

## ISQM 1: Nvivo Report – Question 2

### Nodes\\ED-ISQM 1\_Firm Level\02 Challenges for implementation\2. Q2 - No challenge

#### Files\\4. Accounting Firms

##### Duncan and Topliss

R2: At this early stage, we cannot identify any aspects that are clearly a challenge. Work will be required to ensure that (and document) all of the stated quality objectives have been assessed and that any additional quality objectives have been identified, but none of this is thought to create a significant challenge.

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##### ETY Global

No challenges for implementation expected.

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#### Files\\5. Public Sector Organizations

##### Auditor General South Africa

No, there appear to be no aspects of the standard that may create challenges for implementation considering that the standard is scalable for all firm sizes and provides very practical guidance on how to implement the proposed system of quality management.

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### Nodes\\ED-ISQM 1\_Firm Level\02 Challenges for implementation\3. Q2 - Some challenges

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

##### Financial Reporting Council United Kingdom

During our outreach, some of our stakeholders suggested that the IAASB could prepare the following support materials that are intended to supplement the IAASB's standards, and act as an educational tool for firms:

☐ 'First Time Implementation Guide' for ISQM1 and ISQM2 ☐ Practical guide to performing a root cause analysis. ☐ Practical guide to performing risk identification and assessment in a SOQM.

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

More guidance or a framework on how to identify and assess quality risks could also be included. It needs to be clear to both the audit regulator and the firms that the firms have properly applied the quality risk assessment requirements.

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Concerns were expressed around some implementation considerations, and possible unintended consequences of the new approach:

The length of the application material in ED-ISQM 1 has been raised as a concern by some stakeholders. There is extensive application material, draft FAQs, draft examples and discussion around further implementation guidance. Is this an indication that the requirements should be clarified? If requirements should be clarified, this may necessitate less application and other implementation material. Short examples could be included in application material, whereas long examples could be included in FAQs or implementation examples and guidance.

We request that the extent of documentation required to provide evidence that the requirements have been met be clarified and expanded upon.

Documentation requirements should not be onerous and prescriptive, i.e. a tick box approach of documenting for the sake of documenting should not be an outcome. Rather, guidance or a framework on how to decide on what needs to be documented could be provided. Paragraph 66 of ED-ISQM 1 provides the overarching principles for documentation requirements. However, these requirements are described at a very high level, and this has already created uncertainty. These challenges could be addressed meaningfully by considering minimum documentation requirements, with an explicit condition that these are only minimum requirements that must be complied with; and that further documentation may be required in order to comply with the standard and provide evidence of this compliance to the monitoring function. The standards need to be clear to firms regarding what the firms need to document in order to satisfy interested parties that the quality management system has been designed and implemented effectively by the firm. A possible solution is to strengthen paragraphs A211-A214 of ED-ISQM 1.

The firm should demonstrate compliance with and implementation of all the requirements of the standard. Documentation should provide sufficient and appropriate evidence of the genuine effort in ensuring compliance. In our experience, firms will state that they have considered certain matters, but they cannot prove that to external inspectors. The documentation requirement should also be established at a level that will ensure that the logic applied, the line of thinking and the reasons for conclusions on any decisions in terms of this standard have been recorded. A cross-reference to paragraph 8 of ISA 230, Audit Documentation, could be included so that the exact process followed can be demonstrated through documented evidence, as this is all that external inspectors can look at to verify compliance with the standard.

We recommend that material regarding the archiving of working papers from specialist areas of the engagement, such as IT, be added. These working papers should form part of the engagement file. We have noted findings where the IT division of a firm had its own working papers, apart from the financial statement audit team's working papers. Only the financial statement audit team had archived its working papers in terms of the archiving policy, and the IT-related working papers had not been archived. All audit evidence should be included in the audit file and not just in the final report of the evidence extracted from the IT system. Alternatively, procedures should be documented in sufficient detail to enable an experienced auditor to come to the same conclusion without the IT-related working papers.

The timing of the documentation requirements of paragraph 67 of ED-ISQM 1 need to be clarified.

The requirements for the application of professional judgment are not clear. Also, the requirements on how to document that professional judgment has been applied are not clear. Concerns have been raised that monitoring or inspections findings may result if the application of professional judgment has not been adequately documented. From a regulatory perspective, professional judgment will need to be inspected and, more than ever before, challenged by regulators during inspections, which will require more time and resources. Application material on the documentation of professional judgment could include the documentation of the basis of decisions, the logic applied, lines of thought, reasons, factors considered, "for and against" explanations and so on. If audit regulators discover a flaw in the logic, the appropriate application of professional judgment can be challenged.

Professional judgment is required at the identification of quality objectives and quality risks stages, particularly, and guidance could be provided as to how this would be evidenced. Documentation requirements should result in evidence that the spirit, not only the letter, of ISQM 1 has been achieved. 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.

Several stakeholders commented on their perception that the explanatory memorandum was useful and, in some places, easier to understand than parts of ED-ISQM 1 due to the use of simple language. We would support steps to further simplify the language in the quality management standards. Definitions could be simplified e.g. the definition of deficiency. We also urge the IAASB to consider when repetition can be avoided.

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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.

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We included the following comment in our June 2019 comment letter to the IAASB on the IAASB's Consultation Paper: Proposed Strategy for 2020-2023 and Work Plan for 2020-2021:

"It is important that the IAASB's new or revised standards, for example ISQM 1, ISQM 2 and ISA 220 (R), do not allow excessive discretion on the part of the audit firms. Auditors, in general, tend towards doing less audit work due to the commercial interests of their businesses. Therefore, there is a potential risk to the public interest if, for example ISQM 1 permits policies and procedures to become too discretionary in setting the level of compliance. This will lead to audit regulators finding it difficult to reliably measure the effectiveness of the firm's quality control system and identify deficiencies during inspections of audit files. Audits might ultimately not be able to detect misstatements in the annual financial statements, leading to more corporate audit failures. The IAASB should ensure consistent application of the standards as opposed to permitting excessive levels of discretion and judgement, as this will in turn ensure the consistency in the quality of work performed by auditors."

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## Files\3. National Auditing Standard Setters

### AICPA

We perceive two significant areas as particularly challenging: assessing risk and developing appropriate responses, as well as determining the nature, timing and extent of testing and documentation.

Identifying and assessing the firm's quality risks is the essence of this standard and will be a challenge for many firms. Risk assessment, in general, is difficult even for experienced practitioners. This was demonstrated with the adoption of the COSO Framework for both private and public companies and the adoption of reporting on internal control over financial reporting required by the Sarbanes-Oxley Act (SOX) for public companies. It is also obvious in reviewing the results of the AICPA Peer Reviews and regulator inspections of public accounting practices. Therefore, it is important that firms understand why the quality objectives in ED-ISQM 1 were chosen, how they should think about quality risks, and how to develop appropriate responses. Because quality risks and responses are dependent on the facts and circumstances of each firm, we believe the most useful implementation support would provide focus on the thought process for identification of quality risks and development of appropriate responses. Materials such as webinars or practice aids explaining best practices in quality management process application and other quality management considerations would be helpful. Further, support material should explain the risk assessment process as thoroughly as possible, in clear, simple language. Support material that addresses the differences in assessing risks for different types of service would also be helpful.

Implementation support material providing examples of documentation and training on how to test a system of quality management would be very helpful, particularly to SMPs.

Other aspects of the standard that we believe present implementation challenges are discussed below, including establishing additional quality objectives (see question 6(b)ii)

identifying entities of significant public interest, and determining whether an engagement quality review may not be an appropriate response for an audit of such an entity (see question 11)

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### Australian Auditing and Assurance Standards Board

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. 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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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 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.

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".

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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.

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The AUASB considers that the implementation concerns described below could be alleviated if ISQM 1 is redrafted on the same basis as the proposed new drafting approach to ISA 315. Additionally, implementation concerns could be addressed by the removal of a number of 'pre-defined' required responses to quality risks included in the proposed standard. The AUASB considers that firms should determine their own specific responses tailored to their specific risk circumstances.

Additionally the AUASB highlights a number of other areas in the proposed standard which we consider may enhance the implementation of the proposed ISQM 1:

#### Networks

The enhanced requirements around network firms, while supported by stakeholders, we consider will result in some practical implementation challenges for certain network firms. Some of the AUASB's stakeholders expressed concern that the granularity of the requirements around relying on network firms may undermine the purpose of being in a network and lead to unintended consequences. Additionally, there was a level of concern raised by stakeholders as to the consistency of application across network firms in different jurisdictions and what this means from a regulatory perspective. As this issue impacts many audit firms across the globe the AUASB considers that more detail may be required in ISQM 1 to demonstrate how, for example:

The same network requirements are applicable to firms operating in the same city or country versus those in different jurisdictions;

Requirements may be different dependent upon how a network is structured; and

Documentation requirements may be different dependent upon the nature of the network firm's affiliation.

The AUASB notes that the application material in relation to networks provides examples of the types of inquiries and documentation that the firm may consider, but it provides little or no guidance on the extent of the assessment that the firm should perform, nor the extent of the documentation required to evidence such an assessment. The AUASB recommends that such guidance be incorporated into the proposed standard to facilitate consistent and appropriate interpretation and implementation.

#### Implementation Period

The AUASB considers that a longer implementation period than that currently proposed by the IAASB is required, perhaps even a staggered implementation approach for example starting at with the governance and leadership component of the proposed standard.

ISQM 1 is expected to require a significant amount of firms' resources to be spent in order to put into place an appropriate quality management process, as well as update firms' methodologies for the other two quality management standards. Stakeholders expressed concern that an 18-month implementation period for certain network firms and other audit firms will be particularly challenging. For example, for certain network firms, the network firm's head office may be responsible for developing certain parts of the system of quality management, which will then need to be tailored by individual firms to address their specific facts and circumstances.

Additionally, on top of the three new or revised standards included in the suite of Quality Management standards, the AUASB is concerned that there are already two additional exposure drafts currently being finalised by the IAASB (ISA 315 and ISRS 4400). The AUASB considers that for firms to implement changes in respect of all five of these standards almost simultaneously may have an adverse impact on quality, so a longer implementation period for these Quality Management standards may be in the public interest.

#### Legislative instruments

The depth of considerations of the proposals of the standard may be greater and have more implications in jurisdictions where the suite of Auditing Standards (including the proposed ISQM 1) are legislative instruments and have the force of law, as is currently the case in Australia. The AUASB is concerned that the granular level of detail contained in the proposed ISQM 1 makes this standard difficult for practitioners to achieve compliance with the extensive list of requirements. This further supports the need for ISQM 1 to be a truly risk-based standard as described in our response to Question 1(a) above.

