will increase the exercising of professional skepticism, however more guidance and emphasis is required on the following;

Leadership culture of exercising professional scepticism,

Definition of professional skepticism to be brought back into ISQM

Paragraph 22 dealing with the considerations of the nature and circumstances of the firm of the explanatory memorandum to be brought into standard.

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### Office of the Auditor General of Alberta

Response: As noted above, the proposal provides a strong framework for a firm to establish processes and controls over engagement quality. Firms make both quality and business decisions. These assessments are often conflicting, such as having only designated professionals complete an audit (increase in quality) and cost (business decision). ED-ISQM 1 does not incorporate significant changes to how or if a firm incorporates quality as a primary objective. If the IAASB determines quality should have an increased priority, consequences of non-compliance with standards or applicable legislation should be more explicitly stated. For example, paragraph 51(a) should state, "Take appropriate action, including completion of omitted procedures, to comply with relevant professional standards and applicable legal and regulatory requirements; and." This would require firms and their personnel to complete all applicable professional standards and applicable legal and regulatory requirements. When a firm or personnel do not comply, they would need to go back to complete any omitted standards or requirements. Such a standard would significantly increase the accountability of the firm and personnel.

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## Office of the Auditor General of Canada

The impact proposals will have will depend on the extent to which new requirements result in changes to firm business processes and controls already in place.

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## Swedish National Audit Office

In our view the proposals generate benefit for engagement quality as intended but not specifically for supporting the appropriate exercise of professional skepticism at the engagement level. This would mainly depend on the culture and tone-at-the top, created by the management and how the firm actively promotes ethics and professional skepticism.

To further strengthen the “professional skepticism” component in ISQM 1 we suggest to address it more specific, for example under §9

Definitions (define professional skepticism)

§23 a) Component Governance and leadership.

The exercise of professional skepticism would most efficiently be addressed by ensuring that the requirements in the specific audit standard are robust.

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## Files\6. Member Bodies and Other Professional Organizations

### Belgian Institute of Registered Auditors IBR-IRE

Yes. The Explanatory Memorandum (par. 23 and 24) addresses the concept of professional skepticism. However the concept seems unclear and should be clarified. Considering the importance of professional skepticism in the standard, it is wide open to interpretation and might create difficulties when analysed by a regulator. The standard could provide more guidance regarding this concept.

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### Center for Audit Quality

We agree that many aspects of the firm’s system of quality management support the exercise of professional skepticism at the engagement level. While we support the emphasis on professional skepticism in paragraph 36(b) of the Engagement Performance component, other components of a firm’s system of quality management also contribute to or support the application of professional skepticism. We encourage the Board to consider emphasizing the exercise of professional skepticism in other components.

Further, we believe that greater clarity in ED-ISQM 1 would contribute to more consistency in expectations on how far an auditor needs to go to demonstrate the skeptical mindset. Professional skepticism is defined in ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, which requires “a questioning mind” and a “critical assessment of audit evidence.” In the CAQ’s view, to be operational, these concepts of a questioning mind and critical assessment need to be supplemented with clear direction and practical application examples on what behaviors, actions, and documentation constitute appropriate professional skepticism in executing an auditor’s responsibility across a range of risk scenarios.<sup>2</sup> This could include, for example, emphasis in ED-ISQM 1 that a firm’s methodology and guidance, supported by training and incentives, can promote awareness of possible impediments to the exercise of professional skepticism and how to address such impediments.

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### Comision Interamericana de Control de Calidad de la AIC

Response: Affirmative.

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Response: Yes, the proposals generate benefits, we also suggest to the IAASB to design a practical and simple guide so that small firms and practicing professionals without employees with little quality culture can start the implementation of their Quality Management systems. The "lack of quality culture" is common in "the Americas" and other jurisdictions around the world.

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### Comite Control de Calidad del ICPARD

Response: Yes, the proposals generate benefits, but we suggest that IAASB design a simple, practical guide for small firms and practicing professionals with no quality culture to start implementing their Quality Management systems. The "lack of quality culture" is common in "the Americas" and other jurisdictions around the world.

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Response: Yes, it does.

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## CPA Australia

We consider the proposed standard should enhance firms' management of engagement quality, if implemented effectively, but we are not sure that it will be easily scalable in practice. Ultimately, these will be questions for the post-implementation review. Nevertheless, focussing quality management on addressing quality risks and clarifying firms' responsibility for managing quality should be beneficial for engagement quality.

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The exercise of professional skepticism has been addressed in the proposed standard, however, it could be further supported by directly addressing professional skepticism in paragraph 23. The firm, through governance and leadership, needs to foster and support professional skepticism in the engagement teams.

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## IFAC Small and Medicum Practices Committee

Ensuring the quality of work is a significant issue for all firms, whatever the services they offer. The SMPC is concerned that the proposals are too focused on the PIE audit market, using a very narrow public interest lens, such that – for the reasons explained below in this letter – implementation in many SMPs that do not operate in this sphere would be overly costly compared to potential benefits of a “perceived” higher quality output. The IAASB acknowledges that firms will initially need to invest adequate time and resources to implement the revised standard. We believe that for a proposed standard of this magnitude, consideration should be given to a thorough cost-benefit analysis, especially as the public interest element is greatly promoted in the ED.

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The SMPC is pleased to have had the various opportunities to provide feedback and views on the QM proposals as they were developed over the past three years. Overall, we remain concerned about the cost and benefits when operationalizing the ISQM 1 due to its inherent complexity as proposed.

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We believe that many of these proposals should generate certain benefits for engagement quality subject to further steps being taken to address the SMPC's concerns as explained in this letter, especially in relation to the threshold for risk identification and assessment and complexity introduced by the proposed approach to multiple objectives.

Some refinements to the language may also help lead to a better outcome and hence, enhance engagement quality over time.

For example, the statement in para 10 could give a clearer message as to how the nature and circumstances of the firm and its engagements can impact whether adherence to the standard alone is or is not sufficient. Para 10(a) states that a firm is required to determine whether it needs to establish additional QM objectives to meet the overarching objective of the ISQM, with para A49 explaining that these would likely be of a more granular nature. Consequently, it is possible for firm to determine that no additional QM objectives are needed. In contrast, with regard to responses, para 10(c) categorically states that the responses required by the ISQM alone are not sufficient such that the firm is required to design and implement responses in addition to those “mandated”. It seems illogical that even if a firm determines no additional QM objectives are required, it always has add-on QM risks and risk response(s) that need to be addressed. This may, unintentionally cause confusion for many firms, SMPs or otherwise. In this context, the apparent lack of a clear, systematic approach may then foster a check-the-box mentality rather than true thinking about a firm's tailored QM process. We are of the view that a much simpler approach is to consolidate all the multiple objectives for each component (should IAASB decide to maintain all eight) into one. As most of the proposed objectives are, in essence, requirements, they could be rewritten as such. We firmly support the IAASB's new emphasis on the use of professional judgement in tailoring the firm's system of QM to the nature and circumstances of the firm. Subject to our further comments, this is a key improvement to the extant ISQC 1 from the perspective of SMPs in terms of scalability. However, the audit standards have become increasingly prescriptive in recent years. Coupled with the length of these proposals, it may risk overwhelming practitioners rather than encouraging “standing back” – which is what professional judgement ultimately requires. In any case, it certainly is a timely reminder for the firm and especially, the engagement partners and teams.

While we are supportive of the IAASB's recent emphasis on the exercise of professional skepticism in audit engagements, we are not too sure if adding such a term in the text of a standard will actually drive a change in practitioner's behavior. A continuing educational strategy by educational institutions and Professional Accountancy Organizations (PAOs) may be a more effective solution. The SMPC has historically supported and encouraged appropriate coordination by the IAASB and the IESBA on the topics of professional skepticism, mindset and professional judgement. We believe such collaboration should continue to benefit the whole profession.

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We question whether the three EDs as a whole will really increase audit quality from an SMP perspective. We are also concerned that the complexity of the QM Standards taken together may drive a compliance mindset, especially amongst smaller firms who become subject to proportionately greater documentation burdens to “explain/ prove” their compliance. In our view, it is important that IAASB ensure the final suite of QM Standards addresses this issue in order to foster an effective focus on the quality of the services each individual firm delivers, as opposed to compliance with complex standards.

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## Institute of Independent Auditors of Brazil (IBRACON)

Although we recognize that the professional skepticism is embedded in the auditor profession, the standard only states its necessity on paragraph 36 and its respective application material. We do not see a clear requirement about the procedures the firm must implement in order to encourage professional skepticism. Thus, it could be enhanced by bringing in some paragraphs from the application material to the requirements session.

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## Instituto Mexicano de Contadores Públicos

Yes, however in some small and medium firms implementation may be difficult, so we suggest to include additional material with examples of the documentation of the implementation.

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## National Association of State Boards of Accountancy

In general, we believe that the proposals generate benefits for engagement quality. We have concern as to whether there is enough guidance provided to establish a strong culture at the firm level to have a focus on quality management. We recommend expanding the guidance in the governance and leadership section.

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## Royal Institute of Chartered Surveyors

The exposure draft requires professional judgment as well as professional skepticism to be exercised in designing, implementing and operating the firm's system of quality management. However, there will inevitably be some inconsistency in firm culture and what each firm considers appropriate resources (based on knowledge and experience) to exercise professional skepticism at the engagement level. Additional guidance or examples could be useful to ensure consistency amongst firms and, as necessary, amongst countries.

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## South African Institute of Chartered Accountants

A fundamental question to be answered at the end of the process is whether the proposed new and revised requirements as contained in the QM-EDs will result in an overall improvement of audit quality. Practical examples discussed during our outreach demonstrated that there is a strong behavioural perspective to quality management and that an appropriate culture needs to be created by ensuring that there are consequences for non-compliance. It was questioned whether the issue of a revised standard can influence and change behavioural traits.

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In principle, the general consensus is that the new and revised requirements will improve audit quality. However, there are practical constraints that may hinder this. The proposed new and revised requirements will result in additional work being performed and therefore an investment of additional resources in the form of time and money; particularly in terms of the risk assessment process.

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SAICA is of the view that the proposals will generate benefits for engagement quality as intended.

With respect to the exercise of professional scepticism, SAICA envisages that the proposed new and revised requirements will support the exercise of professional scepticism at engagement level.

Paragraph 7 indicates that achieving the objective of the professional standards and complying with the requirements of applicable law or regulation involves exercising professional judgement, and when applicable to the type of engagement, professional scepticism. Questions were raised on numerous occasions around what is meant by when applicable to the type of engagement. The exercise of professional scepticism is applicable to all types of engagements, albeit to differing degrees.

It is our understanding that this has been added to cater for agreed-upon procedure engagements, where the exercise of professional scepticism may not necessarily be applicable. It is therefore recommended that the standard either clearly stipulate which engagements are being referred to (agreed-upon procedures) or this statement be removed.

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## Files\8. Academics

### UNSW Audit Research Network

We believe that the proposals associated with the eight components of the system of quality management will, on the whole, generate benefits for engagement quality, including the appropriate exercise of professional skepticism. On the basis of our own research, and that of others, our view is, however, that there are opportunities to further improve the standard. We structure our response around the components of a firm's system of quality management for which we have a comment to make (we make no comment on 'relevant ethical requirements', 'acceptance and continuance of client relationships and specific engagements').

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Overall, we support the proposed standard and believe that it will enhance firms' management of engagement quality and facilitate an improvement in quality in the public interest. However, on the basis of our own research, and that of others, we have identified a number of instances where the requirements of the proposed standard, and the application and other explanatory material, may be such that the potential of the proposed standard is not fully realized. In addition, we have identified a number of instances where we believe the standard can be further improved so as to more effectively support quality management.

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## Nodes\\ED-ISQM 1\_Firm Level\01(b) Benefit Engagement Quality, incl. Professional skepticism\4. Q1(b) - Disagree

### Files\\3. National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board

The AUASB consider it is in the public interest for the IAASB to more clearly demonstrate and articulate the benefits of the proposed quality management approach in ISQM 1, and explicitly weigh these against the costs of transition and implementation, as a means to support the successful implementation of the proposed standard once it is finalised.

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The AUASB consider that a quality management approach to ISQM 1 provides an appropriate framework, but whether the proposals will generate the benefits intended will depend upon each firms implementation. Stakeholder feedback from practitioners of all sizes, indicates that implementing the proposals in the current form will be very challenging as they are resource intensive and costly.

Regarding professional scepticism, the AUASB considers paragraph 22 of ISQM 1 supports the appropriate exercise of professional scepticism at the engagement level.

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The AUASB considers that it is in the public interest for the IAASB to more clearly demonstrate and articulate the benefits of the proposed quality management approach in ISQM 1, and explicitly weigh these against the costs of transition and implementation, as a means to support the successful implementation of the proposed standard once it is finalised.

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The AUASB supports the IAASB's objective to develop and maintain robust international standards that contributes to enhanced engagement quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession. However, the AUASB notes with concern that the IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews, all contain greater complexity and detail than the extant standards they are replacing. This makes the proposed standards more challenging for all auditors (especially those auditors of smaller and medium or less complex entities) to apply, and may result in increased costs with arguably no commensurate increase in the level of audit quality for auditors of all types of entities.

As the IAASB continues to revise these proposed quality management standards, the AUASB considers it is in the public interest for the IAASB to more clearly demonstrate and articulate the benefits of the proposed quality management approach in each of the proposed standards (ISQM 1, ISQM 2 and ISA 220), and explicitly weigh these against the costs of transition and application, as a means to support the successful implementation of the proposed standards once they are finalised.

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The AUASB supports the objective of the standard and notes that paragraph 7 of ED-ISQM 1 provides clarity on the relationship between the purpose of a system of quality management serving the public interest by supporting the performance of quality engagements. However, the AUASB considers that there is a strong need to more clearly demonstrate and articulate the benefits of the proposed quality management approach and explicitly weigh these against the cost to implement as the proposals are expected to be resource intensive and costly to implement.

Additionally, the AUASB considers that while a system of quality management provides an appropriate framework as is good business practice, whether the proposals will generate the benefits intended depend upon a firms' implementation – that is, a "compliance" verses "transformational" mindset. The AUASB considers that the standard in its current form lends itself to a "compliance" mindset, which will not achieve the objectives of the standard.

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#### Institut Der Wirtschaftsprüfer

##### Overall Conclusion:

The main objectives of the project on ISQM 1 were to provide the accounting profession with a modernized and robust standard to actively manage the quality of engagements performed by firms and to improve scalability. Given the fundamental concerns that we have identified above, we conclude that the main objectives of the project will not be achieved. In our opinion, the significant conceptual and practical issues we identified will lead to a misallocation of the firms' resources and the performance of ineffective and inefficient activities to comply with the new requirements will result in little, if any, positive impact on the quality of engagements: the draft reduces quality management to a "compliance exercise". In summary, the draft involves "form over substance" that will lead to a compliance driven mentality instead of focusing on quality improvements. We therefore suggest the draft not be issued without fundamental changes. Such fundamental changes would then require re-exposure.

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We do not believe that the draft substantively enhances firms' management of engagement quality and improve the scalability of the standard. Please refer to the body of the letter for our reasoning.

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We do not believe that the proposals will generate benefits for engagement quality as intended. We refer to the body of the comment letter for our reasons. In particular, we note:

The quality objectives are far too granular and actually represent requirements or responses that are not suitable for managing quality at firm level; The low threshold for risk identification in combination with quality objectives that are far too granular will lead to a time-consuming documentation, including the risk of losing sight of the important quality risks.

As outlined in paragraph 24 of the Explanatory Memorandum, professional skepticism is relevant to judgements made in performing assurance engagements (including audits and reviews) but not to judgements made about the quality management system. We also note that the exercise of professional skepticism is not applicable for all services in scope of the draft (e.g., agreed-upon procedures engagements and compilation engagements). Consequently, the draft should be clear about when professional skepticism is applicable (assurance engagements only).

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## Kammer der Steuerberater und Wirtschaftsprüfer

Additionally, ISQM 1 as drafted may create a lot of additional documentation requirements, especially in documenting what has not been done and why. We do not think that this compliance exercise would help enhance quality. Overall, we think that the IAASB needs to provide more guidance on what need to be documented. The mix of requirements and guidance leads to confusion when it comes to documentation.

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## Files\4. Accounting Firms

### Baker Tilly International

Response: The greatest concern we have with the new standard overall is that there will be greater complexity, more requirements and enhanced documentation requirements to demonstrate compliance with the revised standard. However, despite this, it is not clear how implementing the requirements of the new standard, even with the further enhancements we have identified herein, will necessarily lead to improvements in audit quality at the engagement level. Further detail is provided in the comments which follow (see in particular 1(b) below).

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The standard introduces enhanced requirements, greater complexity and further requirements around documentation and evaluation of the system of quality management. We are concerned that these enhanced requirements may not achieve the required outcomes of improvement in engagement quality, as measured by inspections of completed engagements, as many of the issues identified in individual engagements may not necessarily be addressed by changes to the system of quality management, e.g. "human error", failure to sufficiently apply professional scepticism etc.

We are particularly concerned that small and medium practices (SMPs) may find it difficult to implement the new standards due to a lack of resources and the need to focus on providing high quality engagements. Indeed, it has been argued at the recent "Less Complex Entities" working conference in Paris, that a small firm providing only a handful of relevant engagements may be better placed focussing its resources on delivering high quality engagements than taking up resources implementing a complex system of quality management which may or may not directly impact quality at the engagement level.

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Response: It is difficult to conclude on whether the proposals will directly benefit individual engagement quality. There are many instances under the current standard where a firm has appropriate arrangements in place to comply with ISQC1 but where individual engagements are subject to quality failings. As the objective of ISQC1 is not significantly different to the proposed objective of ED-ISQM1, it is difficult to conclude that establishing arrangements in accordance with the revised standard will necessarily lead to improved quality at the engagement level.

It is difficult to see how the implementation of ED-ISQM1 will directly lead to enhanced application of Professional Skepticism. This is a specific area on which the profession is, and should be, focused on making improvements but we do not believe ED-ISQM1 is the most appropriate means of doing so. Enhancements to ISAs would be a more appropriate vehicle if changes to the standards are the solution, although we believe that the solution may lie more in guidance and support for auditors rather than ever increasing standards.

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## Files\6. Member Bodies and Other Professional Organizations

### Australian Accounting Professional and Ethics Standards Board

We understand some of the reasons for developing a new quality management framework stem from the identification of deficiencies in the existing quality control framework from various inspection reports and monitoring activities. However, upon reviewing some of these inspection reports, it appears that the reported deficiencies are related to failures by a firm to:

- implement policies or procedures in accordance with existing standards;
- comply with their policies and procedures established by the existing quality control standards;
- comply with the requirements of a technical standard; or
- comply with the documentation requirements of standards.

Further, the Explanatory Memorandum for ED ISQM 1 and 2 do not provide evidence of the nexus or causal link between the IAASB's quality concerns and deficiencies identified in extant ISQC 1 or how the proposed approach will address apparent deficiencies and/or quality concerns.

APESB annually receives updates from the three professional accounting bodies who monitor compliance and the key matters reported in respect of the quality control standard are:

A system of quality control has not been documented;

A system of quality control has been documented but is incomplete; and  
The documented system of quality control has not been fully implemented.

We favourably note that over the last decade, the reported non-compliance % of these metrics have declined, but it is still at a significant level. While in certain instances, it could be a lack of knowledge that may be a contributory factor to non-compliance with the existing standards; availability of sufficient time would also be a significant factor. One may respectfully argue that the additional work created by the ISQM proposals in its current form will have a detrimental impact on quality management, particularly in the SMP environment.

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We are of the view that the proposals will not generate the expected benefits to engagement quality. We understand some of the reasons for developing a new quality management framework stem from the identification of deficiencies in the existing quality control framework from various inspection reports and monitoring activities. However, upon reviewing some of these inspection reports, it appears that the reported deficiencies are related to failures by a firm to:

- implement policies or procedures in accordance with existing standards;
- comply with their policies and procedures established by the existing quality control standards;
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- comply with the documentation requirements of standards.

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One option set out below, is to maintain extant ISQC 1 and enhance leadership and governance, resourcing and monitoring, remediation and evaluation policies and procedures. This would take global stakeholders on a journey rather than requiring a major change resulting in entirely new systems to be developed and where the benefits are uncertain.

#### Option to Improve Scalability – Enhance Extant ISQC 1

This option would maintain extant ISQC 1 obligations with the introduction of additional requirements and enhancements from ED-ISQM 1 in respect of governance and leadership, resources, information and communication and the monitoring, remediation and evaluation process.



This would lessen the compliance burden on firms as they would only need to introduce additional policies and procedures to their existing system of quality control. This approach would enable firms to gradually adapt to additional requirements rather than undertaking a major shift to an entirely new SQM under the current proposals where the expected benefits may not eventuate. The IAASB could monitor the implementation of these additional requirements to determine whether they address the IAASB's concerns in respect of quality.

#### Cost/Benefit Analysis

As the causal links between the IAASB's concerns about quality and actual deficiencies in extant ISQC 1 have not been established with quantitative or qualitative research evidence, it is unclear whether expected benefits from the proposals will be realised and outweigh the implementation costs for firms (particularly sole practitioners and SMPs).

Based on stakeholder consultations, we believe the proposed framework will be a significant burden (in time and costs) for sole practitioners and SMPs to implement as they do not have the dedicated technical resources of a large firm. Stakeholders also noted it is unclear as to what the deficiencies are in extant ISQC 1 and how these proposals will improve quality.

In Australia, we conservatively estimate that there are over 10,000 accounting firms that are either sole practitioners or are 2-5 partner firms (SMP firms). Based on the stakeholder feedback, assuming it takes a senior person with a charge out rate of AUD 200 per hour approximately one week to develop a new ISQM Framework specific to the firm, this would result in a cost of AUD 8,000 per firm. When this cost is extrapolated across 10,000 sole practitioners and SMP firms in Australia (as each firm needs to develop a unique SQM), it will result in a cost of AUD 80 million.

APESB strongly encourage the IAASB to undertake a cost-benefit analysis, measuring expected improvements to quality compared to potential additional implementation costs of the proposed standards for sole practitioners and SMPs. The IAASB may even consider observing how it could be implemented on a test basis by SMPs.

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In Australia, we conservatively estimate that there are over 10,000 accounting firms that are either sole practitioners or are 2-5 partner firms (SMP firms). Based on the stakeholder feedback, assuming it takes a senior person with a charge out rate of AUD 200 per hour approximately one week to develop a new ISQM Framework specific to the firm, this would result in a cost of AUD 8,000 per firm. When this cost is extrapolated across 10,000 sole practitioners and SMP firms in Australia (as each firm needs to develop a unique SQM), it will result in a cost of AUD 80 million.

Given the quantum of the potential investment across the profession, and as noted in issue (iii) below, we believe that a comprehensive cost-benefit analysis of these ISQM proposals should be performed by IAASB to justify the investment of time and associated costs to develop new SQMs.

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#### Cost-benefit analysis from the practitioner's perspective

As the causal links between the IAASB's concerns about quality and actual deficiencies in extant ISQC 1 have not been established with quantitative or qualitative research evidence, it is unclear whether expected benefits from the proposals will be realised and outweigh the implementation costs for firms (particularly sole practitioners and SMPs).

Based on stakeholder consultations, we believe the proposed framework will be a significant burden (in time and costs) for sole practitioners and SMPs to implement as they do not have the dedicated technical resources of a large firm. As noted above, to develop unique ISQM frameworks for 10,000 SMP firms may cost AUD 80 million for which the benefits may not eventuate. Stakeholders also noted it is unclear as to what the deficiencies are in extant ISQC 1 and how these proposals will improve quality.

Recommendation 3: We strongly encourage the IAASB to undertake a cost-benefit analysis, measuring expected improvements to quality compared to significant additional implementation costs of the proposed standards for sole practitioners and SMPs. The IAASB may even consider observing how it could be implemented on a test basis by SMPs.

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## Institute of Chartered Accountants in England and Wales

The impact of auditing standards on the exercise of professional scepticism, which is a state of mind, is limited. Auditing standards support the exercise of scepticism to the extent that they require the exercise of professional judgement and avoid prescription. IAASB's standards - by its own admission - have become increasingly prescriptive in recent years. That, combined with the sheer length of the proposals risks auditors getting bogged down in the requirements rather than standing back - which is what professional scepticism requires.

The proposals rightly emphasise iteration and connectivity as well as process. But practitioners may focus on process and IAASB could improve the proposals by balancing this perceived emphasis with more focus on competence, and the importance of its role in fostering professional scepticism. The link with the IAESB's work on this area should be made clearer by referring explicitly to the proposed IESs, particularly IES 8.

## Institute of CPAs of Uganda

Notwithstanding our comments in (a) above, ICPAU believes that a critical element to a system of quality control is flexibility to circumstances and risk environments. However, the prescriptive approach adopted by the standard to each of the components of the ED-ISQM 1 may be detrimental to audit quality especially with the lack of weighting and proportionality to each of the requirements. There are some requirements within the standard that seem to provide for a mandatory benchmark application by all firms and only consider additional measures if those requirements prescribed by the ED-ISQM 1 seem ineffective based on the firm's assessment. This prescriptive approach may be less scalable than the current principles in extant ISQC 1 and may increase compliance costs and time at the firm level without necessarily achieving improved audit quality. ICPAU would thus propose for maintenance of the principles-based approach and keep any other prescriptive material in the guidance material. And whatever material is taken to the explanatory material should be enhanced to ensure consistent application of the standard by the firms.

## Nodes\\ED-ISQM 1\_Firm Level\01(b) Benefit Engagement Quality, incl. Professional skepticism\5. Q1(b) - Unclear

### Files\\3. National Auditing Standard Setters

#### Royal Nederlandse Beroepsorganisatie van Accountants

In ISA 220 par. A27-A29 some clear examples of professional skepticism are given, which we support. However, In ISQM 1, par. 7 and 36(b) it is only mentioned that professional skepticism is exercised at the engagement level. We also see a role for the firm to actively support professional skepticism by engagement teams.

### Files\\4. Accounting Firms

#### Nexia Smith & Williamson

Given that auditor competencies must be a key part of audit quality, we would encourage the IAASB to mention the the International Education Standards issued by the International Accounting Education Standards Board. We have found IES 8 hard to apply in practice, so there is an excellent opportunity here for collaborative work between the IAASB and IAESB to provide some practical guidance.

We agree that the overall effect of ED-ISQM 1 is to place a much greater requirement on firms to manage engagement quality. We agree with the underlying approach of identifying objectives, assessing risks and designing responses to those risks.

### Files\\5. Public Sector Organizations

#### International Organization of Supreme Audit Institutions

The proposal has not made more clear the usage of concepts of professional judgement and scepticism. On the other hand, we think that these concepts are so much intertwined and to a certain extent, trying to define and distinguish them becomes a merely academic discussion. In practice, professional scepticism seems an important element of professional judgement, rather than a separate and additional concept. The main concern should be to judge whether, using the auditor's knowledge and experience, sufficient, relevant and reliable audit evidence has been obtained to support the conclusions reached. Considering the fact that the standard is principle based, IAASB may need to produce guidance and other supporting documents for practical use according to the circumstances. See also our comments on ED-ISA220 in relation to this issue.

There is no basis to judge that this will be case, as the extent to which the QM is effective is how well it is put into practice. The essence of the proposal is that firms should operate QM systems to address the risks involved. However, this seems more a self-evident truism, rather than the main principle behind a standard on a key area. If quality fails in respect of a specific engagement, then can it ever be claimed that the standard has been adequately followed? In which case is it really a standard?

#### Office of the Auditor General New Zealand

It is our view that the proposed standard is only one mechanism which supports the appropriate exercise of professional scepticism by practitioners.

We consider that some thought should be given to how to document the exercise of professional scepticism. While the investigation of root causes may assist with assessing if professional scepticism has been adequately exercised, there is a dependence on the level of sophistication of the root cause analysis.

It is our view that without some additional guidance the intended benefits from the risk assessment process might not be achieved. This is particularly so for small firms who may not have the time and resource to calibrate their responses to a sensible and pragmatic level as intended. We also consider regulators may adversely impact the intended benefits and could result in risk settings not being sensible or too onerous to achieve.

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### Provincial Auditor Saskatchewan (1)

Yes, the proposals should generate benefits but we do not necessarily think that it will result in new significant responses to quality risks.

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While we support the new quality management approach, we do not feel that it will result in a significant change in practice within our firm.

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## Files\6. Member Bodies and Other Professional Organizations

### California Society of CPA's

Quality management systems exist to (a) catch problems so they can be corrected, and (b) prevent problems, in part through the creation of an environment in which practitioners are guided and motivated to do quality work to avoid being penalized by the quality management system. That said, there are practitioners that are motivated to do quality work because of their professionalism and the quality management system is irrelevant to that motivation.

So, where quality is already taken seriously, we don't think the new approach is likely to result in benefits. However, for those firms that have been creating and implementing quality control systems without thinking them through, the new approach may force adaptations that will improve quality. But, we are not convinced the benefits will be worth the efforts.

In other words, we agree that a change in approach to audit quality is necessary and we believe this proposal, via a risk based approach with an emphasis on judgement, would be a positive change. However, the question of cost vs. benefit is at issue.

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Yes

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### Chartered Accountants Australian and New Zealand and ACCA

Adopting a risk assessment approach in relation to quality management should produce benefits but to what extent in firms that already apply the extant standards well is unknown. Achieving change in audit quality is dependent on cultural change. The impact of this is hard to assess. There is a concern that there will be a high implementation and maintenance cost without delivering a significant improvement in quality. There needs to be a more explicit evaluation and articulation of the benefits of the proposed approach over the extant standard and a comparison to the likely costs of implementation. Audit firms have finite resources. The time and resources which are directed to the implementation and maintenance of a quality management system equals a reduction of time and resources dedicated to other measures that also impact audit quality, so there must be a clear benefit from the new approach to justify this.

SMPs will need implementation guidance and examples for the benefits to outweigh the costs.

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We believe that the work effort required to implement the standard is significant and with such granular objectives etc., may drive firms to backfill risks or to take other steps to manage the practicality of meeting the requirements. If the process is too resource intensive and time consuming, this may adversely impact audit quality rather than improving it. These concerns are likely to be more significant for SMPs.

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### Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)

Response: The increased emphasis on professional judgment support the appropriate exercise of professional skepticism.

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### Institute of Chartered Accountants of Pakistan

We believe that intended benefits require further explanation for stakeholder understanding. In this context a comparison of extant ISQC 1 requirements with draft ISQM 1 and 2 would be helpful. This comparison would clearly identify how existing policies and procedures could be adapted / tailored under the proposed framework. This would help in identifying which existing requirements and guidance in the extant standard can be incorporated into the new framework and highlight additional requirements or documentation to be developed.

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## Instituto de Censores Jurados de Cuentas de España

When we analyse the leadership issue and how leadership should be used to create a culture of quality in the professional performance, professional skepticism is indirectly addressed. However, we understand that ISA 220, currently under review, already addresses the exercise of professional skepticism at the engagement level.

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## Nordic Federation of Public Accountants

We believe that the overall length of the standard and the amount of requirements will require resources for implementation that, at least for SMPs and sole practitioners, will not correspond to the expected benefits and that there is an imminent risk that firms will lose sight of the overall objective when trying to keep up with very prescriptive and detailed requirements.

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We believe that the use of both professional judgment and professional skepticism are important factors in tailoring the firm's system of quality management. However, the combination of a vast number of very prescriptive requirements and an emphasis on using professional judgment and professional skepticism is challenging and might to some extent even be contradictory. We are concerned that the number of detailed requirements, in practice, might overshadow the use of professional judgment and professional skepticism.

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## Wirtschaftsprüferkammer

We have not seen that IAASB compared the expected improvements to quality to the potential additional implementation costs to be incurred by the firms (Cost/Benefit Analysis) though it is essential before further steps are taken.

For further details please refer to the questions below.

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We appreciate the significant amount of work that has been undertaken by the IAASB in developing the three projects and support the objective of enhancing quality management (QM). However, we understand that the expected improvements to quality have not been compared to the potential additional implementation costs to be incurred by the firms (Cost/Benefit Analysis).

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Whereas professional skepticism is not addressed in extant ISQC 1, the IAASB explains in proposed ISQM 1 that professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team in performing the engagement (A 96).

However professional skepticism is picked up in several other Standards (ISA 200, 240, 315 ...) as well as in the IESBA Code of Ethics. In our view professional skepticism is a matter of the internal attitude of the auditor; therefore awareness is more helpful than additional requirements or application material. Any additional requirements or application material for applying the professional skepticism are not helpful or necessarily improve professional skepticism in our view if it is not addressing the attitude of professionals.

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## Files\\7. Investors and Analysts

### Corporate Reporting Users' Forum

Professional Skepticism.

Professional skepticism is merely mentioned in ISQM1 because it should be manifested at engagement level. However, it is an important element of the audit quality control system to build a system to bring professional skepticism to the accountant, for example, to reflect it in the evaluation of individual accountants and audit teams We believe that it should be addressed in ISQM1.

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## Nodes\\ED-ISQM 1\_Firm Level\01(c) Scalability\2. Q1(c) - Agree

### Files\\2. Regulators and Audit Oversight Authorities

#### Financial Reporting Council United Kingdom

We agree. The system of quality management (SOQM) is a proactive, scalable and robust approach to managing risks to quality that can be adapted as necessary to firms of varying size, complexity and circumstance in a constantly changing business environment.

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## Files\\4. Accounting Firms

### Deloitte Touche Tohmatsu Limited

Response: DTTL believes the new quality management approach, as proposed in ED-ISQM 1, provides a framework from which to substantively enhance firms' management of engagement quality while at the same time improving the scalability of the standard. The responses to Questions 1(a)-(c) below provide further comments.

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Response: With the risk-based nature of the new quality management approach, DTTL believes the requirements and application material of ED-ISQM 1 are sufficiently scalable such that they can be applied by firms of varying size, complexity, and circumstances. We recognize that implementation of the revised structure will require the investment of time and resources on the part of firms and that such investment may be more significant for smaller firms than for larger ones, relative to size. We believe, however, that such investment is necessary to substantively enhance the robustness of firms' systems of quality management and further drive improvements in engagement quality.

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### Duncan and Topliss

(c) Again, we feel that yes, they are. This is a risk-based approach and therefore the level of assessment, number of risks faced and suitable responses to those risks will all be based upon the size and complexity of the entity they are related to. Therefore, they are scalable.

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### ETY Global

(c) The requirements and application material proposed by ED-ISQM 1 are scalable at the right extend

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Yes the ED-SQM 1 enhance firms' management of engagement quality by including the quality management in the overall risk management framework taking account all its relevant components. The ED improve the scalability on the quality management by requiring the setting of the quality management system proportionate to the nature, situation and context of the engagement.

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### Haysmacintyre LLP

They appear to be appropriately scalable for a firm of our size and complexity.

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## Files\\5. Public Sector Organizations

### Auditor General South Africa

Yes, the ED-ISQM 1 substantively enhances firms' management of engagement quality, and at the same time improve the scalability of the standard. The move to a 'principle-based' approach to quality management allows for a firm to apply the principles of quality management in a non-prescriptive manner for which the identification and response to quality risks can be tailored to the firm and its divisions based on professional judgement.

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Yes, the requirements and application material of proposed ED-ISQM 1 is scalable such that it can be applied by firms of varying size, complexity and circumstances as the firms are required to identify quality objectives and quality risks that are applicable to the nature and circumstances of the audit engagements they perform and to respond appropriately to those identified and assessed quality risks.

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### Office of the Auditor General of Alberta

Response: The proposed ED-ISQM 1 is scalable for our Office of 150 employees.

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### Office of the Auditor General of Canada

Yes the requirements and application material are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.

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## Provincial Auditor Saskatchewan (1)

Yes, the requirements and application material of proposed ED-ISQM 1 seem scalable.

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## Files\6. Member Bodies and Other Professional Organizations

### Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

CNDCEC believes that the proposed approach, though more structured compared to the current one, enhances efficiency in the management of engagement quality since it introduces significant aspects of self-evaluation by the auditor, with the purpose of focusing attention on the areas the auditors deems at risk, as it happens when planning and carrying out audit engagements.