#### Documentation

Stakeholders consider that the requirement to document the quality objectives, quality risks and associated responses is onerous and time consuming. There are 8 components to the standard. If each component has multiple quality objectives and each quality objective may have multiple risks associated, and each risk requires a response to address that risk, the AUASB is concerned that meeting this documentation requirement may not have any benefit on quality, rather just become a compliance exercise.

Additionally, the AUASB raises for consideration that the definition of response in paragraph 19(t) includes policies implied through actions or decisions. An implementation challenge will be capturing the responses that are implied through actions or decisions and other responses that are informal in nature and not readily documented. An example of such a challenge is demonstrated in documenting responses required under paragraph 24(a)(ii) in relation to firm culture, where these responses may include informal staff meetings and common day-to-day actions and behaviours. The AUASB encourages the IAASB to provide examples of documentation which are likely to satisfy the needs of those reviewing a firm's system of quality control in these areas to assist with implementation and consistency of application.

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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 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.

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## Canadian Auditing and Assurance Standards Board

We believe that there are several aspects of ED-ISQM 1 that will be challenging to implement, and for which support materials may be necessary to assist SMPs.

**Risk assessment process** – As noted in our overall comments, it will be difficult for many SMPs to apply the risk assessment process. Guidance will be needed on how to identify quality risks, how to assess the quality risks that have been identified, and the level of detail expected.

**Governance and leadership** – SMPs with fewer resources will need guidance on what alternative responses they may implement when there are not enough people to take on the different roles set out in the requirements, or when the people do not have the appropriate skills, competencies and time to perform the roles, as we noted in our response to Question 1(c). These requirements do not allow for flexibility in an SMP environment. See also our response to Question 7.

**Monitoring activities** – For firms with low quality risk (i.e., SMPs that don't perform audits of listed entities or entities with significant public interest), we suggest that the IAASB consider whether the extent of monitoring activities should be different. For example, the IAASB could consider whether it is necessary to require an annual evaluation of the entire system of quality management, or whether the evaluation may focus on specific components or policies or procedures.

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We support the overall approach taken by the IAASB in developing ED-ISQM 1. However, we have concerns about the overall length of ED-ISQM 1. A detailed standard can be beneficial, because it can reduce confusion or misinterpretation. However, it may be difficult for small and medium size practitioners, including certain Public Sector practitioners (SMP), and sole practitioners to appropriately implement. We encourage the IAASB to review ED-ISQM 1 to identify requirements or application material that could be deleted or moved to non-authoritative guidance. We believe the IAASB could remove paragraphs 11, A21, some of the examples in A69, A112, A122 and A188. In our opinion, these paragraphs do not add clarity or new information. We also recommend changes to the wording and structure of certain paragraphs, as set out in our responses to Questions 6(c) and 7. We have provided these suggestions to IAASB staff, along with our editorial comments.

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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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We also believe that practitioners will need guidance and training to help them successfully implement the requirements. We heard from Canadian stakeholders that practitioners that do not perform audits are likely to have difficulty completing a risk assessment process. SMPs who perform mostly reviews and non-assurance engagements lack both the knowledge and experience of applying a risk assessment process to their engagements. This will make it difficult to apply a risk assessment process to a system of quality management. On the other hand, practitioners who routinely perform audits are likely to be aware of how to perform a risk assessment, because they apply a similar process to audits in accordance with ISA 315. As ED-ISQM 1 does not contain any example risks, SMPs may struggle to identify, assess and respond to firm risks. While certain risks may be obvious and easy to identify, less obvious risks may be overlooked. Therefore, we encourage the IAASB to develop, or support others in developing, guidance that will be available when the final standard is issued.

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## Chinese Institute of Certified Public Accountants

ED-ISQM 1 is likely to be challenging for SMPs due to their lack of experience, resources and ability, and weakness in professional judgement. For example, ED-ISQM 1 introduced a new approach of risk assessment process which includes 3 steps: establishing quality objectives, identifying and assessing quality risks and designing and implementing response. ED-ISQM 1 has provided specific quality objectives and responses to each component of the quality management system. However, the standard does not explicitly indicate the relevant quality risks. In practice, firms need to identify and evaluate quality risks according to their own situation. For another example, it is allowed by ED-ISQM 1 that the quality management system applicable to SMPs could be simplified accordingly. Although the requirements are scalable and flexible, SMPs may still find it difficult to adequately understand, grasp and use those requirements in practice to develop suitable quality management systems.

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

As mentioned hereafter, we are concerned about the following matters (introduction of PCAOB terminology in the ISAs, scalability of the proposed standard, the need of universal KPIs for the evaluation of the firm's system of quality management) and the requirements relating to:

Transparency report

Networks and

Service providers.

Please refer specifically to our comments to questions 6, 9, 10, 12, 13 and 14.

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

Response: Efforts will be needed to firms customize their own system of quality management. The SMPs have less resources to support this changing, so, there should be more support materials and guides for their use to guide consistent implementation. Additionally, two years of implementation on a global scale would also be challenging.

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## Hong Kong Institute of Certified Public Accountants

We understand that firms are concerned with the documentation expectation required for the quality management system as the requirements set out in ED-ISQM 1 are principles based. They have expressed concerns on whether the amount of documentation would meet regulator's expectations.

We consider it would be helpful for the IAASB to provide more guidance on documentation and education in form of webcast, workshop or case study. We understand that regulators would have influence over the level of documentation required and hence the IAASB encourages firms to have early discussions with their regulators.

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## Institut Der Wirtschaftsprüfer

We believe that the use of inappropriate quality objectives that are far too granular, the fact that the quality management process is not integrated into firm business processes, and the inappropriate description of quality management elements will create challenges to implementation. We refer to the body of our comment letter. In particular, we would like to note that we are concerned that the ED's approach will lead to firms using considerable resources to perform ineffective and inefficient activities simply to comply with new requirements that have little or no positive impact on the quality of the engagements performed.

However, we support paragraph 79 in the Explanatory Memorandum that the firms are held solely responsible for their QMS and not the network. We would also like to address the definition of listed entity in paragraph 19 (i), which has caused significant difficulty in implementation worldwide. The way the definition is currently worded, it does not cover those entities that are not yet publicly listed but have taken concrete measures to become so. Furthermore, the definition as worded includes situations where third parties (e.g., brokers) choose to trade a security on a platform that meets the definition of "being marketed under the regulations of ... other equivalent body" without any knowledge of the entity whose security is being traded. The former situation results in audit of financial statements of entities not being subject to heightened independence and quality management measures when they are needed; the latter results in heightened independence and quality management measures when the entity has not even sought to be a listed entity and those measures can be regarded as disproportionate.

We suggest that this situation could be ameliorated by having the definition read as follows:

"An entity that has or had taken concrete measures such that its shares, stock or debt are, or are expected to be, quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or equivalent body".

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## Japanese Institute of CPAs

We are concerned that it is difficult to gain an overall understanding of the standard, including the flow of requirements, from just reading the standard. Therefore, we suggest rewriting the Introduction section and Appendix 1 based on the descriptions in the Explanatory Memorandum. We believe that the Introduction section and Appendix 1 of the exposure draft do not explain clearly the quality management approach in the standard, which impair the understandability of the standards. In contrast, we found that the Explanatory Memorandum is easy to understand, as it starts with descriptions of the firm's risk assessment process. Without reading the Explanatory Memorandum, we believe that it is difficult to understand the structure of the objective of the standard, and the relationships of the eight components in the system of quality management. As the Explanatory Memorandum will not be included in the final standard, we believe that the Introduction section and Appendix 1 need revision. With regard to our comments on the structure of the objective of the standard and the eight components, see our comments on questions 4 to 6 below.

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## Kammer der Steuerberater und Wirtschaftsprüfer

Answer: It is not clear what more needs to be done in comparison with what is currently performed under ISQC 1 and we think that this will create challenges for implementation, especially for small firms and networks. The IAASB needs to reflect on how to communicate to firms if this is a step-up in quality management, and for which aspects specifically. The IAASB should realize that those with responsibility for methodology in their firms will not start with a blank sheet of paper but will seek to extract what is new. This is the type of analysis that should be shared with the firms to ease implementation and most importantly avoid inconsistency.

The volume of the proposed ED-ISQM 1 is already a challenge in itself for implementation. There is a lot of background material included, especially at the beginning of the standard. This background material, if in fact it is needed at all, could be placed outside the standard. Indeed, the IAASB should be mindful that large volumes of material can overwhelm firms and practitioners and detract from the central messages of the standard. Additionally, no matter how voluminous the material, it will never cover all the firms' ways of working. In terms of supporting material for implementation, an update of the ISQC 1 guidance published by the SMP committee could be useful<sup>1</sup> while it might sound counterproductive and even ironic that smaller firms need more guidance to implement ED-ISQM 1.

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

Response:

Under 'Requirements', paragraph 21 states that "the firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements".

The above is certainly viewed as a provision to enhance the scalability of this standard. However, in its implementation, when compliance of this standard is being regulated by various authorities, question arises regarding how a firm may be challenged about the sufficiency of evidence that the "nature and circumstances" of the firm does not require certain requirements to be complied. Additionally, more guidance needs to be provided on the form of documentation that is required and what is considered sufficient documentation. Without clear guidance, firms with similar situations may deal with them differently.

Therefore, to ensure that there is consistency in the application of the provision, clearer guidance is required.

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## New Zealand Auditing and Assurance Standards Board

Yes, the NZAuASB is supportive of the proposals to ensure firms understand the network requirements or network services and the effect they have on the firm's system of quality management, so as to emphasise that the firm is responsible for its own system of quality management. We consider this may assist to reduce any apparent undue reliance on network requirements or network services.

However, the NZAuASB does consider this may pose implementation challenges, as firms work to identify what further information is required from the network and what actions to implement when determining the impact of the firm's system of quality management.

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Yes, the NZAuASB considers there are three aspects that create significant challenges for implementation:

The prescriptive, overly granular quality objectives;

The requirement for each firm to identify quality risks;

The requirement to document the quality objectives and then map the quality risk and responses to those risks.

The granularity and prescriptiveness of the quality objectives is of particular concern, and in the NZAuASB's view undermines the benefits of the risk based approach. As noted in our response to question 1(a) above, this seems to result in a hybrid type of risk-based/checklist approach to quality management. The intended application of the risk-based approach may be undermined if the objectives are too prescriptive.

From our targeted outreach, practitioners were also concerned that overly granular objectives that are outcome based will carry the risk that regulatory focus will be unduly on the outcomes (which should be matters for the firm to identify) rather than the quality management process adopted by the firm (which is the appropriate focus of regulatory oversight). The NZAuASB agrees there is some force to this point, which underlines the importance of striking the right balance between principle and prescriptiveness. We would like to see this balance addressed before we need to consider the standard's adoption in our jurisdiction. In the Board's view, the ED does not strike that balance effectively, and this has implications for the prospects of the standard achieving measurable improvements to engagement quality.

The NZAuASB also foresees significant implementation challenges in terms of linking the required responses to the prescribed objectives. We ourselves found this difficult to achieve when preparing for our workshops with the New Zealand constituency. We noted many of the required responses relate to more than one objective and create something of a "spiderweb" of objective, risk and response. We consider this likely to be time consuming and challenging for firms to implement in practice.

The NZAuASB also considers the standard should be clearer about what a firm should do if it does not link a required response to any risk. As noted in

the response to question 1(b), practitioners involved in our targeted outreach questioned the value of requiring each firm to perform this exercise for common risks and responses. This supports the suggestion of a “thinking list” of generic risks which SMPs could use to identify their own firm-specific risks that are relevant to their circumstances. This could be supplemented by guidance about the requirement for each firm to identify additional risks where necessary.

The targeted outreach also identified the requirement to document the objective, risk and response as likely to be onerous and time consuming. We were told that implementation guidance to illustrate how such documentation could be prepared would be well received, noting the need for flexibility in the approach, and recognising that the guidance may have to demonstrate a multiple of ways that this could be achieved.

Practitioners raised concern that meeting this documentation requirement may not have any benefit for quality, and instead just become a compliance exercise. We consider there is a balance between the benefit of documentation, and evidencing what has been done, against the cost to do so. Where documentation can assist the firm in developing and confirming the risk assessment, we consider the discipline of documentation may add to the robustness of a firm’s system. However, we are concerned that documenting this “spiderweb” of objective, risk and response will be resource-intensive – both when initially implementing the requirements and on an ongoing basis.

As noted earlier, we recommend that the IAASB review the level of detail throughout the proposals, with a view to removing any overly prescriptive requirements and application material that does not demonstrably drive implementation of the relevant requirement to achieve improved engagement quality.

The NZAuASB has identified the following additional implementation challenges:

The lack of clarity of the requirement, and the absence of any examples, to assist firms to consistently distinguish between a finding and a deficiency. (Refer also to question 12(c).)

The requirement for periodic performance evaluations of the individual assigned ultimate responsibility and accountability. (Refer also to question 7.)

We consider it may be challenging for a firm, especially an SMP, to find the appropriate person to perform such an evaluation. To produce meaningful results, the evaluator would need to have the appropriate authority and be well respected within the firm, including when necessary to be able to challenge the firm’s leadership. For small SMPs (including sole practitioners), the requirement may not even be capable of application.

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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.

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The NZAuASB is satisfied that a risk assessment process ought, in principle, to drive a firm to establish appropriate quality objectives. Those that are well resourced to apply an intensive assessment process ought to be in a strong position to do so using the requirements of the standard. That said, the cost and effort in implementing the new approach even in large and network firms should not be underestimated. The detail and prescriptiveness of many of the proposals may well be a barrier to establishing appropriate objectives. Even for a large firm that is part of a wider network, we are concerned the objectives are overly granular and may not encourage firms to give the objectives sufficient thought. Our concern is magnified in relation to the SMP sector, which makes up the largest proportion of firms in our jurisdiction

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Fundamentally, the NZAuASB supports a risk-based approach to enhancing quality management by firms. However, the NZAuASB is concerned that the proposals in ED ISQM 1 will be challenging to implement in practice. Even for the larger firms and network firms, we have been told that the proposals will be resource intensive and costly to implement – even if the firm is already managing its business using a risk management approach.

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The large cost and resourcing needed to implement these proposals. We raise with the IAASB for consideration the benefit of developing a tool such as a “thinking list” of common quality risks (in the form of a generic list of common risks that practitioners can consider as applicable to their circumstances when undertaking the risk assessment and add to as appropriate) within the standard and/or develop illustrative documentation to assist practitioners to implement the proposals. We consider this may help to mitigate the large cost and resourcing burden without detracting from the benefits of a risk-based approach.

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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.



The length and density of the material. This is a major point of concern and may be a barrier to effective application of the standard. We encourage a review of the drafting conventions used in the exposure draft, to ensure that the requirements are clear and the application material will assist practitioners (rather than for example repeating requirements or justifying the requirement).

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## Royal Nederlandse Beroepsorganisatie van Accountants

Evaluating whether the system of quality management provides reasonable assurance represents a challenge. It is difficult to determine whether “reasonable assurance” is obtained with regard to the system. The question could be asked whether reasonable assurance is achieved when there is a thorough process, but some deficiencies exist or whether reasonable assurance is only achieved when engagements are performed in compliance with laws and regulation. See Q4 and Q5.

Root cause analysis might also represent a challenge. Firms need to show their vulnerability and build a culture of transparency where they are open about their failures/errors. Root cause analysis helps to establish a learning organization. At the same time this might make firms vulnerable for enforcement actions by regulators.

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## Files\4. Accounting Firms

### Baker Tilly International

Response: In general, a change on this scale will be difficult to implement for firms of all sizes, as acknowledged by the IAASB itself. It is imperative that sufficient time is allowed before the effective date of the standard and that the IAASB continues, and enhances, its helpful initiative of producing illustrative examples. See responses to individual questions where such challenges are addressed in more detail.

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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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### Baker Tilly Virchow Krause LLP

Due to the scope of the proposed changes we believe that the implementation will create challenges, but as suggested in our response to question I.2) above, we believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standards at firms of varying sizes would greatly assist firms in overcoming those challenges.

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### BDO International

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.

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#### Inconsistent messaging

The IAASB’s approach to communicating the new suite of quality management standards has been comprehensive; however, some of the implied messaging has been that the changes in the standards are merely to reflect how well-run firms operate at present or to encapsulate existing practices. This contrasts with regulatory comments in various jurisdictions, which when combined with early indications from firm-pilots, have led to a heightened expectation about the need for significant changes (specifically in the area of monitoring activities). As a result, this has led to concerns about mixed messages and what exactly the expectations are in respect of implementation efforts by firms.

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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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Yes. As previously noted in our answer to Question 1 above, one of the biggest challenges for firms of all sizes will be the need to invest time and resources in setting up a QMF that is appropriate to the nature, facts and circumstances of each firm. The amount of time and expertise needed to properly implement the objective/risk/response approach and to test the effectiveness of responses, is likely to be extensive. We also note that the unclear scope of ED-ISQM 1 may cause issues in respect of to which parts of a firm the standard applies.

In our view ED-ISQM 1 does a reasonable job of highlighting in the explanatory memorandum those areas of quality objectives (for example, ‘Leadership and governance’) that can result in a set of actions that may be simplified for a smaller firm. One option to help firms – especially those that do not have an extant risk management team or experience in this area – could be to develop an example timeline (from standards approval by the PIOB, through to effective date and highlight typical activities that those in leadership roles could focus on to put in place a successful QMF). This could also emphasise to firms the need to fully test and pilot a QMF so that it meets their firm’s needs.

There may also be an implementation challenge where individuals with operational responsibilities are informed they have to change their processes and procedures but do not understand the bigger picture of why, from a quality management perspective, they have to change their approach. Perhaps one way of enhancing this understanding is to provide a scenario in implementation materials that describes how multiple individuals (some audit, some non-audit) work together to fulfil the requirements of ED-ISQM 1.

The inclusion of a risk assessment process at the core of the ED-ISQM 1 approach may present certain new challenges for implementation – specifically when identifying and then assessing quality risks. While ED-ISQM 1 provides a helpful steer to users (see ED-ISQM 1 Explanatory Memorandum paragraphs 31-35) this does on balance appear to be limited and generic in how individuals should then apply the requirements set out in ED-ISQM 1 paragraphs 26-31. There is also a danger that this valuable content is left in an historic document when users in future years are focused only on the published standards. While the draft FAQs (specifically responses to questions 4-7) do provide additional guidance to users, we believe that this is likely to be one of the more challenging areas of implementation for firms of all sizes and types. Having more detailed implementation materials related to performing and documenting risk assessment will be helpful to ensure that firms and regulators are more commonly aligned in their views and expectations.

Finally, the concept of ‘network communications’ may need more guidance to enable networks of all sizes to conceptualise and operationalise the potential impact of what is intended by ED-ISQM 1 (the phrase ‘less sophisticated than in larger firms’ is not entirely helpful). This may be an area where additional implementation materials – with examples of networks of different sizes (whether operating at international, regional or national levels) may help users envisage what is intended.

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## CAS International

Response:

Under ‘Requirements’, paragraph 21 states that “the firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements”.

The above certainly is viewed as a provision to enhance the scalability of this standard. However, in its implementation, the interpretation may differ among various authorities. This will have real challenge to the practitioners, clearer guidance is required.

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## Crowe Global

Response: We do not see any ultimate issues in implementing the standard. However, the change in approach will be a challenge for many firms meaning that implementation support from the IAASB and national standard setters is essential.

## Deloitte Touche Tohmatsu Limited

### Consistency of global standards

Consistent auditing and quality control standards implemented globally serve to enhance audit quality and therefore serve the public interest. Significant diversity in practice due to different professional standards makes it difficult for firms to develop and implement consistent systems and methodologies and has the potential to cause difficulty in firms implementing and operating an effective system of quality management. This could have the unintended impact of adversely affecting audit quality instead of enhancing it. DTTL acknowledges the efforts of the Board in engaging with other standard setters related to quality control matters and strongly encourages the Board to continue these activities.

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Response: DTTL believes there are aspects of the standard that may create challenges for implementation, specifically elements of the firm's risk assessment and monitoring and remediation processes, as well as firm-wide required enhancements to documentation and system capabilities. Responses to individual questions below highlight those challenges, including areas where particular enhancements to the standard or support materials would assist in addressing challenges identified. Such challenges support the basis for a necessary extended implementation period. (See Appendix I, Question 1)

## EY Global Limited

We believe there are several aspects of the standard that create challenges from an implementation perspective and while these implementation challenges are not insurmountable, they do take considerable time to address. These implementation challenges further support our comments in Q1 of the EYG comment letter on the overall explanatory memorandum, The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews, that an implementation period of at least 24 months after Public Interest Oversight Board (PIOB) approval of the standards is needed. The following are specific aspects of the standard that we see create implementation challenges. Despite these challenges, we support the requirements that we refer to in our response to this question. These challenges do not require any adjustment to the proposed standard other than sufficient time to implement them. As noted in Q1 of the EYG comment letter on the overall explanatory memorandum for the quality management standards, we believe that the three standards should be effective at least 24 months after approval by the PIOB.