The method based on the preliminary evaluation of risk has by now become of common use in auditing and has proved to have undeniable pros. The application of such method to quality management will surely be beneficial in relation to a quality system designed and maintained in response to the identified and assessed risks, rather than a system requiring the adoption of policies and procedures that disregard the actual characteristics relating to the organization and size of the auditor and to the type of engagement performed.

In ED-ISQM 1 the exercise of auditor's professional judgement in defining the size of his/her own quality management system is, therefore, significantly enhanced. As a result, there are evident benefits in terms of adaptability of the system to the nature and the circumstances in which auditors operate as well as to the characteristics of the engagements they perform.

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### Instituto de Censores Jurados de Cuentas de España

We consider that the scalability objective has been met mainly due to the change of the approach from compliance to risk. This favours the effective application of scalability. Specifically, in ISQM1 the consideration of the nature and circumstances of the firm and of the engagements that it performs (Para 5), is key to that objective.

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### Royal Institute of Chartered Surveyors

The topic of scalability has been debated and discussed for some time. We believe the level of detail as provided in ED-ISQM 1 is scalable as firms can tailor a system of quality management that is suitable for the nature and circumstances of the firm and the engagements the firm performs. Some may believe that ED-ISQM 1 is not scalable or 'perfect' however, given the prescriptive nature of the ISQC 1, we believe the current standard does not promote a scalable and customized system of quality management that focuses on areas of risk.

We also believe that the initial cost, time and resources invested by firms to implement ED-ISQM 1 will or may be significant, however, we believe in the long-run a bespoke quality management system will result in more effective use of firm resources and enhancements in engagement quality.

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## Nodes\ED-ISQM 1\_Firm Level\01(c) Scalability\3. Q1(c) - Agree but with further comments

### Files\1. Monitoring Group

#### International Forum of Independent Audit Regulators

7. The three exposure drafts include a substantially increased volume of application material and there is discussion of producing additional guidance to assist practitioners implementing the new standards. We encourage the IAASB to critically review the application material and any additional guidance and consider whether the relevant requirements could rather be improved or clarified in the first instance.

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We also recognize and support the approach taken in view of scalability and adaptability for the varying practices worldwide. We believe that complex practices (and networks) may need to do significantly more than the minimum requirements set out in the exposure draft to meet the objective.

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## Files\2. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (South Africa)

Although ED-ISQM 1 applies to audits, reviews, other assurance and related services engagements, the requirements and application material focus mainly on audits. We suggest that a more balanced approach, with requirements referring to all the different types of engagements (where relevant), be considered. However, some requirements may be too extensive and onerous for engagements other than audits, and we encourage this to be considered.

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SMPs have indicated that they will wait for guidance on how to identify and assess quality risks. This is possibly an indication that ED-ISQM 1 is not regarded by some users as being sufficiently scalable. We suggest that further guidance or clarification on where scalability can be applied be included in the standard.

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While, from a regulatory perspective, we agree that the requirements and application material of ED-ISQM 1 are scalable such that they can be applied by firms of varying sizes, complexity and circumstances, similar views were not held by the firms. Both large firms and SMPs are of the view that it is not clear how ED-ISQM 1 could be scalable for SMPs, and how SMPs could still evidence their compliance with it.

In the context of scalability, the extent of documentation requirements was also frequently mentioned. SMPs are challenged by the documentation requirements and would prefer more specificity and clarity on how certain measures can be documented in the environment of a small firm, where, for example, the demonstration of leadership actions may be more informal than at a large firm. Our expectation as a regulator is that all firms do work of the highest standard in the public interest, and that the evidence supporting the system of quality management must be sufficient and appropriate. The IAASB should guide SMPs more clearly on how this can be achieved.

A concern was also raised where scalability follows a “top down” approach. In other words, where an SMP is part of a large network, and the network policies and procedures need to be applied, these could be difficult to scale back for the SMP. In this case, the network requirements section of ISQM 1 should address the responsibilities of the SMP.

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### Irish Auditing and Accounting Supervisory Authority

It is important that the standards contain clear principles and provisions, which can be applied in a scalable way. We recognise and support the approach taken in respect of scalability and adaptability for varying practices depending on their particular circumstances. Whilst the approach to scalability is set out in the introductory paragraphs, we are of the view that the standards should elaborate more clearly on how this relates to the need to achieve the quality objectives and the requirements on the risk approach. We furthermore recommend clarification both on when the requirements may be not relevant to a firm and on what they may entail in terms of additional procedures for large and more complex firms.

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We are supportive of the concept of quality objectives, and their adaptability so as to reflect, amongst other factors, a firm’s size, complexity, structure, legal form and client base. As noted in paragraph 4 of this letter, we suggest including some of the provisions regarding scalability, which are currently part of the introductory paragraphs, in the requirements section of the standard so as to better explain how the quality objectives, scalability and risk approach are to be applied in practice and how factors such as size, complexity, structure, legal form and client base will impact a firm’s quality management system. Additionally, as noted above, we think it is important for the standard to address the need to learn from mistakes and errors and suggest adding a quality objective to ‘be a learning organisation’, including the necessary requirements regarding an open culture and others as appropriate.

The language on non-relevance of requirements (paragraph 21) should be expanded to clarify to what extent it could occur. For instance, the fact that a firm is very small would not be an adequate reason for not performing periodic engagement inspections as part of its self-assessment of the quality management system. Such periodic engagement inspections can be performed by service organisations. The current language in the application material does not provide guidance on alternative ways for small firms to meet the quality objectives. Also, it should be stated that firms may need to refuse to accept certain engagements if they cannot meet public interest expectations regarding quality management. Pursuant to paragraphs 67(a) and (b), the firm shall document the work performed to achieve the quality objectives, we suggest also clarifying that the documentation should include an explanation of why requirements are not relevant under paragraph 21, unless that is self-evident.

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## Files\3. National Auditing Standard Setters

### AICPA

The approach of identifying and responding to a firm’s specific risks rather than only requiring prescribed responses is inherently scalable. Scalable standards make clear to firms what is necessary to apply principles-based requirement so that they can do so effectively and efficiently without actions or documentation that might appear to be required but are not necessary in the circumstances of the audit.

We generally agree that the requirements and application material in ED-ISQM 1 address scalability, however, there is a possibility that application material explaining that certain requirements may not apply to smaller firms will be misinterpreted as “much of this doesn’t apply to small firms”. More

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examples that illustrate how straightforward it may be for a smaller firm to apply a particular requirement would be helpful and are probably necessary. We have noted above areas where we think scalability will be more challenging.

As discussed above, we believe the largest risk to scalability resides squarely in the implementation of the Proposed Standards. Although the requirements in the Proposed Standards are principles-based and allow for scalability, how firms are evaluated on the implementation or how much emphasis is placed on firms having similar systems of quality management could work against the scalability of the Proposed Standard. Again,

We believe that ED-ISQM 1 has the potential to substantively enhance firms' management of engagement quality and improve the scalability of the standard. Implementation support materials will be essential in order to for firms to achieve that potential.

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## Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes. The proposals consider the firm and its engagements' nature and circumstances. However, the application will require efforts from smaller firms. More implementation materials, use of technology (for example use of e-standards to easily select or eliminate steps that are applicable or not applicable could facilitate the consistent implementation of the standards through the firms) education and a longer implementation deadline should be worked on.

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## Hong Kong Institute of Certified Public Accountants

The sheer length of proposed ED-ISQM 1 may pose a challenge to readers. To help improve readability and scalability of the standard, it may be useful for IAASB to undertake a similar exercise to ED-ISA 315 (Revised) to present the requirements and application materials that broadly address varying sizes, complexity and requirements. The proposed ISQM 1 should be streamlined as far as possible focusing on "what are the requirements". For example, paragraph 4 somehow repeats paragraph 1 and the example in paragraph 5 which is also in paragraph A23, can be deleted in the standard itself.

The proposed requirements and application materials of proposed ED-ISQM 1 are scalable as it requires firms to apply a risk-based approach in the design, implementation and operation of the system of quality management, taking into account the nature and circumstances of the firm and the engagements performed by the firm. In addition, an explicit requirement in paragraph 21 of ED-ISQM 1 indicates that there may be circumstances when a requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements facilitates the application.

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## Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

For a larger or a more established practice, the requirements and the application materials can be easily understood. However, though the standard does attempt to be scalable, smaller practices may find it challenging due to limited resources and as such, we would request for more guidance with examples on how to perform risk analysis/assessment and root cause analysis.

The ED-ISQM 1 does substantively enhance firms' management of engagement quality and improve the scalability of the standard.

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## Saudi Organization for CPAs

Establishing committee to study challenges that face those SMPs in application of ISQM 1 and issues discussions material for case studies,

Although I suggested above some means to enhance implementation I believe that The approach of quality management and risk assessment would need to be simplified for less complex firms and addressed separately for those SMPs firms this will affect not only documentation of process, but period for which latest assessment be valid, procedures and policies, risk assessment scope, response (time, nature and extent), conditions and roots causes of risks affecting risk management process, this area I believe need more deliberative resources and simplifications using more suggestions delivered from more jurisdictions about methods of simplifications.

I suggest some improvements for that purpose, in general, these suggestions will include

1- Adding simplifications for that less complex firms (structure, formalities and geographical expansion may need more improvements Addressing each component of quality management (leader ship & governance, information and communication, ..... ext.) by procedures specifically directed to those less complex firms, and that focus on each quality management's component policies, will improve the application



## Files\4. Accounting Firms

### BDO International

Part (c) With respect to ‘scalability’, while we acknowledge the IAASB has improved the overall scalability of the proposed standards through inclusion of implementation materials referencing scalability scenarios for smaller firms, and the notion that there may be fewer additional quality objectives that need to be identified, the set-up and implementation of a QMF is likely to be a heavy burden for many smaller firms. Additional or existing resources will need to be directed to support training, tools modifications, set up of new processes and testing of the system.

For many firms, especially those without access to a network-provided set of resources or with limited availability of local risk management expertise, one of their challenges is likely to be the initial thoughtful identification and assessment of quality risks in response to the quality objectives. For firms of this nature there may be difficulty in deciding (a) where to start and (b) how to assess which quality risks are likely to have a ‘reasonable possibility’ of occurring.

Potential options for the IAASB to consider to support all, and in particular these users of ED-ISQM 1, could include:

Provision of supplementary implementation support materials including mini examples which outline from a sole practitioner or small and medium-sized practice (SMP) perspective the types of quality risks that they identified in response to the quality objectives for a firm of their size. While this option does pose a danger that individuals and firms adopt the specific examples wholesale (even when not relevant) at least it provides a starting point for decision-makers to commence putting the QMF into practice.

Another option could be to bring the diagrams, which have helpfully been included in the explanatory memorandum (specifically on pages 13, 15 and 24), alive through mini video examples to explain how a decision-maker in an SMP context put these into practice in their firm given a specific set of facts and circumstances.

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### Crowe Global

Response: The requirements and application material are scalable. We consider that the exposure draft has been written to promote flexibility based on the circumstances. Implementation guidance will assist firms with scaling the requirements to their circumstances. However, guidance on scaling the requirements in practice has to encourage firms to apply their own judgment in determining the solution that is right for them and not be perceived as being “standardised” or encouraging a “checklist” approach.

Scalability will be a challenge, and there are concepts in the standard that many practitioners are currently not particularly familiar with. Implementation support by the IAASB and close collaboration with national oversight bodies and professional accountancy organisations will be essential. This support should include discussions about scalability, including relevant case studies.

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### EY Global Limited

However, we believe that the scope of proposed ISQM 1 should be limited to firms that perform audit engagements and only as it pertains to the delivery of audit services. As noted in paragraph 8 of The IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level, in the Invitation to Comment (ITC), Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits that was released in December 2015, the following issues were identified:

Fostering an appropriately independent and challenging skeptical mindset of the auditor.

Encouraging proactive quality management at the firm and engagement level.

Exploring transparency and its role in audit quality.

Focusing more on firms’ (including networks’) structures and communication processes and their internal and external monitoring and remediation activities.

Reinforcing the need for robust communication and interactions during the audit engagement.

Items a, c, and e above specifically relate to enhancing the quality of audit engagements; therefore, limiting ED-ISQM 1 to the delivery of audit services would seem consistent with being responsive to the concerns identified in the ITC. The performance of quality audit engagements is integral to a firm’s responsibility to serve the public interest and limiting the scope of ISQM 1 focuses the design, operation, and implementation of the system of quality management as it pertains to audit services. In doing so, the firm is investing its resources on a system of quality management for the engagement services with the highest level of risk to the public interest.

If ED-ISQM 1 is applied with respect to audit services only, we believe that there are several options that could be considered individually or in combination with respect to firm-level quality control for non-audit engagements addressed by the IAASB’s International Standards, such as:

Maintain an “ISQC 1-like” standard, which would focus on appropriate policies or procedures for quality control with respect to such engagements

Encourage firms to adopt ISQM 1 for quality management over such engagements

Revisit the applicability of ISQM 1 as part of a post-implementation review of the standard when concrete evidence about its implementation and its benefits and costs can be analyzed

It is our view that all of these options provide a level of quality control that is sufficient for non-audit services conducted in accordance with the IAASB’s International Standards, while at the same time address the strong calls for change that are being made in the context of audit quality.

However, we believe that the scope of proposed ISQM 1 should be limited to firms that perform audit engagements and only as it pertains to the delivery of audit services. The performance of quality audit engagements is integral to a firm's responsibility to serve the public interest and limiting the scope of ISQM 1 focuses a firm's investment on a system of quality management for the engagement services with the highest level of risk to the public interest. Refer to our response to Q1(a) in 'Appendix 1 EYG Response to ED-ISQM 1' for further comments on limiting the scope of ED-ISQM 1 to firms that perform audit engagements only. We also provide options that could be considered individually or in combination with respect to firm-level quality control for non-audit engagements.

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If ED-ISQM 1 is limited to audits only, we believe the requirements and application materials are scalable. As noted in our response in (a) above, we believe ISQM 1 has been developed due to demands for enhancements in audit quality. We see a high potential for scalability issues in having an equally demanding system of quality management over non-audit services, particularly without evidence from a thorough cost-benefit analysis, which could be informed by the experiences of implementing the standard with respect to audits. We find the range of non-audit engagements conducted under the IAASB International standards to be quite wide as it relates to their nature and complexity, as well as their public interest role. We do not believe that the flexibility provided by the risk assessment process alone is enough to justify the application of this standard to all engagements, particularly those that involve obtaining no assurance, without further analysis of the implications and consideration of potential unintended consequences to the delivery of such services. As noted in our response to (b) above, we support the firm's ability to design, implement and operate a system of quality management based on the nature and circumstances of the firm as described in paragraph 85 of the explanatory memorandum of ED-ISQM 1.

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### Grant Thornton International Limited

We are supportive of the introduction of a quality management approach for firms in developing their processes, policies and procedures. Overall, we are of the view that the proposed standard has been developed in a scalable manner, however, there are a few areas that we believe warrant further consideration from a scalability perspective. Specifically, we believe that the requirements may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements and have recommended further consideration of this area; including whether the proposed standard should apply at all to these firms, or whether consideration should be given to identifying a subset of requirements with which these firms are required to comply. We are also of the view that the requirements in relation to service providers and to firms that are part of a network could prove to be burdensome absent more defined boundaries to these requirements.

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We are of the view that the standard is generally scalable for firms of varying sizes that perform audit engagements. We would note however, that the requirements in ED-ISQM 1 may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements. We suggest that consideration is given to restricting the required application of ED-ISQM 1 to firms that perform audits and review engagements, with application of the proposed standard being voluntary for firms that only perform compilation engagements or agreed-upon procedures engagements. Alternatively, consideration could be given as to whether all of the requirements are necessary for these types of firms. The IAASB could consider identifying the subset of the requirements of ED-ISQM 1 with which firms only performing compilation engagements or agreed-upon procedures engagements would be required to comply, with compliance of the remaining requirements being voluntary. Similarly, if ED-ISQM 1 is to be applied to firms that only perform compilations or agreed-upon procedures engagements, further clarification would be welcome on the extent of the assessment required by firms that form part of a network where such firms only perform compilation or agreed-upon procedure engagements.

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### Mazars USA LLP

Response: ED-ISQM 1 will result in significant changes in the approach to a firm's system of quality management and engagement execution. The standard is risk-based, demanding a customized approach and therefore improving scalability as compared to extant ISQC 1.

We expect ongoing guidance from the IAASB will be needed to support firms during their initial and implementation and ongoing maintenance of the firm's system of quality management.

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Response: Overall, ED-ISQM 1 is principles based and scalable due to the inherent flexibility within the proposed standard. We do have some concerns, especially for smaller firms, if in a network or not, whether they will be able to efficiently and effectively benefit from scalability. We recommend more guidance, including examples, be provided to illustrate how certain aspects of ED-ISQM 1 might be implemented in non-complex situations.

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### MGI Worldwide

As the overall approach is less prescriptive, the requirements and application material appear scalable and this is a key message coming through the Explanatory Memorandum and the draft standard itself. The promised guidance that will be aimed at SMPs (as set out in paragraph 89 in the Explanatory Memorandum) will be essential.

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MGI Worldwide welcomes the aim of the proposed standard, especially in regard to proportional application by small and medium-sized practitioners (SMPs), who make up our network membership. We agree with those reservations outlined in paragraph 6 of the Explanatory Memorandum that any new standard should not result in add-ons to the existing approach which would be increasingly onerous for our members to comply with. The focus on a risk- and outcome-based approach to quality management (paragraph 5) should focus our firms' resources on the specific risks in their firms, rather than just a generic list of policies and procedures to be adopted. We believe that this is more appropriate for a global network, where local risks and regulations will change the risk management environment for each firm.

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## MNP LLP

Yes, in our view the standard is scalable. It will be difficult however to determine at this point, how the scalability can be applied in practice and to what level of detail objectives, risks and responses need to be developed in order to be most impactful (and satisfy the requirements of the standard). It will also be difficult to determine the number of resources required to implement the standard within 18 months from approval date as firms may not understand and / or appreciate the full extent of implementation effort required (e.g. how many quality objectives, risks and responses will be identified). It is our view that firms may underestimate the effort needed. To support firms and provide them with a level of comfort that they are doing the correct things, more specific and practical examples would be helpful.