### Identifying individuals with operational responsibility

As noted in Q1 of the EYG comment letter on the overall explanatory memorandum for the quality management standards, ED-ISQM 1 includes significant changes in the governance and leadership component of the standard and consideration will need to be given as to how to assign operational responsibility as required by paragraph 24(a) for the system of quality management, operational responsibility for compliance with independence requirements, and the monitoring and remediation processes in transitioning the roles that currently exist in the member firms within the EY network. Creating these leadership structures, defining roles and responsibilities and fully transitioning the right people into these new roles and responsibilities in each member firm will likely take more than 18 months in an organization the size of the EY network. Further, as noted in Q2 of the EYG comment letter on the overall explanatory memorandum for the quality management standards, the IAASB should consider implementation guidance for small network firms that geographically are clustered together from an operational perspective to clarify how the clustered network firms would apply the requirement in 24(a) to identify personnel who have operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.

### Implementing a consistent approach to the risk assessment process

Consistent with our operating approach to foster consistent delivery of quality engagements across our network, our approach for designing member firms' systems of quality management will be for the network to centrally design a risk assessment process that is implemented by member firms locally, properly reflecting their individual nature and circumstances (which vary considerably in nature of services provided, size, complexity, and available resources). As noted in our response to Q1 in the overall explanatory memorandum, we believe that systems of quality management that operates consistently across the network will lead to enhanced quality and is in the public interest.

Therefore, a second significant implementation challenge is to design a risk assessment methodology and process that can be implemented consistently and result in systems of quality management across the network that are consistent to the degree expected or appropriate for our network of member firms. Designing a risk assessment process that achieves this objective will take time not only to design but to validate through piloting the process with member firms with varying nature and circumstances. For a network of our size, a technology solution for documenting the quality objectives, quality risks and responses for the applicable processes, as well as monitoring the responses, also is critical to driving consistent implementation throughout the network because operating systems of quality management across an organization with member firms in over 150 countries cannot be managed manually.

Once the risk assessment methodology and process is validated, we will need to implement it not only with our member firms but across the various network processes within the scope of the system of quality management, of which the operational responsibility is spread across many process owners and functions. Implementing the risk assessment methodology and process for network services and requirements will drive consistency in the documentation that is provided to the member firms.

Design a comprehensive and innovative monitoring solution

Another significant implementation challenge is the design and implementation of a comprehensive monitoring solution, including how to monitor network and member firm responses, the process to perform root cause and remediation and the development of an annual assessment processes. As noted above, our approach will be to design a monitoring process that is applied across the network and member firms. In the design of the monitoring solution, we want to consider how to include more innovative aspects of monitoring, such as real-time monitoring elements that could improve the quality of engagements that are in-process. We do not feel that developing, piloting and implementing the overall monitoring process given the extent of human and technological resources that are needed can be adequately accomplished in 18 months, especially considering we cannot effectively design a monitoring process until the responses are designed.

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Overall, we are supportive of the objectives of the exposure drafts including the introduction of a new approach to quality management, a separate quality management standard for engagement quality reviews, and clarity in the role and responsibilities of the engagement partner. We believe that these proposed standards can help to improve quality at the firm and engagement level and the performance of engagement quality reviews. The standards' combined ability to generate improvements in quality is heavily influenced by having an adequate period of time to fully and effectively implement the standards. A rushed implementation to meet a shorter than appropriate transition period may create threats to firms' abilities to effectively design and implement systems of quality management, which may therefore lead to threats to engagement quality.

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### Grant Thornton International Limited

There are areas in ED-ISQM 1 where further guidance is needed for firms to understand the boundaries of the requirement; the extent of the evidence firms need to gather; and the documentation needed to be in compliance with ED-ISQM 1. This is especially relevant in the areas of network requirements and service providers. For example, paragraph 64 includes a number of requirements that are applicable when a firm uses resources from a service provider. Many firms will have legacy software systems where some of the information required by ED ISQM 1 may not be available. Further guidance is also needed in relation to the assignment of an individual responsible for performing an annual evaluation of the firm's system of quality management, in particular the level of information or documentation that the individual is required to review in order to make the evaluation would be helpful.

Implementation guidance in relation to these issues, for example through an FAQ would be helpful.

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### Haysmacintyre LLP

Response: The establishment of quality objectives, risk assessment and design of responses to those risks will be time consuming and may require considerable resource. As such, a substantial implementation period following publication of the new standard would be necessary to enable us to be fully compliant by the effective date.

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### KPMG IFRG Limited

We view the following as some of the emerging implementation challenges:

We note that there are, in practice, varying degrees of severity of deficiencies (discussed further in 12.c), therefore the ED requires clarification regarding the framework for findings and deficiencies in the SoQM, including guidance on determining what is a "finding" versus a "deficiency" and some recognition of the various degrees of severity of deficiencies.

We believe it is important, given the significant changes to the extant standard that will have broad reaching implications and the extent of change and preparation necessary that audit profession is given sufficient time to get the design and implementation right. We agree with the IAASB comment in the Explanatory Memorandum that "rushed implementation may exacerbate risks to quality ...and would be inconsistent with the objectives of the quality management standards". We believe the proposed 18 month implementation window is challenging for the profession given the extent of the changes proposed by the ED.

We believe the ED is not sufficiently clear as to the level or extent of documentation required to evidence that the controls designed to respond to quality risks are operating effectively, which could lead to inconsistencies in interpretation and application by audit firms. We view this as potentially driving inconsistent levels of documentation which brings a risk that the standard has the opposite effect to that intended, i.e. it is viewed as more compliance-based approach rather than a risk-based approach to quality management.

We are supportive of paragraph A.211 that states "it is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management", however, we believe audit firms will benefit from clarification in this regard. A helpful counter balance to this statement might also be to include, in the Application Guidance, the concept within the COSO framework that states, "it is important to keep in mind that controls, such as those embedded within monitoring activities or risk assessments, cannot be performed entirely within the minds of senior management without some documentation of management's thought process and analyses".

The ED does not explicitly reference a requirement to "test" operating effectiveness of the SoQM controls (performance or documentation). However, in order to conclude the SoQM is operating effectively, some element of testing the operating effectiveness of the controls within the SoQM would need to take place. Absent a clear statement to this effect, the ED is open to misinterpretation and inconsistent implementation by audit firms.

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## Kreston International

Response: Translation of the standard may create challenges for implementation.

The standard expects robust communication. This may require a change in mind set and culture within firms. These changes can take a significant amount of time to establish in a firm. They will require changes in approach at all levels in some firms.

The standard makes reference to “root cause analysis”. The standard does not identify how a root cause analysis should be performed and although there is guidance on identifying deficiencies that need to be investigated there is a risk that the nature and extent of root cause analysis will be established by the expectations of regulators. This could become a very extensive and resource heavy requirement especially for SMPs.

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## Mazars

We particularly want to stress that the first implementation of these standards will incur significant costs for firms and require additional resources. Consequently, we believe that a sufficient time should be given for implementation following the issuance date of the standards. We consider this implementation period should not be less than 24 months.

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Even if most of the considerations in the standard are already in place within many firms, we consider the following will present challenges on implementation:

The standard is very comprehensive and it may be a challenge to apply it in some smaller firms and countries. The identification of quality indicators and the use of IT systems to properly identify and monitor in and the documentation of the new requirements will present a particular challenge, in a too short timeframe for implementation.

The standard requires extensive identification and documentation of the quality objectives, risks and responses. The implementation of this formal framework will take time and additional resources.

It would also be useful to develop a tool to assist smaller firms to document quality objectives and risk assessments. This could be in a simplified framework checklist providing the quality objectives and areas for a firm to record specific responses in relation to risks and responses. This would reduce the documentation burden on smaller firms, while ensuring the key requirements of the standard are met by all firms.

The application to member firms which are part of a network may be difficult to implement., International firms will need to consider developing tools to use across the network, this will take time to develop and roll out.

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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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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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## Mazars USA LLP

Response: Overall, we support the objectives of ED-ISQM 1. The proposed standard is transformational, containing comprehensive changes to what exists in the quality control standards today. The challenges noted below continue to support our earlier comment regarding delaying the effective date to a minimum of 24 months and other comments herein with recommendations for additional guidance. While we recognize firms may begin planning for adoption prior to the PIOB’s approval, significant challenges for implementation will include, but may not be limited to:

Incremental costs due to additional resources and professional hours, and the multi-disciplinary organizational changes needed across network and member firms

Resource constraints and a compressed implementation period could further impact adoption effectiveness in:

Planning and proper identification of quality objectives

Risk assessment and responses

Documentation requirements for quality objectives, identified risks, and responses

Piloting

Monitoring

Training and communication

Managing implementation of member firms within a global network

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## MGI Worldwide

As the standard is longer than ISQC 1 and less prescriptive, significant time and effort will be required to implement it at firm level. Developing and documenting a specific risk assessment and the associated responses will take time and this may deter SMPs from implementing the standard as designed. There could be a tendency to consider only the required responses to the risks and nothing else.

The requirement to evaluate the performance of those undertaking leadership roles may be difficult in SMPs, especially where there is only one principal/partner (paragraph 24(b)). A42 recognises this and states that the results of any monitoring activities that are performed by, say service providers, can be considered here. This may place an expectation on such firms to have external assessments/reviews from service providers/independent parties at increased cost to the firm.

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## MNP LLP

The biggest challenge we see is that it will be difficult to determine when the firm has identified “all” quality objectives and “all” associated risks. The examples in the standard are helpful and we appreciate that the standard would not be able to include all potential quality objectives and risks, however, additional examples of common objectives and risks as they apply to the seven components would be helpful. The standard indicates that additional objectives, beyond those outlined in the standard, are required. Firms however, may not have full knowledge or an appreciation of what “additional” entails. The identification process may result in a further 1, 5, 10 or perhaps even more objectives, associated risks and responses. To fully grasp the effort, the level of detail to which firms need to identify quality objectives, risks and responses and the expected look and feel of the finished product is challenging.

As indicated earlier, additional guidance on the practical application of the risk assessment process would also be helpful.

In our view the standard is limited with respect to recommendations or guidance in support of the development of innovative monitoring techniques and we would welcome further guidance and practical examples.

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## Moore Stephens International

Response: The sheer length of the standard may be perceived to be a problem by some. The length will be a problem in terms of the timelines for implementation since the more words there are, the longer they will take to be translated. The absence of mandatory risks, despite the presence of mandatory responses, as noted above, will perhaps prove challenging for many. The move from a reactive mindset to a proactive mindset (and the amount of time proposed to be available to achieve that change) may be challenging for some, particularly those who have not followed the progress of the project in the last few years. 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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## Nexia International

Covered by the above responses.

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## Nexia Smith & Williamson

We have already noted our concerns regarding the scope, length and complexity of the standard.

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## PKF International Limited

Clarity – We believe that ED-ISQM 1 is a well-structured standard and that it has generally been written with both clarity, and practicality of application, in mind. Nonetheless, in our responses we have highlighted certain sections of ED-ISQM 1 which we believe should be revised in order to further enhance the clarity of their wording and to reduce the risk of varying interpretations. The broad range of stakeholders in the proposed standard (including national regulators, public oversight bodies, local standard setting bodies, members of the public and of the investment community, as well

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as the firms to which the standard's requirements will be applicable) will collectively increase the risks of inconsistent application and diverging interpretation of the requirements. We encourage the IAASB to address the areas of ambiguity that we have identified and, for each of these areas, to consider how to improve the clarity of the language used.

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Risk Assessment process – we agree with the overall approach that ED-ISQM 1 takes on the risk assessment process, which places it as a critical and foundational part of a firm's system of quality management. In our comments, we have highlighted some specific concerns around the risk of varying interpretations on the requirements and guidance on risk assessment. We believe it is critical that the standard is abundantly clear and unambiguous on its requirements in this area, since the risk assessment process will form the basis for the design of the responses that a firm establishes in order to meet the objectives of its system of quality management. In a worst-case scenario, should a regulator or other oversight body take a differing view to a firm on how it should perform its risk assessment, this could render the firm's whole system of quality control as being non-compliant with the proposed standard. In order to reduce this risk, we encourage the IAASB to consider those aspects of the requirements and accompanying guidance on risk assessment in ED-ISQM 1 which are unclear or ambiguous and that it takes the opportunity to ensure that the wording is clarified in the final version of the standard.

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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.

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We have commented elsewhere within this submission on those aspects of ED-ISQM 1 that may create challenges for implementation.

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## PKF South Africa

We have commented elsewhere within this submission on those aspects of ED-ISQM 1 that may create challenges for implementation.

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The requirements and application material do provide a degree of scalability to firms of varying size, complexity and circumstances. We already commented in our covering letter on the inherent tension between retaining the requirements of extant ISQC 1 and the objective of introducing scalability. 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 different interpretations. We have a concern that firms and regulators may apply differing interpretations on the extent to which ED-ISQM 1 can be scaled.

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In addition, the 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 communicates clearly to 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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Clarity – We believe that ED-ISQM 1 is a well-structured standard and that it has generally been written with both clarity, and practicality of application, in mind. Nonetheless, in our responses we have highlighted certain sections of ED-ISQM 1 which we believe should be revised in order to further enhance the clarity of wording and reduce the risk of different interpretations. The broad range of stakeholders in the proposed standard (including national regulators, public oversight bodies, local standard setting bodies, members of the public and of the investment community, as well as the firms to which the standard's requirements will be applicable) will collectively increase the risks of inconsistent application and diverging interpretation of the requirements. We encourage the IAASB to address the areas of ambiguity that we have identified and, for each of these areas, to consider how to improve the clarity of the language used.

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Risk Assessment Process – we agree with the overall approach that ED-ISQM 1 takes on the risk assessment process, which places it as a critical and foundational part of a firm's system of quality management. In our comments, we have highlighted some specific concerns around the risk of different interpretations on the requirements and guidance on risk assessment. We believe it is critical that the standard is abundantly clear and unambiguous on its requirements in this area, since the risk assessment process will form the basis for the design of the responses that a firm establishes in order to meet the objectives of its system of quality management. In a worst-case scenario, should a regulator or other oversight body take a differing view to a firm on how it should perform its risk assessment, this could render the firm's whole system of quality control non-compliant with the proposed standard. In order to reduce this risk, we encourage the IAASB to consider those aspects of the requirements and accompanying guidance on risk assessment in ED-ISQM 1 which are unclear or ambiguous and that it takes the opportunity to ensure that the wording is clarified in the final version of the standard.

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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.

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The Network Services and Service Providers sections of the ED are likely to be most challenging to implement. Refer to our comments in response to questions 1(c), 13 and 14 within this appendix.

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## RSM International Limited

Response: As discussed above, the main challenge for implementation will be scalability and therefore we do place great importance on a comprehensive example to help smaller firms.

Another difficult area will be assessing the firm's quality risks and, due to the inherent differences in each firm, it will be challenging for firms to understand how to embark on this evaluation.

Whilst we appreciate the existing guidance in the form of explanatory memos, webcasts and videos, further implementation guidance, such as a comprehensive example, will be essential.

We agree with the need to provide examples and guidance however, we find Scenario 3 in the Draft Examples document to be confusing. It implies a ranking of risk based on likelihood of occurrence and the effect on the achievement of a quality objective, which is not required by the standard. It also seems to set out a need to establish sub-objectives. Whilst seeking to be helpful, an example that is 5 pages long and is based on just one requirement, implies a process that will overwhelm firms.

In addition, we note:

Any implementation example and guidance will need to be drafted to enable firms to fully engage with the principles of the three proposed standards but to avoid ending up with a checklist approach where this guidance is seen as a minimum level of compliance; and

Firms will inevitably start by reviewing their existing quality management processes and controls, without comprehensive guidance they may struggle to determine what they should be doing differently.

The FAQ document is very helpful. The IAASB should gather insights from the comment letters and add more FAQs to aid with implementation.

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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

### Australasian Council of Auditors General

Further guidance on how to measure and assess these implied responses demonstrated through actions, decisions and behaviours with examples of expected documentation would be useful.

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The definition of responses in paragraph 19(t) includes policies implied through actions and decisions. An implementation challenge will be capturing the responses that are implied through actions or decisions and other responses that are informal in nature and not readily documented. The responses that are expected to create challenges for capturing relate to firm culture and leadership, for example, responses required under paragraph 24(a)(ii). These responses will include communication through staff meetings and in day-to-day actions and behaviours. A further implementation challenge will arise in the annual assessment of the system of quality management regarding capturing, measuring and assessing these responses.

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## International Organization of Supreme Audit Institutions

It is a key challenge to define and operate a process which identifies which engagements are at most risk, and require more intensive quality measures. The most important modification is the requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. However, the proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers’ money is involved, all entities by definition should be considered as being of ‘significant public interest’ (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of ‘significant public interest’ by default, and the auditor should justify when they want to apply an exception to this rule.

Another point is the vocabulary, which has changed again. And some of the clearest and useful terms (quality control and quality assurance) are no longer used. This could cause confusion.

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## National Audit Office of Malta

Two major changes to the standard may require additional resources to implement – i.e. the implementation of the risk assessment process – the establishment of quality objectives, the identification and assessment of quality risks – and the design and implementation of responses – as well as the identification of the root causes of the deficiencies identified. Perhaps a comprehensive case study of how to apply this standard in its entirety could be developed.

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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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### Identifying and assessing quality risks

We consider the guidance information about the risk assessment process may result in uncertainty about what is expected and could have negative consequences. This is particularly so for small and medium practices (SMPs). Without some certainty for SMPs around minimum risk assessments (such as an agreed framework) practitioners are left to interpret regulator expectations without guidance from the IAASB.

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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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### Proposed implementation date

We are concerned about the implementation period of 18 months (application date is 1 January 2022) will not provide sufficient time for firms to design and implement the necessary changes. Firms will be transitioning to ISQM 1 in advance of the approval of this standard but due to the different circumstances of each firm, we consider the proposed implementation date will be challenging.

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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.

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We also consider for SMPs there is a need for more guidance about the minimum documentation requirements of the firm’s quality objectives and assessed quality risks, to avoid this being onerous and viewed as a compliance exercise.

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While there will be significant up-front challenges in preparing the required documentation (due to the volume of work involved), the real challenge will be in making it real for the people in the field. The implementation challenge will be in getting the firm and its people to buy into it beyond a compliance exercise. This will take time.

Public sector aspects that we will need to consider in the applying the standard

With respect to the 8 components of ED-ISQM 1 we note the following will require some customisation:

Governance and leadership

For the Office of the Auditor-General, the Auditor-General has ultimate responsibility and accountability for the system of quality management for the office a whole (incorporating all those firms that conduct audits on behalf of the Auditor-General). As the Auditor-General is a statutory appointment and reports to Parliament the requirement for periodic performance evaluations per ED-ISQM paragraph 24 (b) is not applicable. Paragraph 21 of ED-ISQM permits requirements to be not applied when they are not relevant to the circumstances of the firm. We would therefore not apply 24(b).

The Firm's Risk Assessment Processes

The OAG does not perform any annual audits without using the resources of an ASP, and is not likely to have involvement in the risk assessments for each ASP unless we identify additional quality objectives, quality risks from the performance of the risk assessments at the OAG level. We will need to consider the adequacy of each ASP process and the monitoring of each response. We anticipate challenges in concluding to a reasonable assurance level across all the ASPs we use.

Relevant ethical requirements

No additional requirements necessary.

The Acceptance and Continuance of Client Relationships and Specific Engagements

Like many public sector auditors the Auditor-General is not able to decline performing an audit. We plan to customise the requirements when an appointed auditor should refer their assessment to us when the acceptance and continuance procedures indicate there are significant risks in carrying out the annual audit that ordinarily may have led the ASP to decline the audit engagement. We also apply the guidance in ISSAI 40.

Engagement performance

No additional requirements necessary.

Resources

No additional requirements necessary.

Information and communication

No additional requirements necessary.

Monitoring and Remediation process

Our current approach is to monitor the results of the firm's monitoring and a declaration of compliance with PES 3. We perform inspections of a sample of audit engagements of each appointed auditor on a cyclical basis.

In addition to our overall comments above, which refer to two specific implementation issues, we think it would be useful to consider what parts of a system of quality management could be monitored less frequently (per ED ISQM1 paragraph 56 the requirement is at least annually) when significant quality risks have not been identified. See question 3 below for a request for clarification about this.

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## Office of the Auditor General of Alberta

Response: The proposed ED-ISQM 1 provides some challenges for implementation. Challenges include, but are not limited to:

Defining entities "that are a significant public interest." What are the expectations of a legislative audit office? All 'clients' of a legislative audit office are of a public interest. Clear guidance and consideration of how to define "significant public interest" is required.

Preparing all members of governance and leadership of his or her responsibility for "the system of quality management" (paragraph 24 (a)). All members of the "firms managing board" may not have a background in assurance or be as experienced in quality management; therefore, some individuals may require significantly more time to become knowledgeable with their responsibilities.

Implementing possible parallel changes to engagement quality reviews (ISQM 2). We recognize the benefits of issuing both ISQM 1 and ISQM 2 in parallel, however this does increase resource needs to meet both standards simultaneously. See bullet above on "significant public interest."