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## Moore Stephens International

Practitioners who have engagement portfolios with no audit engagements but only assurance engagements may find the extent of the requirements to be challenging even if they are comfortable with scaling them, practitioners with engagement portfolios existing only of compilation type engagements may find the risk assessment process extremely challenging. Practitioners with engagement portfolios consisting only of LCE audits may be comfortable with scaling the requirements appropriately but some may find this challenging. This constituency will possibly welcome additional support material outside the body of the standard, as suggested above, but there may also be a perception that this, rather than being helpful, is adding to their burden. There doesn't seem to be any obvious easy solution to this though.

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Response: In principle yes. In practice, other than reordering the components of the SOQM as outlined above, and either articulating mandatory or presumed risks or removing the mandatory responses, as also outlined above, further simplification of language might be helpful. There is clearly a tension between the need for the support and clarification provided by application material and the perception (which is rooted in reality) that standards in general and this ED, in particular, are too lengthy. It is not immediately obvious how this tension could be resolved, especially since there is a danger that extensive application material may be perceived to have a degree of authority that it was never intended to have (and indeed such perception may be inconsistently experienced around the world). One possible solution might be to provide constructive practical support outside the body of the final documents, for example in the form of additional resources, slide packs, outreach events etc, that were very clearly badged as being designed to help those who wished for support rather than being extra mandatory material. If no attempt is made to address this concern, we will see a further reduction in the number of audit firms in the market.

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Response: We do, on balance, believe that ED-ISQM 1 could substantively enhance firms' management of audit engagement quality (with some caveats as set out below); however, we have some concerns (which are set out below) regarding the management of the quality of non-audit assurance engagements. We believe that ED-ISQM 1 can be scalable; however, we have some issues regarding the likelihood of smaller firms, or firms undertaking only compilation engagements, finding this scalability easy to put into practice.

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## PriceWaterhouseCoopers

Scalability is an important consideration and key challenge in all of the IAASB standards currently under revision. We note that the length of the ISQM may create perceptions of a lack of scalability.

We agree that the risk-based focus should help build in scalability of the standard, allowing firms to appropriately tailor their SoQM to the nature and circumstances of their business, including the nature and scale of engagements they undertake. However, see also our response to question 2 in appendix 1 with respect to network services and service providers.

There is a risk of misunderstanding arising from the statement in paragraph 10(c) that the responses required by the ISQM alone are not sufficient. We think this is fuelling concerns around scalability. One of the primary reasons why the responses specified in the standard will not be sufficient is due to the fact that not all components have prescribed responses, rather than each component requiring perhaps many additional responses to those prescribed. Making this point explicitly may help address scalability misperceptions related to this paragraph.

### Application to non-audit engagements

ISQM 1 applies to all engagements conducted in accordance with the IAASBs standards. Much of the focus throughout the standard, and in discussions about the standard by stakeholders, naturally gravitates towards audit. For example, in considering network requirements and services there is a risk of too narrow a focus by firms on audit services.

In developing implementation support materials, it will be important that the IAASB give appropriate balance to audit and non-audit based examples and also ensure sufficient prominence and communication is given to the broader application of the standard to non-audit engagements.

#### Scalability

Scalability is an important consideration and key challenge in all of the IAASB standards currently under revision. We note that the length of the ISQM may create perceptions of a lack of scalability.

We agree that the risk-based focus helps build scalability into the standard, allowing firms to appropriately tailor their system of quality management to the nature and circumstances of their business, including the nature and scale of engagements they undertake. It is equally important to recognise that a level of professional judgement is involved in determining the nature, timing and extent of actions to respond to risks.

However, to further demonstrate this scalability, we believe that additional FAQs and worked examples that illustrate relevant considerations in complying with ISQM 1 for smaller firms, and for firms that may only provide non-audit assurance or related service engagements, would be useful. Such examples could build on the existing proposed examples by addressing how a firm's risk assessment process may be applied to other components of the SoQM. That said, examples and FAQs should not be used to compensate for a lack of clarity in, or inconsistency in interpretation of, the requirements and application material. It is for that reason that we believe that addressing the matters described above is important.

In developing implementation support materials, the IAASB should give appropriate balance to audit and non-audit based examples. Given the broad scope of the standard, sufficient prominence and communication need to be given to the broader application of the standard to non-audit engagements.

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### RSM International Limited

Response: Yes, the requirements are scalable on an ongoing basis, but initial activity required for implementation is not as scalable and smaller firms may be challenged by the volume of implementation requirements.

We believe a comprehensive example of how all of the elements in ED-ISQM 1 could be applied in smaller firms is important. It would be helpful if the example reflected structures where there are fewer layers of controls than in larger firms. This will also avoid firms reading ED-ISQM 1 and thinking they can just ignore or not apply certain areas.

The biggest risk to scalability will be implementation. The comprehensive example referred to above would enable the IAASB to illustrate comprehensive yet streamlined considerations for smaller firms against which the regulators can then inspect.

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Response: Yes, we believe that ED-ISQM 1 will substantively enhance firms' management of engagement quality. However, the challenges of implementation should not be underestimated. On an ongoing basis we believe the standard is scalable but initial activity necessary to implement the standard is significant and not particularly scalable. In the timeframe indicated smaller firms may struggle to:

evaluate the new rules and implement changes to their systems and controls

improve their documentation

put in place systems to satisfy the monitoring and remediation requirements due to limited resources and the inherent risk of self-review

To assist smaller firms during the implementation period, a comprehensive example of a quality management system for a smaller firm will be important.

See detailed responses below.

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## Files\5. Public Sector Organizations

### National Audit Office of Malta

Yes. In addition, we believe that a Quality Management Performance Measurement Framework for Large Firms and Small Firms could be developed in addition to the Standards for self review in the same manner as the Supreme Audit Institution Performance Measurement Framework developed by the International Organisation of Supreme Audit Institutions.

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### Office of the Auditor General New Zealand

Although, the requirements in the proposed standard appear to be scalable, there will be a considerable amount of work and cost involved in tailoring the system of quality management to the nature and circumstances of the firm. This may not result in any net gain in the short-term. We strongly suggest there is a need for more support for small and medium practices to implement the requirements of ED-ISQM 1. We have not discussed with the SMPs we use to perform audits on our behalf to obtain their views as we are aware the New Zealand Auditing and Assurance Standards Board has sought input from a wide range of members and so the views of the SMPs will be included in their submission.

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Resources requirements necessary for firms to implement ED-ISQM 1

The ASPs that we use to perform the audits on behalf of the Auditor-General include large, medium and very small firms. Because of this, there will be challenges in all of the firms we use being ready and able to comply with the requirements of ED-ISQM 1.

We accept that the requirements of ED-ISQM 1 are likely to be scalable but consider the up-front time and resources required for smaller firms will be significant. However, we consider for many small firms they are likely to approach compliance in a similar way. Due to this, we suggest the IAASB develop tools and guidance for smaller firms to assist them with compliance.

We consider ED- ISQM 1 has sufficient flexibility to enable us to customise the design, implementation and operation of our system of quality management based on the nature and circumstances of our institution. However, the IAASB may wish to consider including public sector considerations with respect to the definition used in ISQM 1 for a “firm”.

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We note the Application and Other Explanatory Material in the proposed standards includes some public sector considerations. However, it does not contemplate the business model we use for performing public sector audits.

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We support the new quality management approach which allows a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and engagements it performs. However, the proposed standard does not address how it should be applied by supreme audit institutions, which engage firms to complete audits on their behalf using the resources of that firm. We think this is a major gap in the public sector guidance included within the ED.

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## US Government Accountability Office

Specific guidance for SMPs and small- and medium-sized governmental audit organizations: In the application guidance, there are discrete paragraphs and subsections focused on public sector auditors. We believe that the IAASB should consider providing similar discrete application guidance paragraphs for considerations specific to SMPs and small- and medium-sized governmental audit organizations (see portions of paras. A42 and A47).

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We believe that much of the proposed International Standard on Quality Management 1 (EDISQM 1) is scalable. However, certain requirements may prove difficult or overly complex for small- and medium-sized governmental audit organizations. For example, paragraph 24c requires a firm to include, as a response to risk, policies or procedures for dealing with complaints and allegations about the quality of the firm or its personnel. Paragraph A47 notes that a smaller firm may use a service provider, such as legal counsel or a consultant, to fulfill this role. However, this could be cost prohibitive for small governmental audit organizations. Similarly, paragraph 46b requires firms to establish policies or procedures that prohibit engagement team members or the engagement quality reviewer from performing an internal inspection on an engagement. Small governmental audit organizations, such as those with only two or three auditors, may find it difficult to adhere to this requirement.

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We believe that the IAASB should provide additional, specific application guidance that discusses how small governmental audit organizations can comply with these requirements, for example, by adopting alternative procedures that accomplish the overall goal.

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## Files\6. Member Bodies and Other Professional Organizations

### CA Ireland

Also we find the standard’s approach to prescribing required responses in the absence of prescribed risk counterintuitive and will hinder the standard’s scalability. We believe the pre-determined responses in the standard implicitly means a response is needed regardless of whether a risk is present.

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As mentioned above the development of guidance material, such as Frequently Asked Questions and other illustrations of “best practice” will greatly aid the firms implementing this new standard.

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Yes we believe that the new standard has the potential to substantively enhance firms’ management of engagement quality. The risk-based focus of the standard may assist with its scalability and application guidance and examples will be needed in particular to assist in implementing the standard in smaller firms and in smaller firms within networks.

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### Center for Audit Quality

We believe the flexibility provided to apply ED-ISQM 1 is critically important to its scalability, in particular the acknowledgement that a firm may use different terminology or frameworks to describe  
2 CAQ comment letter to IAASB dated May 16, 2016, Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits.

the components of its system of quality management. Each firm may structure their system differently to effectively manage and support quality based on the nature and circumstances of the firm. Should the flexibility provided in ED-ISQM 1 differ in the final standard, the scalability could be negatively impacted.

Prescriptive required responses reduce the overall scalability of ED-ISQM 1. We have provided examples of those instances and recommendations throughout our letter to enhance the overall scalability.

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## Comision Interamericana de Control de Calidad de la AIC

Response: Many of the requirements are scalable, however, we suggest to the IAASB to design a practical and simple guide so that small firms and practicing professionals without employees with little quality culture can start the implementation of their Quality Management systems. The "lack of quality culture" is common in "the Americas" and other jurisdictions around the world.

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Response: Affirmative.

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## Comite Control de Calidad del ICPARD

Response: Many of the requirements are scalable, however, we suggest that IAASB design a practical and simple guide for small firms and practicing professionals without poor quality culture to initiate the implementation of their Quality Management systems. Lack of quality culture" is common in "the Americas" and other jurisdictions around the world.

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Response: Yes, it does.

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## Institute of CPAs of Uganda

Except for the observations in (b) above, ICPAU believes that the requirements and application material of the proposed ED- ISQM 1 are scalable in regards to firms of varying size, complexity and circumstances.

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However we observe with concern that over time the IAASB standards have been considered to be principles-based and, as such, the ED-ISQM 1's intended approach is for the firms to apply professional judgement to the quality objectives, risks and associated responses for each component. However, ICPAU raises concerns on whether the current drafting of ED - ISQM 1 is too prescriptive and hence a divergence from the norm of a principles-based approach. We note that the objectives embedded in each component of the ED-ISQM 1 are more compliance based with a very prescriptive direction.

We would recommend that the Board maintains a principles-based approach and keep any prescriptive material in the guidance material.

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Notwithstanding our comments in (a) above, ICPAU believes that a critical element to a system of quality control is flexibility to circumstances and risk environments. However, the prescriptive approach adopted by the standard to each of the components of the ED-ISQM 1 may be detrimental to audit quality especially with the lack of weighting and proportionality to each of the requirements. There are some requirements within the standard that seem to provide for a mandatory benchmark application by all firms and only consider additional measures if those requirements prescribed by the ED-ISQM 1 seem ineffective based on the firm's assessment. This prescriptive approach may be less scalable than the current principles in extant ISQC 1 and may increase compliance costs and time at the firm level without necessarily achieving improved audit quality. ICPAU would thus propose for maintenance of the principles-based approach and keep any other prescriptive material in the guidance material. And whatever material is taken to the explanatory material should be enhanced to ensure consistent application of the standard by the firms.

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## Malaysian Institute of CPAs

(c) Yes, it allows flexibility in application of the standard. Some illustration or examples, particularity for SMPs, if given would help to improve the application of the scalability of the standard.

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## National Association of State Boards of Accountancy

We believe that the requirements and application material of proposed ED-ISQM 1 are scalable in that all practitioners will be guided through the same exercise and thought process. The results and documentation will vary based on size, complexity and circumstances.

There are challenges for smaller firms in the areas of monitoring and remediation and challenges for resources to mitigate risks. The sole practitioner must have professional skepticism already ingrained as no examples or boilerplate documentation guidance will overcome the issue.

We believe it would be helpful to clarify the documentation expectations and to provide more examples. If there were an opportunity to -specify some types of risks for all practitioners to consider, that would improve the scalability of the standard, especially for smaller firms and sole practitioners.

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## Self-Regulatory Organization of Auditors Association

Yes, but further actions are called for. For example, requirements of some para. should be shortened or excluded, for example para. 26-30 etc. The requirements of these section should be formulated appropriately to make it clear that the firm should take into account the nature of the engagements performed, its clients and design and implement appropriate system of quality management.

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## Files\\9. Individuals and Others

### Training and Advisory Services and Chartered Accountants Academy

Yes

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Yes

The requirements and application material of proposed ED-ISQM 1 are scalable, they pertain to the firm's size and engagements it performs. The eight components of ED-ISQM 1 are interactive and can be combined by the firm for example resources, communication and information. Small firms and sole proprietor firms may have challenges in identifying and assessing risks that they face in risk identification of quality management issues than being able to adapt the responses provided by the IAASB to its circumstances.

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## Nodes\\ED-ISQM 1\_Firm Level\01(c) Scalability\4. Q1(c) - Disagree

### Files\\3. National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board

The AUASB particularly highlights to the IAASB that the large volume of application material, appendices and guidance in the proposed standard needs to be reconsidered. Whilst these examples being included in the proposed standard may assist with implementation, the AUASB suggests the IAASB review the underlying principles in the requirements to make them simpler and more straightforward, which should alleviate the need for many of the examples and illustrations being included in the application guidance and appendices.

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The AUASB considers that a quality management approach to ISQM 1 drafted on the same basis as the proposed new drafting approach to ISA 315 [that is the requirements are the “what”, the application material, appendices and guidance constitutes the “why” and “how”] would facilitate a better risk-based approach that is scalable to the specific circumstances of a firm which may help mitigate the potentially large cost and resourcing burden the implementation of this proposed standard imposes on practitioners. The AUASB particularly highlights to the IAASB that the large volume of application material, appendices and guidance in the proposed standard needs to be reconsidered. Whilst these examples being included in the proposed standard may assist with implementation, the AUASB suggests the IAASB review the underlying principles in the requirements to make them simpler and more straightforward, which should alleviate the need for extensive examples and illustrations being included in the application guidance and appendices.

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The AUASB considers that a quality management approach to ISQM 1 drafted on the same basis as the proposed new drafting approach to ISA 315 (i.e. the requirements being the “what”, and the application material, appendices and guidance constituting the “why” and “how”) would facilitate a better risk-based approach that is scalable to the specific circumstances of a firm. This may help mitigate the potentially large cost and resourcing burden that the implementation of this proposed standard imposes on practitioners.

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The AUASB considers that the concepts of a Quality Management (QM) System should theoretically make the standard’s requirements and application material scalable. However, in its current form we believe firms will find ISQM 1 overly granular and impractical to scale, which is counter intuitive to a risk-based approach. Such granularity may act as a barrier to its effective and consistent application, accordingly, as currently drafted, the AUASB does not consider the standard to be scalable.

The increased length of ISQM 1 is also a potential barrier to its understanding and application, particularly for small or sole practitioners with limited resources, and it is not clear how the additional cost associated with implementing the proposed standard will provide corresponding benefits for these practices. The AUASB encourages the IAASB to refine its drafting approach to reduce the length of the proposed standard where possible as a means of making them more accessible and understandable, which will in our view assist scalability.

The AUASB considers that a quality management approach to ISQM 1 drafted on the same basis as the proposed new drafting approach to ISA 315 would facilitate a risk-based approach scalable to the specific circumstances of a firm. As noted previously in our response to Question 1(a), the AUASB considers that the large volume of application material, appendices and guidance in the proposed standard needs to be reduced to improve the scalability of the proposed standard.

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Furthermore, to further support a risk-based approach, the AUASB recommends the removal of pre-defined required responses to quality risks, as the AUASB considers it appropriate that firms should determine their own specific responses tailored to their specific risk circumstances.

Amendments suggested above would alleviate the volume and granularity concerns commonly expressed by stakeholders, for example:

The granular requirements around design and implementation are considered to be counter intuitive to the very nature of a risk-based standard, these requirements could form an example of the “how” in application material.

While the introductory paragraphs assist with understanding the risk assessment process and helpfully explain a number of important concepts in the standard, their inclusion is further evidence of ISQM 1s complexity. We would caution that extensive introductory paragraphs shouldn't be required for all IAASB standards. This introduction or ‘executive summary’ of the standard could be positioned outside of the standard, for example in the form of a “first time through document”.

In addition, the AUASB recommends that the IAASB provide more guidance and examples (e.g. in a “first time application” implementation guide) on how to effectively scale the work effort in ISQM 1 to less complex entities, such as examples of risks and responses that are specific to and appropriate for sole practitioners and what and how to document.

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## Canadian Auditing and Assurance Standards Board

As noted in our overall comments, we believe that the proposals could be scalable. However, lack of familiarity with quality management, as well as the overall length, and lack of signposting of SMP considerations may make it difficult for SMPs to scale the requirements to their particular circumstances. For example, paragraph 24(a) requires the firm to assign personnel with responsibility and accountability for four different roles. Paragraph A37 notes that the responsibilities may be assigned to one individual. However, without signposting, and because of the length of the standard, it may be easy to overlook that comment. As a result, SMPs may struggle to understand how to scale the requirement. We suggest the IAASB consider adopting the same approach as ISA 315 (Revised) to highlight paragraphs that relate to scalability. Also, it may be difficult for an SMP to identify an individual with the appropriate skills, competencies and time to fulfil these roles. As well, it may be difficult for that one individual to objectively assess their own work.