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## Office of the Auditor General of Canada

Of most significance to the public sector, the proposals establish a requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.

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We are supportive of the risk assessment approach and its application to other components of the system of quality management but acknowledge it will require resource investment upon adoption and each year to ensure the system remains relevant.

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## Provincial Auditor Saskatchewan (1)

We feel that more guidance would be helpful in how to define agencies that may be of significant public interest, as set out in ISQM 1 section 37 (e)(ii). Section A107 provides an example that an engagement quality review may be required for engagements where law or regulations establish additional reporting requirements. The Provincial Auditor Act (Saskatchewan) expects the Provincial Auditor to report to the Legislative Assembly on public agencies’ compliance with related legislative authorities. We do not feel that this legislative requirement on its own increases engagement risk to an extent that triggers requiring an engagement quality review. We would consider other factors when determining whether to assign an engagement quality review, like financial magnitude, public sensitivity, and impact.

## Swedish National Audit Office

Yes, we believe that implementing the standard will be challenging in practice. The process for establishing a quality management system based on the requirements will be quite time consuming when implemented for the first time. It is also very difficult to identify the appropriate level for the risks identified. The application material does not give any specific guidance in this area. There is a risk that the risk identification may be very detailed in some cases and on a very high level for others. But that will depend on the environment for each audit firm.

## US Government Accountability Office

The concept of developing a risk-based approach to quality management is a significant shift for the auditing profession. While most governmental audit organizations may conclude that establishing quality objectives is straightforward, they could face more challenges in identifying and assessing quality risks. However, the standard focuses substantially on establishing quality objectives and provides relatively little application guidance on identifying and assessing quality risks. Therefore, we believe that additional application guidance or publications that discuss quality risks in more detail could prove useful, especially to small- and medium-sized governmental audit organizations.

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

### Accountancy Europe

As written, it is not clear what more needs to be done by audit firms in addition to what is currently performed under ISQC 1. These risks creating challenges for implementation for firms of all sizes, but for small and very small firms and networks particularly. Those with responsibility for methodology in their firms are unlikely to start with a blank sheet of paper and will seek to build upon their existing quality environment. It would therefore be helpful for the IAASB to map the changes made and explain which aspects of ED-ISQM 1 are a genuine step-up in quality management and which are just clarifying existing best application of ISQC 1. With proportionality and scalability in mind, the IAASB has the duty to make these standards not too onerous for small firms.

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 not clear what more firms need to do in comparison with what is currently performed under ISQC 1 and we think that this will create challenges for implementation, perhaps especially for small firms and networks. Those with responsibility for methodology in their firms are unlikely to start with a

blank sheet of paper but will seek to build upon their existing quality environment. Therefore, it would be helpful for the IAASB to reflect on how to communicate to firms which aspects of ED-ISQM 1 are a genuine step-up in quality management and which are just clarifying existing best application. This type of analysis would ease implementation and most importantly avoid inconsistency.

The volume of the proposed ED-ISQM 1 is already a challenge in itself for implementation. There is a lot of background material included, especially at the beginning of the standard. This background material, if in fact it is needed at all, could be placed outside the standard. Indeed, the IAASB should be mindful that large volumes of material can overwhelm firms and practitioners and detract from the central messages of the standard. Additionally, no matter how voluminous the material, it will never cover all the firms' ways of working. In terms of supporting material for implementation, an update of the ISQC 1 guidance published by the SMP committee could be useful. Whilst it might sound counterproductive and even ironic, smaller firms will need more guidance to implement ED-ISQM 1.

In terms of further enhancements needed, paragraph A59 in extant ISQC 1 includes information about original paper documentation that is electronically scanned. This paragraph provides guidance for a paperless environment. Nothing has been included in ED-ISQM 1 on this aspect, but we think it could be useful for auditors.

We refer to the quality objective that address acceptance and continuance of client relationships. When requiring the firms to obtain sufficient appropriate information about the integrity and ethical values, we wonder what type of information would be considered as sufficient and appropriate, and how this requirement would work in practice and consistently at international level.

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The use of the low threshold as proposed in ISA 315 for the identification of quality risks (i.e., "more than remote likelihood") will give rise to practical issues. Such a low threshold will result in an overly compliance-based approach on the part of firms who seek to satisfy regulators' demands, but in so doing, may fail to really focus on the true drivers of quality. The statement in A54 "[...] not every quality risk needs to be identified and further assessed..." is key. We think that it should be clearly stated in the standard itself.

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.

Additionally, we suspect ISQM 1 as drafted may create a significant amount of additional documentation, especially in documenting what has not been done and why; partly as a result of the levels of prescription and detail, noted above. Documentation is important but this aspect of it looks like a compliance exercise and we are sceptical that it 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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## Australian Accounting Professional and Ethics Standards Board

The ability to use elements of the existing quality framework

APESB is of the view that a mapping of the extant ISQC 1 requirements to those of ED-ISQM 1 and 2 or documenting how existing systems of quality control could be adapted to the proposed SQM, would significantly assist firms in transitioning to the proposed standards. This would indicate 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.

Stakeholders have expressed a significant concern that without such mapping, firms may discard current systems or not understand the differences in requirements, potentially adding to implementation costs. The responses in the new framework require policies and procedures to address quality risks and extant ISQC 1 has relevant policies and procedures which have been in existence and implemented by firms of varying sizes for well over a decade.

It is neither effective nor efficient for accounting firms globally to undertake this mapping exercise individually when it could be undertaken by the IAASB and provided as a useful tool for global use. This would be in the public interest and would have a global application to firms who need to transition to the proposed SQM framework.

Recommendation 4: We strongly encourage the IAASB to map extant ISQC 1 requirements to those in ED-ISQM 1 and 2 or demonstrate how existing policies and procedures required under ISQC 1 could be adapted as quality objectives or responses in the proposed quality management framework.

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ED-ISQM 1 requires firms to exercise a significant amount of professional judgement. While this is intended to enable the SQM to be tailored to the firm and promote scalability, it could lead to subjectivity and disparity in the design, implementation and operation of SQMs. Different firms may make very different risk assessments, and even firms with the same nature, circumstances, and engagements will likely result in different SQMs.

Invariably, there will be a degree of subjectivity when a practitioner determines the quality objectives, quality risks and relevant responses. When the relevant practitioner's SQM is subject to review in the future, it is possible that the regulator, professional body, or another monitoring body may not share the same view, especially where firms determine requirements to be irrelevant. As such, firms will likely need to develop, not only their SQM but, document reasons why requirements have not been implemented, adding to the compliance burden.

Currently, as there is an agreed quality control framework (extant ISQC 1), there is less likelihood of a dispute if an element does not exist or there is observed non-compliance with the framework. With a variable quality management framework, the monitoring process will become very challenging and time-consuming.

APESB is of the view that adopting Option 2 of enhancing extant ISQC 1 as detailed above to improve scalability would also reduce the subjectivity of the proposed standards.

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APESB strongly encourage the IAASB to map extant ISQC 1 requirements to those in ED-ISQM 1 and 2 or demonstrate how existing policies and procedures could be adapted as quality objectives or responses in the proposed quality management framework. This would indicate which existing requirements and guidance in the extant standard are incorporated into the new framework and highlight additional requirements or documentation to be developed.

Stakeholders have expressed a significant concern that without such mapping, firms may discard current systems or not understand the differences in requirements, potentially adding to implementation costs. The responses in the new framework require policies and procedures to address quality risks and extant ISQC 1 has relevant policies and procedures which have been in existence and implemented by firms of varying sizes for well over a decade.

It is neither effective or efficient for accounting firms globally to undertake this mapping exercise individually when it could be undertaken by the IAASB and provided as a useful tool for global use. This would be in the public interest and will have global application to firms who need to transition to the proposed SQM framework.

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APESB is of the view that there are several aspects of the standard that will create challenges for implementation, particularly for sole practitioners and SMPs. During stakeholder engagement, 95% of stakeholders indicated there would be challenges to aspects of the risk assessment process as follows: 3% in the establishment of quality objectives; 14% in the identification and assessment of quality risks; 13% in the design and implementation of responses; and 65% in respect of all of the above.

In relation to aspects of the monitoring, remediation and evaluation process, 89% of stakeholders indicated there would challenges in practice, as follows:

9% in the design and implementation of monitoring activities;  
13% in the evaluation of findings and investigation of root causes;  
3% in the design and implementation of remedial actions;  
3% in the annual evaluation of whether the SQM provides reasonable assurance; and  
61% in respect of all of the above.

ED-ISQM 1 requires firms to exercise a significant amount of professional judgement. While this is intended to enable the SQM to be tailored to the firm and promote scalability, it could lead to subjectivity and disparity in the design, implementation and operation of SQMs. Different firms may make very different risk assessments, and even firms with the same nature, circumstances and engagements will likely result in different SQMs.

Invariably, there will be a degree of subjectivity when a practitioner determines the quality objectives, quality risks and relevant responses. When the relevant practitioner's SQM is subject to review in the future, it is possible that the regulator, professional body, or another monitoring body may not share the same view, especially where firms determine requirements to be irrelevant. As such, firms will likely need to develop, not only their SQM, but document reasons why requirements have not been implemented, adding to the compliance burden.

Currently, as there is an agreed quality control framework (extant ISQC 1), there is less likelihood of a dispute if an element does not exist or there is observed non-compliance with the framework. With a variable quality management framework, the monitoring process will become very challenging and time-consuming in the future.

APESB is of the view that adopting the Option of enhancing extant ISQC 1 detailed above in question 1(b) to improve scalability would also reduce the subjectivity of the proposed standards.

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## Belgian Institute of Registered Auditors IBR-IRE

We believe that some paragraphs of the application material are too long to help the auditors. As mentioned in answer 1. c), an example for SP and SMP would be more useful.

Concerning the roles and responsibilities (par. A32), we are not convinced that those mentioned are well described/consistent and that the interdiction to cumulate functions is well established and clear enough in the standard.

## CA Ireland

A challenge for firms will be the need to invest time and resources in setting up a QMF appropriate to the nature and circumstances of each firm. Further, the standard incorporates new components and additional requirements in contrast to extant ISQC1. Firms are also required to identify quality risks, assess whether they have a “reasonable possibility of occurring” and their impact on the quality objectives. The above will require significant professional judgement and the use of tools such as root cause analysis which is something which some smaller firms may not have previously had to perform.

Although, the risk based nature of ISQM1 should assist scalability, there are challenges for firms to adopt new practices, for example, monitoring activities, including the application of root cause analysis. It is crucial that firms are provided with timely guidance to assist in the implementation of the new standard.

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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## California Society of CPA’s

See above regarding the evaluation of whether a system of QC satisfies the objectives.

We think the biggest challenges will be in educating those firms that are accustomed to using a checklist approach to both the audit process and to QC. They may already have difficulty in applying a risk-based model in their audit approaches so this will be no different. Support materials could include resources that show and explain how to identify and remediate risks to quality, without the use of a checklist or detailed practice aid.

Another challenge will be in convincing firms the risk approach to QC, using judgement, will (or is expected to be) subjectively evaluated by external reviewers including applicable regulatory peer review. Many practitioners are hesitant to customize an approach to audit quality as a result of being afraid of an objective evaluation of a subjective process.

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## Center for Audit Quality

While we support the overall objective of ED-ISQM 1, certain aspects of the proposed standard are likely to create implementation challenges. These implementation challenges further support our comments that an implementation period of at least 24 months after PIOB approval of the Proposed Standards is needed. Some of those challenges may include:

Implementing changes to the organizational structure of the firm.

Designing and validating a risk assessment process that is:

appropriately tailored, and

capable of being applied across a regional, national, or global network.

Designing, developing or enhancing, and implementing policies, procedures, tools, and systems across the organization and global network, if applicable.

Enhancing documentation, system capabilities, and reporting to support the requirements of the Proposed Standards and the overall evaluation of the system of quality management. This will involve various functions including human resources, information technology, risk management, and others.

Designing and implementing an enhanced monitoring solution, including monitoring of network and member firm responses, performing root cause analyses, and performing remediation.

Developing or refining the annual assessment processes, including establishing a framework for evaluating deficiencies.

Communicating with and managing expectations of smaller firms within a large international network.

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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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We have concerns over the documentation of the risk assessment and how this will be undertaken in practice when some objectives will have one risk and some risks will match to multiple objectives, and the same with the responses. The assessment process is not a linear construction and therefore will be complicated to map and document. SMPs will need additional supporting materials. There is some support for the idea of having guidance with examples of common risks (particularly for SMPs who may have quite similar risks) mapped to objectives and example responses. The documentation needs to be flexible to meet the needs of firms and networks of a wide range of sizes and level of complexity and examples of how this can be achieved will be needed. There also needs to be an explanation of what should a practitioner should do if a required response does not link to any of the risks. 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 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 in the case of SMPs. The standards need to focus on principles and not be overly prescriptive.

Our stakeholders who are members of global firms and networks expressed concerns with the need to challenge the global firm's/networks methodology/quality etc. This is considered high effort for limited benefit.

Similarly, there needs to be clarity around service providers – what is captured by the term 'service provider' and what isn't. For example if large commonly used commercial applications and software aren't captured (for example software such as Microsoft Office and commercially available audit methodology packages that aren't tailored to the purchaser) this needs to be stated clearly.

Further clarity is also needed around the difference between a finding and a deficiency.

There is a general concern with the standard being written in such a way which could result in a firm complying with all the requirements yet not delivering a quality audit. We are not supportive of the "need to consider if there are additional objectives" as currently worded as there is a risk that regulators will expect all firms to have additional objectives. The concept of this consideration is useful; however, the drafting should be explicit in that there may not be any additional objectives identified for some firms and provide guidance on how firms would document this.

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## Comision Interamericana de Control de Calidad de la AIC

Response: The aspect of the standard that can create challenges for its implementation is the scant clarity of scalability, especially in small firms and individual professional practitioners without employees. For the IAASB to design a practical and simple guide for small firms and individual practitioners without employees that clearly includes and illustrates what is related to scalability, would support the solution to this situation.

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## Comite Control de Calidad del ICPARD

Response: The aspect of the standard that can create challenges for its implementation is the lack of clarity of scalability, especially in small firms and individual practicing professionals without employees. For IAASB, to design a simple and practical guide for small firms and individual practicing professionals without employees that clearly includes and illustrates scalability would support the solution to this situation.

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

In CNDCEC's opinion the main challenge will concern the implementation of the new standards in small and medium sized practices that have already adopted a quality control system in compliance with the ISQC 1 currently in force. To this regard, it is worth reminding that in Italy the application of the quality control system described in ISQC 1 is mandatory only for statutory audit engagements (this excludes review, assurance and related services).

These practices will be required to adapt their own quality control system to the new standards and will then need to be appropriately supported in this change.

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## CPA Australia

Response: Aspects which we expect to create implementation challenges are:

The requirements are not necessarily as clear as the introduction and may not be able to stand alone, which we consider they should. The introductory material provides a helpful overview of the standards and in some cases is clearer than the requirements themselves. We suggest that the IAASB check that each of the introductory statements is fully reflected in the requirements so reliance does not need to be placed on the introduction to understand the intention of the requirements. As the introduction in effect summarises or repeats the requirements, we suggest that this material could instead be repurposed. The introductions to all of the standards could be combined into an explanatory document which provides a useful overview of how all of the standards fit together and what they require.

The volume of work required to address the required components, objectives and responses, identify corresponding risks and develop additional objectives and responses is significant. Under the 8 components, there are 33 objectives required to be addressed and 32 responses at a minimum. Whilst implementation may be challenging for large firms due to the scale of their business, for small firms, with limited resources, this will be a significant exercise. The standard would be less overwhelming if it was structured in a more manageable way, such as setting out the components, objectives, risks and responses in a table, as suggested above, and including diagrammatic representations of the process to be applied.

As responses are provided without the risks which should drive those responses, we consider that this may undermine the risk-based approach.

Implementation may start with the responses and work backwards to identify related risks, which would be counter to the intended approach. The expanded definition of engagement team, which is limited to those engaged by the firm in the extant standard, to include “individuals who perform procedures on the engagement”, excluding external experts, may capture services outsourced, offshored or centralised, such as data analytics or technology providers. If these systems or services effectively perform procedures they will become subject to the system of quality management. Encompassing these providers in the system will create challenges in obtaining the necessary information about their systems and procedures, particularly for a small firm with limited influence. It is likely to result in inconsistent approaches by firms.

The inability for the firm to rely on the quality management system of the network is very onerous given the likely complexity of the network system (refer to Section 3I – Networks and Service Providers: “some networks may only share a brand name, while other networks may share common methodologies or policies or procedures”). The way in which the relationship between the firm and network firm is addressed in the standard will affect implementation and will mean that implementation will vary considerably between networks. The structure of each network will have a significant impact on the size and geographic spread of the entity which falls within the definition of “firm” and consequently the level at which the system of quality management will be implemented and can be relied upon. Responsibility for the system of quality management sits at the firm level, which in some instances may be a nationwide entity, whereas other firms will comprise only an individual office or location. The implementation challenges will vary significantly as a result and we expect will be proportionally greater for firms comprising one office which cannot rely on a network to benefit from economies of scale.

Management of the relationship with service providers and obtaining the information needed for the firm to fulfil the new requirements. In the case of highly technical service providers such as software providers or technology services, it may be difficult, if not impossible, and unnecessarily time consuming for firms to evaluate whether they meet the quality objectives.

The root cause analysis process requires investigation of all deficiencies and then evaluation of their severity and pervasiveness. Whilst the IAASB acknowledges that the requirement to determine the severity and pervasiveness of the deficiency follows the requirement to investigate the root cause of the deficiency, it notes that the process is likely to be iterative. However, although this is not clear in the requirements. The severity and pervasiveness should be considered for all deficiencies before root cause analysis is required to be undertaken, otherwise the requirement becomes too onerous. See response to Q.12.

Readily understanding the changes in requirements and approach from the existing standard, ISQC 1, to the final standard, ISQM 1, once published, will be critical for practitioners to implement the new standard efficiently and effectively. To facilitate this we suggest providing a mapping document from the extant ISQC 1 to the final ISQM 1, rather than changes from the ED-ISQM 1. Practitioners need to understand what the differences are from what they are currently doing so they can understand which aspects require new processes and procedures and which aspects they can bring across from their current system of quality control.

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Response: The length of the standard may make it challenging for firms to implement. Presenting the material in a more easily accessible format may alleviate this challenge. In particular, we recommend moving the detailed quality objectives and responses, currently included in the requirements, to a table, with examples of risks added. We suggest this could best be done in an appendix, covering each component with their related quality objectives, risks and responses presented in three columns. Responses may relate to multiple objectives and risks, but this could be indicated in the table. Currently, this material is very voluminous in the requirements and is a level of detail which arguably is better placed in another format which is easier to follow. By moving this detailed material, the requirements become very succinct and the approach much clearer.

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## European Federation of Accountants and Auditors for SMEs

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.

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ED-ISQM 1 is too prescriptive and complex especially for smaller SMPs and / or those that do not undertake audits of listed companies or entities of significant public interest. Above we suggest recasting some components as overarching factors, greatly reducing the number of objectives, and raising the threshold for risk identification can help achieve scalability.

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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.

As noted in our response to Question 1) we believe the standard establishes an excessively low threshold in terms of risk identification. This threshold may result in a considerable amount of unnecessary work for many SMPs, especially in terms of documentation of risks that are unlikely to occur. This threshold needs to be raised.

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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.



## EXPERTsuisse

Perhaps for some practitioners it is not clear enough what needs to be done in the future on top of the currently performed procedures under ISQC 1. Practitioners will be looking out for new requirements and will search for differences between ISQM 1 and ISQC 1. Therefore, it would be helpful if the IAASB would share information on the significant changes made to its standard(s).

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For national standard setters “track change” versions of the standards, which are revised (e.g. ISQC 1 and ISA 220), would be useful to better identify the new requirements and be able to develop guidance and support materials for local SMPs.

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## IFAC Small and Medium Practices Committee

We note the Board’s view as explained in para 32 of the EM about consistency in approach with ISA 315 and the related potential to reinforce key concepts of this approach. In this context, we would like to highlight that there are many SMP firms worldwide that perform assurance and related services, but not audits, who will be required to apply ISQM 1. While ED ISQM 1 follows a risk-based approach that will be familiar to auditors applying ISA 315, such approach will not necessarily be familiar to practitioners who do not perform audits (i.e., many other SMPs). There are, thus, concerns that the ED is over-engineered in the way it follows this approach.

It is also our view that the standard establishes an excessively low threshold (see para A55 “...likelihood of occurrence is more than remote.”) in terms of risk identification. Indeed, this threshold is not as clear as it should be, since the requirement refers to reasonable possibility of occurrence with application material essentially “defining” this term. We question why this is neither a definition or a requirement. Establishing such a low threshold, in our mind, could result in a lot of unnecessary work including documentation for many SMPs in regards to risks that are less likely to occur. Notwithstanding the notion of a sliding scale approach as suggested in para A60, we continue to believe this increase in work effort will be disproportionate for many SMPs and will not commensurate with any potential increase in quality.