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## Institut Der Wirtschaftsprüfer

Suitable quality objectives are the prerequisite for scalability

Higher level operational quality objectives as suggested above that are applicable to every firm would also be a prerequisite for the scalability of the standard for SMPs because objectives that are too granular would hinder scalability for SMPs. In particular, the way the draft is written with such granular quality objectives, SMPs would need to document why certain objectives and responses are not relevant to their firm's quality management.

We do not believe that the draft substantively enhances firms' management of engagement quality and improve the scalability of the standard. Please refer to the body of the letter for our reasoning.

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We do not believe that the requirements and application material of the draft are scalable such that they can be applied by firms of varying size, complexity and circumstances. We refer to the body of the comment letter, which addresses our main concerns with the draft, which have an impact on scalability. In particular, we note:

The problem with the top down approach taken in the draft is that every practitioner will need to understand the entire standard, determine what is not applicable in their circumstances, and then potentially need to document their justification for not applying a non-relevant requirement. This would lead to excessive documentation, which is particularly unhelpful for SMPs and would detract smaller firms' focus on issues that can improve quality.

We are concerned that SMPs cannot easily navigate the standard to determine which requirements are not relevant to their circumstances. Paragraph A20 describes two examples of requirements that may not be relevant for some SMPs. This may give the false impression that very few requirements may not be relevant. We believe that all such requirements should be reworded so that it is clear that they are conditional. The requirement in paragraph 24(a) (iii) (b) is a good example of a requirements that could be written as a conditional requirement, since the assignment of responsibilities to the degree contemplated in the draft may be unnecessary or even impossible for some SMPs.

We also believe that by setting less granular quality objectives as we suggest in the body of our comment letter, these would be relevant for all firms, and SMPs can focus on those areas relevant to their circumstances when managing quality risks.

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## Kammer der Steuerberater und Wirtschaftsprüfer

It appears that the draft has covered the risk assessment approach in a very detailed and prescriptive manner, there is no room for flexibility. We also fear that scalability is an issue.

In particular, the long list of quality objectives is very detailed and leads to over complication. We would favor an approach with fewer maybe just one objective per quality management area, but strong and overarching objectives.

## New Zealand Auditing and Assurance Standards Board

Building on the response to question 1(b), the NZAuASB considers that many aspects of the ED will be challenging for SMPs and are not scalable. Whilst in principle, the risk assessment process will enable the firm to adjust the risk response according to its size and nature, the detail and prescriptiveness of the application material will make it difficult for SMPs to understand and apply the fundamentals of the risk-based approach throughout the requirements.

To address the lack of scalability, the NZAuASB encourages the IAASB to refine its drafting approach to reduce the length of the proposed requirements and application material. The length and density of the proposals is a barrier to its readability and understandability and therefore its effective application. The potential implementation challenges are seen to be more difficult for SMPs that do not have the level of technical support at their disposal. The density of the standard will only add to the resourcing burden.

For example, the introduction is lengthy and repeats the standard. While this may be useful initially, it will be less so as firms familiarise themselves with the changes. This overview of the standard could be positioned outside of the standard as a type of “At a Glance” summary.

The NZAuASB considers the following actions could help to reduce the length and enhance the clarity of the proposals:

Remove all non “shall” statements from the requirements, and if necessary moved to application material to ensure that the drafting conventions of the clarity project are retained.

Separate “shall” statements into separate requirements, i.e., ensure that requirements are short and to the point, rather than embedding multiple requirements within one requirement paragraph.

Start with the small and simple, and add to the requirements and application material to address the more complex, rather than the other way around. Some specific suggestions are included by way of an appendix to our overall responses.

In addition, the NZAuASB considers the documentation requirements may be overly onerous. More guidance on what and how to document may help to alleviate concerns and improve documentation to better demonstrate the application of professional judgement. For example, the proposals recognise that SMPs especially may have a less formal system of quality management. However, it is unclear how less formal approaches will be documented to demonstrate compliance to the regulators. The IAASB should be mindful that the purpose of enhanced documentation should focus on improving quality in the public interest, and providing clarity for both firms and regulators to guide the approach to file review.

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More work needs to be done to improve the scalability of the standard. Feedback from the New Zealand constituency indicates that, for small to medium-sized practices and sole practitioners (together in this submission described as SMPs), both the cost to transition to the new requirements and ongoing cost to apply the proposed approach will be significant and may not significantly improve engagement quality if such firms are unable to appropriately resource meeting the requirements.

We expand on these points in the specific questions below.

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## Royal Nederlandse Beroepsorganisatie van Accountants

In general a quality management system as proposed is scalable, because it should be tailor made. At the same time, there are a lot of detailed required quality objectives and responses in ISQM 1. We recommend considering a “think simple first approach” by having less requirements for sole practitioners and ‘micro’ firms (“light version”).

As mentioned in our letter on ISQM 1 we have some ideas how to improve the standard that we are willing to discuss with the taskforce in more detail if that would be helpful.

In our opinion a quality management system should be only applicable to firms where there is something to manage. We do not believe that such a system is effective in a firm where for instance a sole practitioner is involved with all engagements. He either takes care of quality on an engagement basis or he doesn't. Therefore we suggest clear exceptions from most of the requirements for ‘micro’ firms. In the Netherlands we already have experience with a “light version” for firms with a maximum of 7 persons (2 engagement partners and 5 other staff). For them only a few high level requirements are applicable.

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In principle a QMA is inherent scalable, given the fact that a firm should define quality objectives, identify risks and define responses to the risks. The fact that the standard defines a number of required objectives and required responses limits the scalability for smaller firms.

For ‘micro’ firms we feel that this scalability is not sufficient. We think that for these ‘micro’ firms a QMA is not appropriate, since we cannot see a need for managing quality in this manner and have a whole system.

In the Netherlands, after the Invitation to Comment (ITC) we already implemented a QMA system for non-statutory audits. We have implemented an alternative solution for sole practitioners and ‘micro’ firms with a maximum of 7 persons (2 engagement partners and 5 other staff. If they comply with certain criteria, only a few high level requirements are applicable (“light version”). We recommend considering having less requirements.

We support that the board feels a need to define required objectives and responses for larger firms. That does not mean that we support all the required objectives and responses. We encourage the board to evaluate whether all these required objectives and required responses are necessary for all firms, or whether it is possible for smaller firms or firms that only provide certain services to provide objectives and responses less detailed as currently described in the proposals (‘scaling up’ instead of ‘scaling down’).

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## Files\4. Accounting Firms

### Baker Tilly International

We are pleased to note that the IAASB has started to develop illustrative examples to support application of the requirements in the standard. However, the fact that these are needed, and the number of areas in which we and others have identified that further guidance/examples are needed, would indicate that there is overall a lack of clarity and true scalability in the standard.

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We are disappointed that the IAASB has not taken a “bottom-up” approach to enabling scalability in the new standard. We believe it would be more appropriate to develop baseline requirements for all firms, including sole practitioners and SMPs, and build additional requirements for larger, more complex firms. Instead the approach is to have complex requirements applicable to all firms, regardless of their size and nature, and to enable scalability through application material and additional guidance/examples, which will make consistent application of the standard more difficult. In saying this, however, we note that it is difficult to define what is a “smaller firm”. A definition of smaller firms could be based, for example, on the number of engagement partners (e.g. less than 3) or the number of relevant engagements which may be more easily applied consistently than a definition based on any financial measures.

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We are concerned that the IAASB appears to have concluded that identification of risks in this context is difficult and that this should be left to firms to identify within the context of required objectives and responses. If the IAASB is unable to identify appropriate quality risks, we question how the Board expects audit firms, particularly those smaller, less sophisticated firms in jurisdictions where such approaches are less well developed, to identify the risks themselves. This is an example of where the IAASB has developed a complex, difficult standard where scalability is difficult to achieve.

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Response: There are a number of approaches which can be taken to effect scalability. The most appropriate would be to build a bottom-up standard, with the basic requirements for all firms as a base with building blocks of more complex requirements for the larger, more complex firms providing a wider range of services etc. We believe that such a bottom-up approach is the most appropriate means of achieving scalability. We further understand that this approach was discussed as an option during the development of the standard and we regret that the IAASB did not follow this route. Alternatives include a “top down” approach, whereby the more complex requirements which are not necessarily appropriate for smaller, less complex firms, may be determined as being not applicable. We understand that this approach is taken in some jurisdictions already (e.g. Netherlands). Unfortunately, we do not believe that the approach adopted by the IAASB in developing the standard effectively takes either of these approaches and the successful scalability of the standard will be reliant on extensive guidance and the illustrative examples which the IAASB has begun to develop.

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ED-ISQM1.40(a) – The term “information system” will be very difficult to define in practice and also presents a significant challenge to scalability. Whilst it is relatively easy to envisage an information system for a large firm, what would this look like in a small single partner firm, or even more so in a sole practitioner? This is an area which, if it remains a requirement, will need to have some well-developed illustrative, practical examples to assist with implementation.

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### KPMG IFRG Limited

#### Scalability

We support the objective of the IAASB to allow scalability and to enable firms to apply it in a manner that is commensurate with their size and the nature and complexity of engagements they perform. However, in our view in aiming to be scalable the standard has introduced elements of flexibility that may result in differing interpretations of what the SoQM is intended to accomplish and may drive inconsistent implementation. Therefore, we believe it would be beneficial to include more examples in the Appendix to the standard on how to apply it for a large and complex audit firm and a small and non-complex audit firm, with guidance regarding factors to consider between the two. We believe this will facilitate the consistent application of the standard.

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We understand that the element of flexibility in the ED is important to achieving scalability. A risk-based standard should be self-scaling to enable audit firms to customise their SoQM. Whilst the ED includes some consideration of the size and nature of the audit firm or its services, as mentioned in our overarching comments, the inclusion of predetermined responses in our view may limit the scalability and the design of the framework as “risk-based”. We also note that the counter-intuitive approach (as mentioned in our overarching comments) taken in the ED of prescribing responses (in certain components) contradicts the scalability ambitions and the approach of customising the SoQM based on the audit firm’s own circumstances and risks. The ED requires audit firms to “proactively identify and respond to risks” however the pre-determined responses included in the ED may be interpreted as implying that a response is necessary, even if a relevant risk is not identified for an audit firm. We view this as a contrary to the proactive risk management approach of the ED. We believe the inclusion of prescribed responses could hinder scalability by requiring audit firms to implement a response when there is no related identified risk.

As we noted in our overarching comments, the inconsistency in the level of granularity of the various prescribed responses makes the ED overly long and complex. In our view a simpler, concise, more scalable standard would be one that does not prescribe a set of responses. However, as mentioned above we understand the IAASB considerations regarding the preference to retain existing requirements (responses) from extant ISQC1.

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## Kreston International

Response: As noted above the complexity of the standard could limit the scalability of the standard as SMPs will not have full time resources to apply to the implementation of the standard.

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Response: The standard does enhance the emphasis of engagement quality management. The identification of risks to quality objectives should enable the standard to be scalable. However, there will be significant resource constraints for SMPs and appropriate support materials will be required.

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## Mazars

Partially, the requirements may not be scalable enough for all kind of firms, especially in countries where the maturity of quality controls is less developed, and countries which do not have an audit regulator or do not use ISA.

We also consider the main body of the standard could be shorter and the guidance more comprehensive. Also, as noted above, we believe further guidance and examples are needed.

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Yes, we believe scalability of the standard is enhanced, as well as the management of engagement quality. However, we believe more guidance and examples are needed for implementation by smaller firms and countries where international standards are not yet fully embedded.

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## Nexia International

Despite the aim to not be too prescriptive there is a need for some balance and more guidance, with examples, of how scalability works for smaller practices.

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## Nexia Smith & Williamson

However, we are concerned that the length and complexity of the proposals will be a significant barrier to scalability in practice, as noted below.

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The combined length and complexity of the standard makes it difficult to read and engage with. The language in many places could usefully be made simpler, sometimes by using plain English rather than sticking rigidly to the theoretical model. We give some examples in the “editorial comments” section below. It is particularly important that the requirements should be concise and clear, so that there is no ambiguity and it is easy to understand what is mandatory, in order for the standard’s objectives to be achieved.

Flowcharts and diagrams are very helpful, and should be considered if the language itself cannot be simplified (though the need for diagrams is itself indicative of the complexity of the requirements).

The scalability of the standard could sometimes be improved by included further illustrations. For example:

Paragraph A18 gives an example of using an IT application for obtaining confirmations of independence from staff. In a smaller firm, this would probably be done via email or a hard copy questionnaire, and this could usefully be acknowledged.

Paragraph A69 could acknowledge that the “information and communication” component will be more straightforward in an SMP, and there is no need to create artificial processes if it can be demonstrated that more informal processes consistently achieve the quality objectives.

In Appendix 1, paragraph 5 could be expanded to help SMPs. Part (a) talks about firms with a service delivery centre, and this could be contrasted with a smaller firm where everything is done by a few personnel, making it easier to direct and supervise work and thus decreasing the quality risk.

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## PKF International Limited

While there is scalability to the application of ED-ISQM 1, its proposed requirements in combination will require that a firm allocates a significant incremental amount of time and resource to design, implement and operate its new quality management system, compared with the effort required to comply with extant ISQC 1.

Regarding its public communications around ED-ISQM 1, we recommend the IAASB provides clear communications to better manage firms’ expectations on the extent of the incremental effort that will necessarily be incurred in complying with the standard’s requirements. Such communications should be sufficiently clear to reduce the risk that firms misinterpret the scalability benefits of ED-ISQM 1, to infer that the new standard will take less effort to comply with than extant ISQC 1.

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The requirements and application material do provide a degree of scalability to firms of varying size, complexity and circumstances. However, the precise degree to which ED-ISQM 1 can be scaled will require the exercise of professional judgement and is an aspect of the standard which may be open to varying interpretations. We have a concern that firms and regulators may apply differing interpretations on the extent to which ED-ISQM 1 can be scaled.

Outside of the main body of ED-ISQM 1, the IAASB has issued supplementary materials covering scalability of the proposed standard by Small- and Medium-Sized Practices (SMPs) which, for example, includes relevant guidance indicating that certain responses to quality risks may not necessarily need to be subject to documentation as a written policy or procedure by an SMP. We recommend that all such relevant guidance on scalability be considered for inclusion within the main body of the standard, as opposed to being confined to webinars and other guidance. We believe that to do so would provide a more robust and authoritative basis for the scaling of the requirements of ED-ISQM 1 and, in particular, would support SMPs in designing a system of quality management that is appropriately tailored to their circumstances.

Scalability – We believe that the requirements in ED-ISQM 1 for a firm to consider its own specific circumstances when assessing the risks to its quality objectives will ensure that a firm’s system of quality management is customized to its unique situation, avoiding a “one size fits all” approach. This is a welcome (intended) benefit of ED-ISQM 1 compared to ISQC 1. However, the inherent tension between scalability through the proposed standard’s new risk-based approach and the IAASB’s conclusion to retain the requirements from extant ISQC 1 as either required quality objectives or responses, negatively impacts on the potential for scalability. Additionally, there are certain specific parts of ED-ISQM 1 which could still be made more scalable than currently proposed. Given the wide range of size and circumstance of all the types of firm to which the proposed standard would apply, it is critical that it is written with scalability being a key objective. Our responses to the request for comments include several examples of where we believe further scalability could be introduced into ED-ISQM 1. For each of these we encourage the IAASB to consider them as part of its efforts to optimize the scalability of the standard in its final version.

In our view ED-ISQM 1 does not go far enough in promoting scalability for this component. We believe that scalability is highly relevant to monitoring activities, given firms’ circumstances can vary significantly. Consequently, we recommend that the IAASB reconsiders where it can introduce more scalability into this component of the standard.

## PKF South Africa

ED-ISQM 1 does not go far enough in promoting scalability for this component. We believe that scalability is highly relevant to monitoring activities, given firms’ circumstances can vary significantly. Consequently, we recommend that the IAASB reconsiders where it can introduce more scalability into this component of the standard.

Scalability – The requirements in ED-ISQM 1 for a firm to consider its own specific circumstances when assessing the risks to its quality objectives will enhance firms’ systems such that the system of quality management is customised to its unique circumstances, avoiding a “one size fits all” approach. This is a welcome (intended) benefit of ED-ISQM 1 compared to ISQC 1. However, the inherent tension between scalability through a new risk-based approach and the IAASB’s conclusion to retain the requirements from extant ISQC 1 as either required quality objectives or responses, negatively impacts scalability. There are various parts of ED-ISQM 1 which could still be made more scalable than currently proposed. Given the wide range of size and circumstance of all the types of firm to which the proposed standard would apply, it is critical that it is written with scalability being a key objective. Our responses to the request for comments include several examples of where we believe further scalability could be introduced into ED-ISQM 1. For each of these we encourage the IAASB to consider them as part of its efforts to optimise the scalability of the standard in its final version.

We support the approach that requires the firm to design and implement responses to address the assessed quality risks.

We believe that the approach will result in a firm designing and implementing responses that are tailored to, and which will appropriately address, the assessed quality risks. See however our comments elsewhere regarding prescribed responses which have been retained from extant ISQC 1. We believe that this approach negatively impacts the scalability objectives, but may also perpetuate some of the (perceived) issues with the current ISQC 1.

## SRA

The proposed standard is complex and contains a large number of requirements, many of which may not be relevant in any environment, for example in an SMP-environment. In the explanatory memorandum, for example in par 23, it is clearly stated that an approach tailored to the nature and circumstances of the firm and its engagements is sufficient. We definitely concur with this important starting point; we note however that the relevant wording in the standard itself is not adequate.

In this regard we note that articles 7 and 22 do not clearly state that requirements only apply in circumstances where they are relevant. The first sentence of article 22 is even contradictory to this starting point and could be considered inconsistent with the last sentence of this article.

It should be taken into account, that in many jurisdictions, such as The Netherlands, requirements in the standard will likely be incorporated into law and legal regulations and will therefore become legal requirements. It is therefore vital to include a clear exception in the standard to incorporate the scalability issue. We therefore urge to include a general article in the standard, which could read as follows:

“The firm shall comply with a requirement of this ISQM to the extent that such compliance is effective in realizing the objective of this ISQM, taking into account the nature and circumstances of the firm and its engagements.”

Inclusion in the standard of such an article would adequately address our concern regarding scalability.

We also note, that both article 7 through 13 and article 22 have “The Firm’s System of quality management” as their subject. We think that it is to be advised to integrate these articles.

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## Files\5. Public Sector Organizations

### Swedish National Audit Office

Scalability. The number of quality objectives would make it rather difficult apply scalability and in addition the mandatory processed and procedures that needs to be produced.

See question 1. We find it challenging to visualize the scalability considering the requirements related to quality objectives, mandatory risk response and development of policies and procedures in addition to firm-specific quality objectives and response etc. Full scalability would only be imposed if the firms are able to identify their own quality objectives, risk assessments related to those objectives and measures to address the specific risks.

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## Files\6. Member Bodies and Other Professional Organizations

### Accountancy Europe

Despite the desire to follow a risk assessment approach, the draft appears to have the intent to cover everything in prescriptive detail. This makes the process as proposed rather prescriptive, not providing sufficient room for flexibility. In particular, the long list of quality objectives is very detailed and overcomplex. As the approach lacks simplicity, we fear it will lead to inconsistency and will generate scalability issues. As an attempt to solve this, we would favour an approach with strong and overarching objectives combined with fewer quality objectives – and even trying in some instances to have only one - per quality management area.

Smaller firms, in particular, are likely to need further help in the implementation phase, with wider communication and material, in order to avoid any significant issues with the application of the standards in their environment. This implementation material should focus on the proportionality and scalability elements of the standard’s application. These issues might not be isolated to smaller firms though; the IAASB should also consider mid-tier firms as they might also miss have less developed compliance functions and procedures.

Firms who provide applicable services other than audit (e.g. compilations), and who are required to follow ISQM 1 as proposed, will find themselves with a significant cost burden. The risk therefore is that ISQM 1 is less likely to be adopted by firms when there is no jurisdictional requirement to do so. If the IAASB intends to develop standards suitable for all professional services, these standards need to be appropriate for firms that do not perform audits at all.

It is important to note that the proposed revised standard is more than double the length of the existing one, and that is without taking into account the newly developed ISQM 2.

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## Australian Accounting Professional and Ethics Standards Board

Scalability of the proposals and the use of professional judgement

The IAASB’s focus in developing ED-ISQM 1 was for a “new approach to managing quality that is scalable to deal with differences in the size and nature of firms or the services they provide”. ED-ISQM 1 seeks to achieve scalability through a tailored approach with firms only needing to comply with requirements that are relevant to the firm’s nature and circumstances or its engagements. It moves from the current system of quality control (ISQC 1) to a system of quality management (SQM). It is a “transition from policies and procedures that address standalone elements [ISQC 1] to an integrated



approach that reflects upon the system as a whole”.

APESB considers this to be a major shift from extant ISQC 1 requirements which will create a compliance burden (most notably for sole practitioners and SMPs) in implementing the risk assessment process and ongoing monitoring, remediation and evaluation requirements. As noted above, we question the commercial viability of these proposals in the SMP environment.

#### Implementation of the Risk Assessment Process

The proposed risk assessment process in ED-ISQM 1 aims to enable firms to design and implement a tailored SQM, scalable to the firm’s circumstances and engagements. However, the standard is overly prescriptive, and APESB is concerned about the potential cascading effect of its requirements as follows:

Firms must establish quality objectives for 7 of the 8 components in the standard (excluding the risk assessment process). There are 33 quality objectives stipulated and possibly others if required to achieve the overall objective of the standard. However, we note there could be fewer quality objectives if the firm determines they are not relevant. APESB estimates there could be 4 quality objectives on average per component;

Firms must identify and assess their quality risks (none are prescribed), and APESB estimates there could be 3 quality risks to each quality objective; and

Responses to address assessed quality risks are required to be designed and implemented beyond the 32 responses stipulated in the standard, as prescribed responses are identified as insufficient, and additional responses will be required. APESB estimates there could be 3 responses on average to each quality risk.

The following table highlights the potential cascading effect of these ISQM proposals:

#### ED-ISQM 1 Framework

Number

Components

7 x

Average Quality Objectives (33 required)

4 x

Estimated Quality Risks per Quality Objective

3 x

Average Responses (32 required)

3 x

Total Responses?

252

Assume 50% Relevant Responses?

126

The IAASB notes “it would not be possible to comprehensively address all of the responses needed by firms in the standard, given the varying nature and circumstances of firms and the engagements they perform”. Accordingly, it is unclear how many responses will be required by any particular firm, however, the number of responses could be significant and vary considerably between firms and based on IAASB’s view, each firm will have unique risks which will accordingly result in a unique ISQM framework for each firm

Even assuming certain quality objectives may be irrelevant, and responses may address two or more assessed quality risks, the cascading impact could be substantial. The IAASB’s example for a small firm relates to 1 quality objective, providing potential quality risks and responses, which results in 3 pages of documentation. Extrapolating this to the 33 required objectives could result in 100 or more pages of tailored documentation for a small firm, which would be time-consuming and an extensive exercise. During our webinars, 76% of stakeholders estimated that it would take them 5 days or more to implement the risk assessment process.

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#### Requirements

APESB considers the proposals to be a significant shift from extant ISQC 1 requirements which will create a major compliance burden (most notably for sole practitioners and SMPs) in implementing the risk assessment process and ongoing monitoring, remediation and evaluation requirements. We are of the view that these ISQM proposals in their current form are not commercially viable in the SMP environment and will likely result in services being redirected to larger firms with extensive resources.

#### Implementation of the Risk Assessment Process

The proposed risk assessment process in ED-ISQM 1 aims to enable firms to design and implement a tailored SQM, scalable to the firm’s circumstances and engagements. However, the standard is overly prescriptive, and APESB is concerned about the potential cascading effect of its requirements as follows:

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ISQM 1: Nvivo Report – Question 1 and Related Subquestions  
*IAASB Main Agenda (September 2019)*

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Responses to address assessed quality risks are required to be designed and implemented beyond the 32 responses stipulated in the standard, as prescribed responses are identified as insufficient, and additional responses will be required. APESB estimates there could be 3 responses on average to each quality risk.

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Assume 50% Relevant Responses?

126

Even assuming certain quality objectives may be irrelevant, and responses may address two or more assessed quality risks, the cascading impact could be substantial. The IAASB's example for a small firm relates to 1 quality objective, providing potential quality risks and responses, which results in 3 pages of documentation. Extrapolating this to the 33 required objectives could result in 100 or more pages of tailored documentation for a small firm, which would be time-consuming and an extensive exercise. During our webinars, 76% of stakeholders estimated that it would take them 5 days or more to implement the risk assessment process.

Although the proposals seek to promote professional judgement and scalability, we believe they are highly prescriptive. For example, if the practitioner can exercise their professional judgement to determine the quality objectives, quality risks and the required responses, then it is contradictory to state that they are required to have 33 quality objectives and 32 mandatory responses in their SQM as a minimum. Also, it is unclear how the IAASB determined mandatory responses without the quality risks that the responses relate to in the SQM.

Further, firms may need to evaluate all potential quality objectives, quality risks and responses to determine if any requirements are not applicable. This will also add to the compliance burden, particularly for sole practitioners and SMPs, in understanding all requirements, establishing an SQM and documenting why certain requirements were not relevant to justify to a regulator, professional body or another monitoring body.

Potential Ongoing Impacts

The proposals in ED-ISQM 1 for ongoing monitoring, remediation and evaluation intend to improve the SQM's robustness by including additional or enhanced requirements to those in extant ISQC 1. It is designed to be a "continual and iterative process and is responsive to changes", however, APESB is concerned this may lead to continuous re-evaluations as circumstances or risks change, for example, where a firm undertakes different engagement types or engagements in new industries. This is in addition to annually evaluating the effectiveness of the SQM and will add to the

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compliance burden placed on sole practitioners and SMPs.

APESB recommends the IAASB develop the SQM from the perspective of SMPs as presented in the Option below. Larger firms could then scale the SQM upwards to suit their firm's services given their access to extensive technical resources.

We respectfully suggest to the IAASB, that from a risk-based perspective, there are more commonalities than differences in respect of sole practitioners and SMPs. APES 325 Risk Management for Firms (APES 325) provides an example of a true risk-based standard which provides leeway for the firms, professional bodies and members to exercise their professional judgement to develop a risk management framework that suits their practice. This has enabled CPA Australia to develop a Risk Management Framework Tool to assist firms with their compliance with APES 325.

Option to Improve Scalability – Scaled back SQM

Reduce the requirements of the SQM to a base level for sole practitioners and SMPs with mechanisms to require firms to bolster their system with increasing firm size and complexity. The overarching structure and principles of ED-ISQM 1 could be maintained, including the standard's objective, the risk assessment and monitoring, remediation and evaluation processes with the following simplifications:

Reduce requirements to that of a sole practitioners or SMP, for example, including base level:

Quality objectives, which could be one or more overarching principle-based quality objective(s) per component which are directly relevant to the component and the overall objective of the standard;

Quality risks (identified in the standard) to the achievement of the required quality objectives;

Responses to address the identified quality risks (including policies and procedures from extant ISQC 1 wherever possible);

Maintain the overarching principle that firms need to assess the nature of their firm and engagements to determine whether additional quality objectives, quality risks and responses are required to achieve the overall objective of the standard;

Reduce application and other explanatory material to pure application material (i.e., which directly address requirements) on the reduced requirements detailed above (also refer suggestions below regarding reducing the volume of this material); and

Provide guidance for firms of varying sizes and complexity, including the framework of what the overall SQM consists of and potential additional quality objectives and responses extracted from the current ED-ISQM 1 as relevant.

For example, a:

Simplified SQM for sole practitioners;

Base level SQM for an SMP; and

More detailed and complex SQM for larger firms highlighting areas where additional quality objectives, quality risks, and responses may be required.

Stakeholders who attended our webinars were primarily (59%) sole practitioners or from a 2-5 partner firm. The revenue range for these firms is from AUD 300,000 to approximately AUD 2 million per annum. These stakeholders consider there to be significant challenges in implementing ED-ISQM 1 in practice, in particular, the risk assessment process (95%) and the monitoring, remediation, and evaluation processes (89%). We also note that the majority of the stakeholders (54%) were of the view that the current proposals are not scalable. During our webinars, 76% of stakeholders estimated that it would take them 5 days or more to implement the risk assessment process, the responses were spread as follows:

5% - 1 day;

20% - 3 days;

22% - 5 days; and

54% - 10 days or more.

Application

APESB does not consider that the application material in ED-ISQM 1 is scalable. ED-ISQM 1 includes a significant amount of application and other explanatory material which has increased threefold from extant ISQC 1, consisting of 44 pages and 214 paragraphs (compared to approximately 70 application paragraphs in extant ISQC 1).

Some of the content repeats requirements, is often descriptive without providing information on how to apply the requirements it relates to and at times is more akin to guidance material or a basis for conclusions. For example, paragraph A21 repeats the requirements of paragraph 55 of ED-ISQM 1 and paragraphs A40 to A43 provide very descriptive ways for firms to undertake performance evaluations required by paragraph 24(b) of ED-ISQM 1, which could be extracted into guidance material. Stakeholders have expressed concern that this voluminous material will confuse and detract from the standard's requirements.

APESB strongly recommends the IAASB improve readability and scalability of the application and other explanatory material by removing duplication of requirements and extracting other explanatory material into a basis of conclusions or a guide to implementing the proposed standards, as appropriate. We recommend that drafting conventions adopted during the IAASB's Clarity Project during 2009/10 be revisited and strictly followed to streamline these ISQM proposals.

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APESB is of the view that ED-ISQM 1 will not improve the scalability of the standard, particularly for sole practitioners and SMPs (we consider SMPs to be firms with revenue of up to approximately 2 million AUD per annum) and is, in fact, less scalable than extant ISQC 1.

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Although the proposals seek to promote professional judgement and scalability, we believe they are highly prescriptive. For example, if the practitioner can exercise their professional judgement to determine the quality objectives, quality risks, and the required responses, then it is contradictory to state that they are required to have 33 quality objectives and 32 mandatory responses in their SQM as a minimum. Also, it is unclear how the IAASB determined mandatory responses without the quality risks that the responses relate to in the SQM.

APESB is also of the view that the application material which notes that the reasonable possibility of quality risks occurring is more than remote, may

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be too low of a threshold and will unnecessarily increase the number of risks which then need to be applied against the second identification threshold.

Further, firms may need to evaluate all potential quality objectives, quality risks, and responses to determine if any requirements are not applicable. This will also add to the compliance burden, particularly for sole practitioners and SMPs, in understanding all requirements, establishing an SQM and documenting why certain requirements were not relevant to justify to a regulator, professional body or another monitoring body.

#### Potential Ongoing Impacts

The proposals in ED-ISQM 1 for ongoing monitoring, remediation and evaluation intend to improve the SQM's robustness by including additional or enhanced requirements to those in extant ISQC 1. It is designed to be a "continual and iterative process and is responsive to changes", however, APESB is concerned this may lead to continuous re-evaluations as circumstances or risks change, for example where a firm undertakes different engagement types or engagements in new industries. This is in addition to annually evaluating the effectiveness of the SQM and will add to the compliance burden placed on sole practitioners and SMPs.

Recommendation 1: The IAASB develops the SQM from the perspective of SMPs as presented in Option 1 below. Larger firms could then scale the SQM upwards to suit their firm's services given their access to technical resources.

We respectfully suggest to the IAASB, that from a risk-based perspective, there are more commonalities than differences in respect of sole practitioners and SMPs. APES 325 Risk Management for Firms (APES 325) provides an example of a true risk-based standard which provides leeway for the firms, professional bodies and members to exercise their professional judgement to develop a risk management framework that suits their practice. This standard-setting approach has enabled CPA Australia to develop a Risk Management Framework Tool to assist firms with their compliance with APES 325.

#### Option 1 – Scaled back SQM

Reduce the requirements of the SQM to a base level for sole practitioners and SMPs with mechanisms to require firms to bolster their system with increasing firm size and complexity. The overarching structure and principles of ED-ISQM 1 could be maintained, including the standard's objective, the risk assessment and monitoring, remediation and evaluation processes with the following simplifications:

Reduce requirements to that of a sole practitioner or SMP, for example, including base level:

Quality objectives, which could be one or more overarching principle-based quality objective(s) per component which are directly relevant to the component and the overall objective of the standard;

Quality risks (identified in the standard) to the achievement of the required quality objectives;

Responses to address the identified quality risks (including policies and procedures from extant ISQC 1 wherever possible);

Larger firms may need to assess the nature of their firm and engagements to determine whether additional quality objectives, quality risks, and responses are required to achieve the overall objective of the standard;

Reduce application and other explanatory material to pure application material (i.e., which directly address requirements) on the reduced requirements detailed above (also refer suggestions below regarding reducing the volume of this material); and

Provide guidance for firms of varying sizes and complexity, including the framework of what the overall SQM consists of and potential additional quality objectives and responses extracted from the current ED-ISQM 1 as relevant. For example, a:

Simplified SQM for sole practitioners;

Base level SQM for an SMP; and

More detailed and complex SQM for larger firms highlighting areas where additional quality objectives, quality risks, and responses may be required.

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Based on the stakeholder engagement process undertaken, we have significant concerns about the current form of the proposed standards which we would like to bring to the IAASB's attention for due consideration.

APESB believes that the stakeholder concerns raised with the APESB stem from the fact that the proposals have been written from the perspective of a large multi-disciplinary firm with a focus on large complex Public Interest Entity (PIE) audits.

We strongly believe there needs to be a fundamental shift and a renewed focus for these proposed standards towards sole practitioners and SMPs to obtain their buy-in, as they represent the vast majority of firms globally.

We note in the current environment that sole practitioners and SMPs are time poor and these proposals will add to the regulatory burden which may result in some practitioners being unable to cope with the requirements in the proposed standards. Further, the proposals tend to focus internally on the firm and may not necessarily add value to the actual services being provided to the client, thus making the recovery of the additional costs from the client difficult in the SMP environment.

APESB is of the view that the ISQM proposals in their current form are not commercially viable for sole practitioners and SMPs and will likely result in assurance and related services being redirected to larger firms with extensive resources.

## Belgian Institute of Registered Auditors IBR-IRE

At first sight the proposed standard seems to address scalability. However, we believe this is quite theoretical as the amount of documentation (policies and procedures) to provide for in order to comply with the standard seems rather extensive. We understand that as the risk analysis is firm-specific, it is difficult to provide an example which would fit for all audit firms of all sizes. However, it would be useful that IAASB provides an example of policies and procedures to be applied by sole practitioners (SP) and another one by the small and medium sized practitioner (SMP) with non-complex audit clients, especially each time the terms “establishing policies and procedures” are used. This could be a minimal/basic example. This example could also be used as benchmark for regulatory bodies.

Regarding the documentation, additional guidance should be provided because a lot now in small firms happens informally and it is not clear for small firm how documentation is to be completed. An example focusing on SPs and SMPs would be needed but we need to make sure this example could not be considered as “best practice” and thus imposed by the regulator.

There are several objectives and for each objective the firm needs to consider whether it achieved it. People seem to read it as a “tick the box”. It would be necessary to rethink the scalability that is now inherent to make it more clear to the readers/users.

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## Chartered Accountants Australian and New Zealand and ACCA

The principles appear to be scalable. However, we have concerns that the documentation and implementation will be resource intensive for all firms and particular SMPs. As a result the costs, in terms of time and resources, may outweigh any achieved benefits. The length of the standard and application material is daunting for an SMP to read and absorb. The standard should consist of clearly understandable requirements, supplemented by application material that is not repetitive and that assists with application. The ED is too long and repetitive as drafted which is a barrier to successful implementation. There will be a need for guidance on documentation for SMPs, particularly around the risk assessment process, with clear examples to reduce the time and resources required for these entities to implement any changes.

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## CPA Australia

Response: The standard is scalable, at least theoretically, as it enables flexibility in the identification of objectives, risk assessment and design of responses. However, working through the standard is complex. We suggest that the IAASB review the quality objectives and consider whether they can be simplified or consolidated. The threshold for identifying quality risks, being those with a “reasonable possibility of occurring”, which the application material states means the “likelihood of its occurrence is more than remote”, sets a low bar. In addition, the requirements specify numerous (32) responses, without taking into account the outcomes of the quality risk assessment. Inclusion of these responses in the requirements creates an expectation that they will either be carried out or a justification provided as to why they are irrelevant. This makes the standard, which aims to be principles-based, quite prescriptive for smaller firms which may not require all of the responses stipulated. The inclusion of responses in the absence of risks, is at odds with a scalable risk-based approach and makes implementation more difficult. In a risk-based approach you would expect risks to be identified first and responses only then designed to address those risks, not the reverse.

It may be possible to include the responses in application material or an appendix, as suggested above, and provide examples of risks which may be faced by firms to address each quality objective. To further demonstrate scalability, examples of risks and responses could be identified for different sized firms, such as International network firms, national networks and small firms or sole practitioners. By inclusion in an appendix, the objectives and responses then become examples which can be applied by firms, amended or added to in a genuinely scalable manner. This then provides granularity and illustrates the requirements without being prescriptive, which will help small to medium practices understand how to implement the requirements but not lock them into addressing a long list of objectives and responses.

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The standard is scalable, at least in theory, as the firm is required to tailor its approach to its nature and circumstances and be responsive to the risks it identifies. In doing so the responses to quality risks can be scaled down to suit the size of the firm. However, the fact that the system is required to be so tailored, also makes implementation more challenging and the potential variability in outcomes greater, particularly for smaller firms with limited resources. Smaller firms are likely to need significant assistance from their professional organisation to work through this very long standard and have confidence that they have met the requirements for a system of quality management.

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## European Federation of Accountants and Auditors for SMEs

Many SMPs perform assurance and related services such as compilations, but not audits. This trend away from audit, driven in large part by the increasing frequency and size of audit exemption thresholds, looks set to continue. While ED ISQM 1 follows a risk-based approach that will be familiar to auditors applying ISA 315, such an approach will be alien to SMPs not performing audits. They will likely find the cost of complying with the standard in excess of the benefits of increased service quality. Consequently ISQM 1 is less likely to be adopted by firms when there is no jurisdictional requirement to do so. If the IAASB intends to develop standards suitable for all professional services, then ISQM 1 needs to be suitable for firms that do not perform audits at all. Presently it is not suitable.

We understand ISO's 9000 suite of quality management standards to be widely used and supplemented by sector specific application material. While the ED-ISQM 1 is a technically robust document, expertly written and presented, we have serious reservations as to its scalability and usability by SMPs due to its highly prescriptive and detailed composition. We therefore urge the IAASB to make extensive changes in order to simplify it and make it scalable from the bottom-up.

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While promising to follow a risk assessment approach the ED-ISQM 1 is overly prescriptive and detailed leaving little room for professional judgment in its application. Voluminous standards pose a significant challenge to SMPs. ED-ISQM 1 is considerably larger than ISQC 1. Every effort needs to be made to scale-back the length of this standard. The quality objectives are an exhaustive list.

It is vital that the approach is simple and straight forward if it is to be truly scalable. Making the standard less complex to apply would go a long way to addressing the practical issues many SMPs will otherwise face and simultaneously render the standard more scalable. Therefore, we suggest having a higher threshold for risk identification and assessment, in place of "more than remote likelihood of occurrence", preferably one that takes both the likelihood of occurrence and likely magnitude of impact into account. In addition, we suggest having far fewer and more general objectives. That is, we suggest having an overarching objective for the standard as a whole and then just a single objective for each relevant area that drives quality.

The proposed ISQM 1 risks creating a significant increase in documentation, especially in documenting what has not been done and why, as a result of the highly prescriptive nature of the standard. This burden will fall disproportionately on SMPs. We therefore welcome more guidance on what need to be documented and show how succinct this can be.

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## EXPERTsuisse

Regarding the scalability of the requirements and application material of proposed ISQM 1, in our opinion scalability is principally embedded but we would like to point out that the requirement to document the reasons why certain elements of the quality management system are not adopted means an additional (maybe not useful) effort for audit firms. We therefore suggest taking a different focus, which means to compose the standard from the view of SMPs and to add certain (mandatory) requirements for larger practices on top of these basic requirements. In our opinion International Standards sometimes miss the "bottom up"-approach, but to the contrary are designed from the perspective of larger practices auditing PIEs, leaving SMPs with difficulties in downsizing the requirements to their specific situations.

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However, a comparable discussion on the issues of complexity, proportionality and "fit for purpose" of quality control or quality management standards has not been initiated by the IAASB, at least to our observation.

We urge the IAASB to start a debate on these strategic issues as well. In the aforementioned discussion paper, developing a separate auditing standard for audits of less complex entities has been described as a potential possible action. We would like to see the IAASB also discuss whether a separate quality control standard for SMPs would also be an option.

In our opinion, the existing ISQC 1 is a robust standard with broad international application and acceptance. We therefore ask whether a total new quality approach is necessary, at least in the SMP environment. Has the current standard failed to deliver on its promise and purpose? One might guess so, considering that the proposed revised standard has more than doubled in size (and one must not forget that the newly developed ISQM 2 adds on top to this). We therefore ask ourselves whether the proposed new standard is fully applicable in the SMP arena and whether scalability is sufficiently given

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Again, we would be supportive of a separate quality control standard for SMPs and would also like the IAASB to discuss whether the existing ISQC 1 could be "frozen" for SMPs, i.e. auditors with less complex audit engagements.

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Nonetheless, we also have concerns. We have seen a tremendous increase in complexity of International audit, assurance and quality control standards over the last decade and we doubt that ever more elaborated standards per se increase the service delivery and audit quality. We observe that it has become very difficult for smaller practices as well as sole practitioners to digest and implement those standards and any changes to them. In our view, this has led to some resistance in the SMP arena and also to the ongoing debate about scalability and appropriateness of International Standards in less complex environments. This has just recently led the IAASB to issue a Discussion Paper titled "Audits of Less Complex Entities - Exploring Possible Options to Address the Challenges in Applying the ISAs". The IAASB herewith recognizes the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the International Standards on Auditing.

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## FAR (Institute for Accounting Profession in Sweden)

In general, FAR supports the response submitted by the Nordic Federation of Public Accountants and FAR therefore refers to this response.

Overall, FAR supports the proposal of the new risk-based approach in ED-ISQM 1 and believes that the new standard will contribute to higher quality engagements. However, FAR is of the opinion that the scalability of the standard is not clear and that it will be difficult for smaller firms to implement and apply the standard. FAR would recommend that the visibility of the scalability options is clarified and that the standard gives clearer guidance on how and when scalability could be applied.

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## IFAC Small and Medium Practices Committee

Ensuring the quality of work is a significant issue for all firms, whatever the services they offer. The SMPC is concerned that the proposals are too focused on the PIE audit market, using a very narrow public interest lens, such that – for the reasons explained below in this letter – implementation in many SMPs that do not operate in this sphere would be overly costly compared to potential benefits of a “perceived” higher quality output. The IAASB acknowledges that firms will initially need to invest adequate time and resources to implement the revised standard. We believe that for a proposed standard of this magnitude, consideration should be given to a thorough cost-benefit analysis, especially as the public interest element is greatly promoted in the ED.

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The SMPC appreciates that the IAASB has expressly acknowledged that the degree of complexity and formality in firms’ QM systems will vary (para 5 of the standard). We also note the inclusion of policies that are implied by actions and decisions in the definition of the term “responses” in para 19(t)(i), since in SMPs, actions often will provide evidence on existence of policies or procedures which might be documented in a more formal manner in larger practices.

We also appreciate the IAASB’s consideration of scalability options and, in some cases, specific SMP examples. We particularly support the IAASB’s decision not to require more granular quality objectives (para 30 of the Explanatory Memorandum [EM]), not to identify quality risks for all firms (EM para 35), not to include more prescriptive responses (EM para 39) and not to specify overly-prescriptive communication requirements (EM para 53). The SMPC agrees with the Board that further enhanced levels of granularity or prescription are not appropriate in a global standard for application in a wide variety of circumstances.

We also support the IAASB’s decision not to require all firms to prepare and publish transparency reports (EM para 56) and to include consideration of relative severity of a deficiency regarding the required determination of root cause (EM para 71).

However, we believe that making the standard less complex to apply would go a long way to addressing the practical issues many SMPs would otherwise face and simultaneously, resolve many of the issues on scalability. Specifically by: 1) determining a more appropriate (i.e., higher) threshold for risk identification and assessment (instead of “more than remote likelihood of occurrence”) – preferably one that takes both the likelihood of occurrence and likely magnitude of impact into account, and 2) setting far fewer and less granular objectives – in other words, setting a more appropriate objective for the standard as a whole, aligning quality to the firm’s individual strategy with just a single objective, preferably for each relevant area that drives quality (i.e., personnel, IT applications, etc.).

It is likely that many smaller firms will benefit from assistance from their PAOs and other third parties for QM system support and methodologies. The SMPC is available to support implementation initiatives and IFAC will coordinate with the IAASB when exploring revising the QC Guide.

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We continue to be concerned that SMPs cannot easily navigate the standard to ascertain which requirements are not relevant to their circumstances. Besides this, the approach to non-compliance with a requirement is likely to be problematical for some SMPs. Para A20 explains two examples of requirements that may not be relevant and thus not applicable for some SMPs. These materials could be expanded upon, as it could give a false impression that very few requirements would not be relevant. Also, for SMPs, it would be preferable if all such requirements could be reworded in such a way that it is clear that they are conditional.

In this context, the requirements of para 24(a) (iii) (b) as well as 32 regarding independence is a good example. Firstly, assignment of responsibilities to the degree foreseen in the ED may be unnecessary/ impossible for some SMPs and secondly independence may not be a factor for all professional firms (many SMPs undertake no assurance services). We therefore do not see the rationale for overly focusing on independence as proposed.

In general, whilst we accept that there are more “nuggets” for SMPs in the application material, these are not visible – even the EM only cites two examples (Para. 88). Perhaps, a separate staff publication covering all this material could be helpful for SMPs. Again, if it is within the standard, “Consideration specific to smaller firms” will be tremendously helpful.

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## Illinois CPA Society

Response: We do not believe that the proposed ED-ISQM 1 is scalable to smaller firms (i.e. 1 to three partner firms). To implement this proposed ED, small firms might need to hire additional resources, and/or incur significant hours to adhere to the standard. These additional hours require the partner(s) to absorb these costs, which could be significant to their practice. Perhaps, to improve the scalability, a two-tier system could be applied.

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Response: While we agree ED-ISQM 1 does enhance firms’ management quality, ED-ISQM 1 does appear to be overly burdensome for smaller firms, and particularly those who may be sole proprietors. We suggest a two-tier solution, firms with less than three partners, for example, be exempt from ED-ISQM 1 and should follow extant ISQC 1, while the larger firms’ implement ED-ISQM-1. Another two-tier solution could be based on a threshold of firm revenue.

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## Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)

Response: The quality standards should be drafted by beginning with the definitions and general principles that are applicable to all practitioners, from sole practitioners to practitioners working in a network firm. From this, the standard should expand to principles that are not applicable to sole practitioners, but only to practitioners from SMPs to those working in a network firm. And last, the standard should have a section with principles that are applicable only to network firms.

This is the reversal of the extant ISQC 1, that has separate sections titled “Considerations Specific to Smaller Firms”.

The Restructured Code of Ethics is an example of how a separate section covers the principles for firms providing assurance engagements. That way, the standard considers the fact that there are firms that do not provide assurance engagements, but for example do provide assurance related engagements.

As stated in paragraph 5 of ISQM 1, the complexity and formality of a system of quality management of a firm that performs only compilation engagements or even reviews of financial statements, will be far less than that of a firm that performs audits for public interest or listed entities. The standard should be drafted accordingly.

It is regrettable that the draft examples of ISQM 1 follow this logic, but the draft standard itself doesn’t. The draft examples distinguish three scenarios:

A small firm that performs only compilation engagements

A small firm that firm that performs compilation and review engagements

A larger firm with multiple locations that is part of a network and performs multiple engagements

If the standard would be drafted in such a way (with more nuances, as stated above), the practitioner wouldn’t need to wade through the entire standard, and then discard those sections which aren’t applicable to his situation. This is necessary because the new quality management approach together with the various new requirements have added to the overall length of ISQM 1 compared to the extant ISQC 1.

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The fact that the new standards follow a risk-based approach, the increased emphasis on professional judgment, the fact that the quality objectives are outcome-based rather than input based to prevent a checklist approach, and the considerations of the nature and circumstances of the firm and the engagements it performs, are steps in the direction of more scalability. The development of practical examples is also preferred to theoretical guidance. This enhances quality and scalability.

The new quality management approach together with the various new requirements have added to the overall length of ISQM 1 compared to the extant ISQC 1. This reduces scalability.

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## Institute of Chartered Accountants in England and Wales

We note in our main points above and elsewhere in this response, the need for:

further non-authoritative guidance from IAASB supporting scalability, such as examples and FAQs;

an emphasis by IAASB on the simple and straightforward application of the requirements to some smaller firms to avoid over-elaborate and checklist-based risk assessments and responses;

the usual webinars and slides, provided they focus on the specifics of what is new, rather than a high-level overview.

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We have concerns about the effectiveness of these proposals for smaller firms and in particular the risk of over-elaboration in the design of quality management systems. A simple and straightforward approach to quality management may be appropriate in many cases but this is not clear from the proposals. IAASB needs to consider what it can do to manage expectations, particularly those of regulators, in terms of what is expected of smaller firms or firms with low risk engagement portfolios.

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Proposed paragraph 10c has created some confusion. It seems obvious to some that additional responses beyond those required by the standard will be needed, simply because there are no prescribed responses in some cases. It would be helpful if this were explained in paragraph 10c because others fear that without such an explanation practitioners will develop unnecessary responses.

ISQM 1 is better drafted than ISQM 2, but it is still double the length of ISQC 1, added to which are new requirements of ISQM 2. The sheer length of standards is a barrier to effective implementation at all levels.

We note in our main points above the need for new types of non-authoritative IAASB documents, such as examples, FAQs and material targeted at different types of firm and engagement. IAASB needs to clearly promote such material as being non-authoritative, and to discourage the misuse of it as authoritative to governments, regulators and PAOs.

We make detailed comments elsewhere in this response about areas in which further guidance supporting scalability would be beneficial.

To the extent that many smaller firms rely on PAOs and other third parties for systems and methodologies, IAASB should consider engaging directly with those parties in its implementation activities.

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Digitisation would serve to encourage better drafting in that scalability material applying to less complex entities might be brought forward, which might help practitioners read the subsequent material with an appropriate frame of reference - rather than reading material intended to apply to more complex situations with mounting concern about how it applies in a smaller audit, only to discover the scalability paragraphs right at the end.

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Scalability, digitisation and new categories of IAASB publication

IAASB's current regime allows for two types of pronouncement only: standards which are authoritative, and staff publications and IAPNs which are not. This regime has not in substance changed for decades and was designed to deal with a body of ISAs that were significantly shorter and less complex than they are now.

ISQM 1 is almost double the length of ISQC 1 and ISQM 2 adds more. The length and complexity of proposed ISQM 1 is the single most important scalability issue. It presents an all-too familiar challenge; whether to include all of the material developed in the standard itself, including examples either as application material or in an appendix, or whether to separate it out.

Inclusion renders the standard unwieldy and onerous, giving a more elevated status to some of the material than is warranted. Exclusion creates a need to cross-reference, difficulties in determining where the additional material should go and, potentially, uncertainty over status.

Beyond the ISAs, anything issued by IAASB, regardless of its actual status, is treated by some regulators as having greater authority than is intended. This hampers attempts by IAASB to innovate in terms of the types of publications it issues and we believe that to escape this impasse, IAASB must address the issue head on. It must be prepared to make it clearer than it does now that each audit, each firm, and each set of circumstances is unique, and that it is inappropriate to treat non-authoritative material - examples, in particular - as authoritative or as best practice in all cases. Examples can never address every possible set of circumstances. They are snapshots at best.

Respondents to our enquiries, unsurprisingly, had mixed views about additional material. Length and complexity are, as IAASB acknowledges in its recent DP on the audit of LCEs, a critical implementation issue. We have commented on it many times and we remain of the view that IAASB needs to think outside the box and consider the development of a different category, or categories, of publication. While there are substantive issues (set out below) regarding the content of the proposed examples and FAQs, examples and FAQs might be the place to start, and IAASB may want to consider material directed at different types of firm, or engagement. There is a great deal on IAASB's agenda but the opportunities to innovate afforded by this and the LCE project are unlikely to recur.

We therefore encourage IAASB to use the quality management standards to consider how examples, FAQs, and material directed at different types of firms or engagement, can be published as a new category of non-authoritative document. This could serve as a template for other ISAs as they are revised. In doing so, IAASB should take steps to help ensure that the status of any such material is properly understood. This includes clearly communicating its non-authoritative status and the fact that examples and FAQs are just that, and are not applicable in all cases. This will go some way to helping ensure that such publications are not misunderstood or misused by government, regulators, professional accountancy organisations (PAOs) or others. New material directed at different types of firm or engagement - particularly SMPs and LCE engagements - would help deal with the perception that IAASB is insufficiently engaged with that constituency, and to prevent the inappropriate use of such non-authoritative material.

We not only believe that this is worth doing, we also believe that IAASB is best placed to produce the highest quality material and we do not believe that it is beyond IAASB to achieve this in a reasonable timescale. Doing so would demonstrate the very agility that its detractors claim it is incapable of, and would go a very long way indeed to demonstrate that its standards are scalable and proportionate.

In this context, the medium affects the messaging. Digitisation of material facilitates ease of navigation, avoids the need for, or inadvertent trawling of, irrelevant information, and might facilitate more of a building blocks / think small first type approach. Indeed, the absence of digitisation is somewhat surprising, it inhibits development and acts as a drain on resources globally. These standards could be used as a pilot for digitisation.

Requirements could be linked digitally to application material and conditional requirements could be linked digitally to further requirements. The 'what, why and how' approach being considered in the revision of ISA 315 might be also advanced using this approach. Requirements and application material could be further linked to examples outside the standard, FAQ, staff publications and other media.

Digitisation would serve to encourage better drafting in that scalability material applying to LCEs might be brought forward, which might help practitioners read the subsequent material with an appropriate frame of reference - rather than reading material intended to apply to more complex situations with mounting concern about how it applies in a smaller audit, only to discover the scalability paragraphs right at the end.

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## Institute of Chartered Accountants of Pakistan

It would be helpful if more implementation tools like illustrative guidance with scenario based examples and templates are made available including short webinars. This would help in implementation especially the small firms.

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We have concerns on the scalability and transition period of the proposed standard, specifically in context of small and medium size practices (including sole practitioners).

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We have reservations about ISQM proposals as in their current form these reflect a major change from extant requirements. This shift which will create a major compliance burden most notably for sole practitioners and SMPs which represent a very substantial portion of Pakistan practice. In Pakistan perspective we foresee that small firms will face difficulties finding resources to implement the revised standard.

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## Institute of Chartered Accountants of Scotland (ICAS)

We are aware of, and indeed are encouraged by, the IAASB's earlier discussions on a new approach to the revision of ISA 315 which signified a move back to more-principles based standards where the requirements focus on the objectives of the standard with any supporting or implementation material located in another document or in an appendix to the standards. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating the proportionate application of the standards.

We are, however, concerned at the overall length of the proposed new standard, which is considerably longer than extant ISQC1, and excludes the material transferred to ED-ISQM 2.

This increased length adds to our concerns that the standard may not be regarded as sufficiently scalable for smaller firms. Therefore, we would suggest that the issue of the final standard should be accompanied by implementation guidance that focuses on the application of the standard by these entities. Any such guidance would need to be sufficiently detailed and specifically targeted towards smaller firms to support them in the application of the revised requirements.

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## Institute of Chartered Accountants of Sri Lanka

The below diagram indicates that most practitioners worldwide are sole-practitioners or have less than five partners & staff.

The Auditing Standards Committee of Sri Lanka have a serious concern over the applicability of the complex Quality Management Standard for firms while removing the existing provisions to the smaller firms.

In Sri Lanka, the most of the audits of public interest entities are carried out by large audit firms and application of International Standard on Quality Control 1 (ISQC 1) for these audit engagements are mandatory.

Given this scenario, there is serious concern on the applicability of ISQM to SMPs. Further, removal of existing provisions to the smaller firms i.e. A3 “Considerations Specific to Smaller Firms” from the new standard is also a matter of concern. We are of the view that, this standard must be applicable if a firm performs audits and reviews of financial statements, and other assurance and related services engagements to listed entities including all banks and finance companies, Specified Business Enterprises, and to any entity with public interest.

According to the IFAC SMP Global Survey, the number of challenges faced by the SMPs are:

Further, the Small and Medium Practitioners (SMPs) firms in developing countries cannot be compared with the SMPs in developed countries. SMPs in developing countries are much smaller than developed countries as most Europe and American countries enjoy a GDP per capita which is three times more than a developing country.

‘Keeping with new Regulations & Standards’ is one of the top global challenge and ‘Rising Cost’ is also a severe problem facing SMPs. While considering these facts, it proves that adoption of complex quality management standards by SMPs with a limited number of partners and staff will not be cost effective for SMPs.

Also, we would like to note that most of the SMPs are engaging with the Small and Medium Enterprises which prepare financial statements using the condensed versions of the full set of Accounting Standards (i.e. International Standard for Small & Medium Enterprises or in Sri Lanka, some entities apply the locally developed Sri Lanka Accounting Standard for Smaller Sized Entities). Therefore, we are of the view that there should be a fundamental quality control standard for SMPs separately.

Furthermore, with regard to the audits of less complex entities, there is a pressure to standard setting authorities to develop a separate framework for smaller audits carried out by SMPs. The Institute of Chartered Accountants of Sri Lanka has developed a separate auditing standard for SMPs known as the “Sri Lanka Auditing Standard (SLAuS) for the Audits of Non-Specified Business Enterprises (Non-SBEs).”

Also, we understand that, there is a discussion paper for the ‘Audits of Less Complex Entities’ by International Auditing and Assurance Standards Board (IAASB). According to that, IAASB recognizes the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the International Standards on Auditing. Continuing the debate on these strategic issues, this Discussion Paper explores how the IAASB, and others, could further support auditors working in increasingly evolving environments.

Hence, in these circumstances, applicability of complex quality management standard for smaller firms is under serious concern.

Another suggestion is to identify different levels of firms according to the jurisdictions.

Example; minimum thresholds required by the firm to perform the audit or assurance service of the listed entity.

In Sri Lanka, more than 80% of practicing firms are sole-practitioners, and only 4% firms have more than five partners.

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## Institute of Independent Auditors of Brazil (IBRACON)

Although we recognize the efforts in incorporating the scalability throughout the standard, we are concerned that the overall length and complexity are barriers to its scalable application and we believe that additional non-authoritative guidance for smaller and less complex entities to support the implementation consistent with the IAASB’s project proposal should be provided, including different types of engagements - audit, assurance, agreed upon procedures. The FAQ and videos are good examples to deal with this issue.

## Instituto Mexicano de Contadores Públicos

The term “scalability” is not clear, we suggest explaining the meaning of it within the document. Additionally, it may be a good practice providing examples of how the small and medium firms could be documenting their compliance with the Standard.

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In agreement, even though the term “scalability” is not clear, we consider necessary to describe the term, include additional material as needed, related to how the small and medium firms could apply appropriately this standard.

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## Nordic Federation of Public Accountants

We fully understand that robust quality management standards need to capture big audit firms and complex engagements regarding public interest entities. In order to achieve this, the proposed standards have a “top down-approach” which presumes that they should be scalable to also be fit-for-purpose for SMPs and even sole practitioners. In our view the scalability, as proposed in the exposure drafts, is not helpful or clear enough. The standards are very long and complex. We would like to stress the importance that, when implementing these standards, SMPs should be confident that they have understood how to navigate in the standards and that appropriate judgments calls were made.

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No, the way in which scalability is dealt with in the draft standard is not helpful. We are concerned that time consuming efforts will primarily be focused on understanding the standard and its scalability options, rather than on the actual implementation.

For example, para. 5 with the subheading “scalability” and the associated guidance in para. A22 and A23, only refer to the nature and circumstances of the firm, its range of engagements and its clients, i.e. they describe characteristics that could be taken into consideration when determining whether or not the firm meets the conditions in order to use scalability. We suggest that the subheading to para. 5 should reflect the content of the paragraph, e.g. conditions for scalability.

However, the main challenge with the standard is to understand in what situations and regarding what requirements scalability could be applied. We believe that this issue partly relates to the structure of the standard, especially the fact that the standard consists of a mixture of requirements, where some are scalable (and optional) and some are not.

The scalability option is addressed in para 21. It would be clarifying to gather different aspects of scalability options in a subsection connected to this paragraph, i.e. provide more guidance both in the requirement section and in the related application material. For example, we would recommend some clarification about which requirements that are not scalable. Also, we do not find the way scalability is described in para. 21 helpful; just stating that firms do not have to comply to requirements that are not relevant does not add any clarity. Neither do the examples provided in para. A20, since those examples refer to situations that, objectively, are not applicable to the firm because of its size or types of engagements. The way this is drafted, it seems like scalability (only) equals “non-applicable” situations. Since scalability also includes how different requirements could be implemented, we suggest that this should also be dealt with in this context. We also suggest that para. 21 should have its own subheading to highlight where in the standard scalability is addressed on a more general level.

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We are concerned that the costs of implementing these standards for SMPs will not correspond to the expected improvements on quality engagements. Also, in order for SMPs to be able to understand and implement the standards, the professional organizations will have to provide application material, guidance and training. We would like to stress that the differences between big audit firms and SMPs with regard to access to resources and in-house knowledge, also apply to professional organizations of different sizes.

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In order to make the standards easier to navigate and understand, we think that the structure needs to be clarified, especially with regard to the visibility of scalability options but also including clearer guidance about when and how scalability could be applied.

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However, it is our view that these exposure drafts also show the difficulties of having one set of standards that covers the entire range from big audit firms to sole practitioners. Implementing these standards will take a huge amount of resources from all audit firms no matter their size. In contrast to the big audit firms who have already begun working with a risk-based approach, and who have these resources and in-house specialist knowledge at least on a global level, this will be an overwhelming exercise for SMPs.

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In our view these standards, as shown in the drafts, are not fit-for-purpose for all kinds of audit firms and all kinds of engagements that they are supposed to cover. Some challenges might be solved by training and application material outside the standards themselves. However, there is a limit on how much application material and guidance it is reasonable to produce in order to understand the standards, before it becomes obvious that further work needs to be done on the standards themselves.

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## South African Institute of Chartered Accountants

As indicated in paragraph 1, ED-ISQM 1 is applicable to firms undertaking audits or reviews of financial statements, or other assurance and related services engagements. In the absence of the scope paragraphs, in reading the rest of ED-ISQM 1, an incorrect assumption that this is only applicable to audit engagements may be made in that there is a strong undertone of audit engagements throughout, with little mention to no mention of the other types of engagements.

It is recommended that the IAASB assess how the standard can be adapted to incorporate guidance applicable to engagements other than the audit of financial statements. In doing so, the concern relating to scalability should be kept in mind as it is possible that the requirements relating to an audit engagement are in fact too onerous in relation to other engagements included in the scope of ED-ISQM 1, namely engagements to review of financial statements, or other assurance and related services engagements.

SAICA recognises the various actions undertaken by the IAASB in an attempt to address the scalability of extant ISQC 1. As indicated above, we support the new risk based approach that encourages proactive management of quality. During our outreach activities, it was found that there are conflicting views about the complexity of the proposed new and revised requirements and application material. In relation to the scalability of the standards, concerns were noted and SAICA shares these concerns.

In terms of the complexity of ED-ISQM 1, it seems that the larger firms find it easier to understand and have identified the availability of resources as being the issue, while the smaller firms are concerned about the complexity as well as the availability of resources.

In expanding on our concern relating to scalability, in the IAASB's Quality Control and Group Audits Project Proposal, it was noted that consideration will be given to how extant ISQC 1 can be revised to encompass the principles of quality management, and support the ability of the standards to be applied to a wide range of circumstances, but also retain the robustness of the existing requirements. To this end, with all existing requirements of extant ISQC 1 having been carried over to ED-ISQM 1 and additional requirements still added on, it does not seem that scalability has been achieved. In drafting ED-ISQM 1, a top down approach has been applied, where the standard has been drafted to cater for larger firms. Firms are therefore required to understand all of the requirements, assess what is not applicable, follow a filtering process in terms of removing these requirements and document the justification for this. This is the source of the concerns relating to how to evidence compliance with the QM-EDs. Furthermore, this process is tedious, time consuming and resource intensive.

To truly achieve scalability, a bottom up approach should be followed, where the minimum requirements are included that can then be scaled up based on the nature and circumstances of the firm and the engagements performed to cater for the larger and more complex firms. This approach will also address the concerns noted during our outreach in relation to how evidence compliance with the QM-EDs is demonstrated in that the minimum requirements will be applicable across the board and therefore the need to document rebuttable of certain requirements will not be necessary.

## The Finnish Association of Authorised Public Accountants

We would, however, emphasize that ISQM1 also applies to the very small and sole practitioners (1-3 partners working with few staff if any). The standard is long and includes numerous quality objectives and responses. It is not clear how much needs to be documented about the reasons why a particular detail is not relevant for a SMP. Together with our other comments below this shows that it is difficult to write a standard that covers the entire range from big audit firms to sole practitioners. Therefore, a separate standard for SMPs or at least a clear and comprehensive guidance for SMPs would be useful in helping SMPs to decide what needs to be done and what needs to be explained when not done. If the "comply or explain" principle is followed in every step the risk for overdocumentation increases. The vast number of requirements can also lead to a checklist approach and the overall objective for audit quality might be obscured.

The SMPs may fall short in having staff with specialized competence regarding different aspects of the quality management system. The quality management system as proposed in the revised standard might be an overwhelming exercise for SMPs. At least the objectives and requirements of the standard and the language used should be as clear as possible. The need for each requirement should be carefully considered.

When dealing with the scalability, the relevance of the standard is fairly easy to understand. Therefore just stating that the firms do not have to comply to requirements that are not relevant (due to the size of the types of engagements) is not helpful. There is more to scaling than relevance. The difficulties lie more in "in what situations" and "how" than "relevant or not", and more guidance is needed dealing with the first two questions. The scalability of a relevant standard is the issue that should be thoroughly considered whenever a standard is being revised or a new standard is established.

## Wirtschaftsprüferkammer

However the implementation of the new approach seems to be very complicated and prescriptive, leaving only little flexibility. Already the scope reveals the challenge: the proposed revised standard covers nearly 70 pages plus around 14 pages ISQM 2. Extant ISQC1 comprises only 34 pages and is relatively "short".

WPK appreciates that the IAASB acknowledges that the new quality management approach aims to improve the scalability of ED-ISQM 1. However in our view scalability is not sufficiently recognizable. The standard represents considerable additional requirements and therefore burdens not only small but also medium and large audit firms without necessarily generating corresponding added value. As noticed above, the IAASB should clarify what is new and why the new approach is significantly better.

Under the assumption mentioned below (Question 2) an audit firm must cope with nearly 200 responses, which is in our opinion hardly feasible for audit firms of all sizes and certainly does not promote quality.

A multiple-choice poll conducted during the Less Complex Entities (LCE) Working Conference in Paris, France in May 2019 confirmed our concerns: 55 per cent of the respondents said that the new ISQM 1 is not scalable for firms of all sizes and different types of engagements; only 19 per cent said that ISQM 1 is scalable (remaining respondents were indifferent).

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## Files\\9. Individuals and Others

### Vera Massarygina

No, requirements of some para. should be shortened or excluded, for example para. 26-30 etc. The requirements of these section should be formulated appropriately to make it clear that the firm should appreciate the character of the engagements performed, its clients and design and implement appropriate system of quality management.

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## Nodes\\ED-ISQM 1\_Firm Level\\01(c) Scalability\\5. Q1(c) - Unclear

### Files\\1. Monitoring Group

#### International Organization of Securities Commissions (IOSCO)

The objective (as suggested in the ITC) to improve the scalability of the standard ISQM 1 is supported to deal with differences in the size of firms and the services they provide.

It should however be clearly stated that the scalable approach cannot be applied to audit and other assurance services for public interest entities, including listed companies.

While the complexity and formality of firms' systems will vary, any risk based approach in the design, implementation and operation of the system of quality management must entail key concepts such as ethics, public interest considerations or the application of professional skepticism, which serve as integral parts of any quality management systems of audits.

Large audit firms are encouraged to do significantly more in addressing matters of audit quality beyond the minimum requirements as defined in ISQM 1 based on their nature, size and client base.

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### Files\\3. National Auditing Standard Setters

#### Chinese Institute of Certified Public Accountants

The scalability has been improved, meanwhile the ability to understand and implement the standards also need to be enhanced (e.g., greater exercise of professional judgment), which brings great challenges, especially to SMPs. While the standards provide flexibility in terms of size, complexity and circumstances, SMPs may not be able to accurately understand and apply these requirements in practice. Thus they may be hesitant or may not know how to apply scalability as allowed in the standards. We fully understand and support the principlebased approach. However, we still recommend that IAASB continue to improve the ability of the standards to be implemented in practice, such as developing more guidelines and implementation aids. In order to improve the scalability, the length of the standard has been substantially increased, which further increases difficulties in reading. It may be harder for SMPs to accurately identify the provisions specifically designed for them in terms of scalability. Besides, business in SMPs is much more diverse compared to that in large firms. It may not be enough to address SMPs' demand only by simplifying and lowering the requirements which are more applicable to large firms in extant standards. Therefore, we believe that one set of standards may be difficult to achieve real scalability for SMPs.

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## Files\\4. Accounting Firms

### Baker Tilly Virchow Krause LLP

We believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standard at firms of varying sizes (as suggested in our response to question I.2) above) will improve scalability.

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### CAS International

Response:

We take note of the examples and explanation given in the exposure draft. We look forward to observe the real challenges during the real implementation. The knowledge and experience gap will be the biggest challenge to overcome.

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## Files\\5. Public Sector Organizations

### Australasian Council of Auditors General

Conceptually, the quality management framework designed to meet objectives, with responses tailored on a risk-based approach encourages scalability for firms of varying size, complexity and circumstances.

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ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

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### International Organization of Supreme Audit Institutions

The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include a sufficient level of explanation in the application material.

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## Files\\6. Member Bodies and Other Professional Organizations

### California Society of CPA's

Do you support the approach for establishing quality objectives?

This is where scalability may begin to break down. This may be overkill for smaller practice units.

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Theoretically the new requirements are scalable, and we expect that the gigantic and large firms will expend far more effort and resources that will be required for smaller firms.

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### Korean Institute of CPAs

As we understand, ED-ISQM 1 is established, adding requirements of extant ISQC 1 with new ones, and introduces the risk-based approach incorporating the quality management approach (QMA) to improve scalability. Given that ED-ISQM includes enhanced requirements, it is not certain whether the adoption of the QMA could end up with the collective improvements in scalability of the standards to cover SMPs. After all, the QMA selected by ISQC 1 mostly takes into account practices of major global firms, and they are also facing difficulties with adopting and implementing the QMA in practice.

Considering such difficulties, it would be desirable for the IAASB to identify first whether ED-ISQM 1 results in actual enhancement of quality management before finalizing the proposal, and conduct pilot tests for SMPs to evaluate scalability of the standards, thereby making it possible to reflect test results and implications.

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## Files\\7. Investors and Analysts

### Corporate Reporting Users' Forum

The audit quality of listed companies must be consistent.

ISQM1 applies the concept of scalability. However, we would like to emphasise that the users of financial statements, at least in the case of audits of listed companies, place great importance on maintaining the same level and consistency of audit quality regardless of the size of the audit firm or audited company.

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