The IAASB should consider setting a more appropriate occurrence threshold and ensure that it is capable of being understood and applied consistently, since if the firm decides that there is no reasonable possibility (less than remote risk) of the risk occurring no further action is required irrespective of the risks’ potential impact. Any misunderstanding of this threshold could result in either risks that should not have been identified being considered further (and documented), or – from a quality perspective even worse – risks that should have been addressed being ignored.

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We also believe SMPs in particular may need more direction and guidance in respect of several key aspects of ED ISQM 1, which is covered in detail below.

The SMPC notes that a perceived need for support material indicates that the ED’s requirements may not be sufficiently clear. IFAC looks forward to coordinating with the IAASB in developing implementation support material, including exploring a revised version of the IFAC Guide to Quality Control for Small and Medium-Sized Practices (QC Guide).

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For many firms, the initial assessment of risk in particular is likely to be challenging. Assessments are likely to vary and firms might need extensive documentation to demonstrate why they have assessed risk in a particular way. This will be exacerbated as the firm reacts to changing circumstances etc. on an ongoing basis. In our view, the IAASB needs to better explain the extent of documentation it expects in this area.

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## Illinois CPA Society

Response: We believe large and small firms will incur significant costs to implement this ED. Enhancements to the standard could include workshops and FAQ.

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## Institute of Chartered Accountants in England and Wales

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.

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there is a lack of clarity about the additional actions firms will need to take over and above what they currently do. This is critical to scalability, to avoid excessive elaboration. In practice, few firms will start with a blank sheet of paper when implementing these proposals. Those responsible for methodology within firms and training and software providers will all seek to ascertain what within their existing systems of quality control can be retained (the presumption will be ‘everything’, because IAASB has specifically set out not to lose anything), what needs to be amended and what needs to be added. Consistency will be a great deal easier to achieve if IAASB itself indicates in high level terms which areas firms should focus on when considering the need for new material. Again, examples, outside the standard, possibly in a new type of IAASB publication may be the solution; the length of the proposals which warrant a new approach if scalability for SMPs is to have credibility.

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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.

We also note in our main points above the value of digitisation. Requirements could be linked to application material and conditional requirements could be linked 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 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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## Institute of Chartered Accountants of Pakistan

The aspects of the new standard that could pose implementation challenges to SMPs include implementation of structural changes in the firm, development of policies, procedures, carrying out the risk assessment and developing or refining the annual assessment processes.

Further, the involvement of judgement in determining outcome based quality objectives would be challenging for SMPs though this addresses the scalability. A broad template for establishing quality objectives as outlined in the Standard would be helpful.

The transition period of 18 months would be a challenge.

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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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## Institute of Chartered Accountants of Scotland (ICAS)

Our main concern is that, as a result of the tailored approach, it may not be entirely clear for many firms whether what they are doing now will fit within the new requirements, or what they might need to do to ensure that they do comply. ED-ISQM1 places greater emphasis on the need for professional judgement in designing and implementing the system of quality management. In this regard, we believe it would be advantageous for the IAASB to undertake a mapping exercise to identify and illustrate the linkage and key differences between ISQC1 and the new suite of Quality Management Standards.

Without such clarification, there is a danger that some smaller firms may adopt a risk averse approach and over-engineer the quality management system to avoid any future regulatory challenge. This is likely to place an additional burden, and cost, on these firms in order to comply with ED-ISQM 1. For smaller practices, such costs may not be so easily capable of being absorbed. Therefore, there is a danger that many of these firms may not be willing to continue with their audit and assurance related work because of the associated compliance and cost burdens. This is inconsistent with one of the objectives of the current reviews into the UK audit market which aims to enhance the choice of auditors, albeit the focus at the moment is on the audits of UK Public Interest Entities.

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## Institute of CPAs of Uganda

ICPAU believes that practitioners may have some challenges in the implementation of some aspects of the standard such as establishment of a risk management system as well as a monitoring and remediation system. These require firms to invest a lot of time and resources to continuously update their systems and this might be a challenge for some firms especially the smaller ones which may not have adequate resources to dedicate to these activities. We would thus recommend that the Board develops illustrative materials on how firms can effectively establish a risk management system as well as a monitoring and remediation system.

ICPAU raises concerns on the definition of the term 'Engagement Team' used across the set of Quality Management Standards. ICPAU notes that the definitions are not used consistently across the standards, thus they seem unclear and accordingly may not be capable of application in a consistent way, for example; whereas the definition provided under ED-ISQM 1 makes reference to an engagement team comprising of all partners and staff performing the engagement with the exception of external experts engaged by the firm.....(Para 19(f)), para A31 illustrates engagement teams to include human resources from service delivery centers who perform specific tasks that are repetitive or specialized in nature while Para 10(m) of ED-ISQM 1 defines staff to include 'any experts the firm employs.'

Relatedly ED-ISQM 2 requires discussions between the Engagement Quality Reviewer (EQR) with the engagement team throughout the engagement (para 21) and para A4 provides for outsourcing in case a firm has no internal capacity for an EQR. All in all, the challenge then remains whether EQR, experts, specialists would form part of the engagement team as defined under para 19(f) or not. ICPAU recommends that the IAASB applies a consistent definition for the term engagement team.

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## Institute of Independent Auditors of Brazil (IBRACON)

Yes. As mentioned in the response to the questions 1(c) above, we are concerned about the overall length (requirements, application material and appendix) and the repetition of content. We believe this implementation will take significant time to be completed by the firms and the implementation period should be of at least 24 months after its approval by the PIOB. As the new risk-based approach involves more professional judgment, it can be a challenge for smaller firms to design a system that is tailored to their nature and circumstances by only reading the ED-ISQM 1. On the other hand, network firms operate in a way that a single risk assessment methodology and process can be implemented by firms locally. Designing a risk assessment methodology that can be implemented consistently by all member firms while also properly reflecting the nature and circumstances of each individual firm will also be a significant challenge as these firms vary in size, complexity and available resources.

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## Institute of Singapore Chartered Accountants

Additional guidance on new areas introduced in the standard, namely Network Services and Service Providers would be useful, both in understanding their respective scope and what is expected in complying with those requirements. Scalability should be achievable based on the nature and extent of the use of such services by firms. Additional guidance to clarify the nature and extent of Network Services, for example, through an illustrative list that is non-exhaustive, together with worked examples for both areas of requirements to illustrate their application, may help demonstrate this. For network firms in countries that adopt a different quality control standard from ISQM, one area of concern that may arise when using network services is assessing if the network firm has complied with the requirements of ISQM.

On the implementation front, we understand that firms have a transition period of 18 months from the issuance of the standard to set up their quality management systems. We would like to clarify if the transitional requirement is retrospective or prospective. For example, assuming that the date of issuance of the standard is 31 December 2019, our understanding is that relevant quality controls should be implemented by 30 June 2021, but the monitoring and attestation of the operating effectiveness of these controls is on a prospective basis (i.e. in the next twelve months commencing 1 July 2021). In this regard, the implementation guidance can be more specific. Also, considering that the standard is a major overhaul and will have significant impact to firms when issued, the Board can consider extending the transition period.

A main challenge that we foresee is that small firms will face difficulties finding resources to implement the revised standard. The time and costs associated with the initial implementation will be significant, as it would require an initial resource to establish quality objectives and ensure that potential associated risks are thoroughly considered and documented with appropriate responses, which may prove difficult for small firms. In our local scene, firm level findings will no longer be advisory in nature going forward, and this will have far-reaching implications to firms if they do not implement the revised ISQM properly.

Overall, more guidance and examples will be needed for implementation, especially for small firms. It may be useful to develop a toolkit to assist small firms to document quality objectives and risk assessments.

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## Instituto de Censores Jurados de Cuentas de España

In addition to what we state in our answer to question 1 about the appropriateness of the current firms' internal quality control system to the new requirements, we see in:

Para. 23 c): to subject firms' strategic decisions to quality will be a challenge for those exerting leadership and general organization.

Para. 38 a) and b): Retaining personnel with the competence, experience and skills needed becomes a challenge, especially for SMPs if we take into account the incessant regulatory changes, the need for expertise and the lower capacity of attracting and retaining talent.

Para 38 e) and g) The implementation of technological tools to manage quality and engagements, and having trained staff to use these tools, are challenges for SMPs due to their lower investment capacity and their difficulties to attract and retain the appropriate professional personnel (please see previous paragraph).

Paras. 33) and A69): Setting policies and procedures and an information system to manage independence risks related to personal situations and services is especially difficult due to the divergent regulatory requirements in different jurisdictions. Analysing the applicable laws and regulations; organising the firm; training the relevant people; and implementing an appropriate information system is a challenge. In Spain, the extension of the applicability of the independence rules to other people related to the engagement partner makes management of independence especially difficult. Please see our answer to question 3 about the usefulness of further application material and guidance.

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## Instituto Mexicano de Contadores Públicos

One of the suggested changes, is the identification of the quality risks and the related responses to them, implementation may be challenging mainly due to the lack of prior experiences.

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The process of evaluating the quality risks, especially for the small and medium firms an even for some group of firms.

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## Malaysian Institute of CPAs

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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Yes, the new requirements on the design and implementation of firm risk assessment process, components for resources and information and communication (investing and maintaining of IT applications/technologies resources, intellectual resources etc) may create challenges to SMPs. A sample risk assessment manual/template with possible quality objectives, risks and responses, can be made available for reference and to be tailored and adopted by SMP. Besides, some of the aspects of the standard (which were already in the extant ISQC 1) also create challenges for implementation, such as, additional resources to provide sufficient staff trainings, evaluate the design, implementation and operation of its system of quality management through a monitoring and remediation process etc. Also propose to incorporate the concept of 'network' communications' that requires more guidance because it is unclear from the proposed ISQM 1 what is intended of network from different sizes.

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## National Association of State Boards of Accountancy

As noted in response to Request for Comment 1(c), smaller firms and sole practitioners could face challenges in the areas of monitoring and remediation as well as in finding resources to mitigate risks.

Implementation guidance with examples focused towards the smaller firm and sole practitioner will be critical. The implementation guidance will also help regulators understand how the standard is to be applied.

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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.

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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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## 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.

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.

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We believe that the length of the standard affects its clarity, in such a way that it is difficult to maintain the big picture. With regard to the magnitude of requirements, one could question whether there really is a principles-based approach. We would suggest that the IAASB reconsiders whether all the requirements are needed or if some of them might be application material. Another way to address the length of the standards (especially ISQM 1) would be to streamline the application material, i.e. move the explanations regarding the rationale for certain requirements from the application material into a different document, for example to a Basis for Conclusion. Including explanations in the application material increases the length without achieving corresponding benefits. It rather blurs the content and, as a consequence, it is difficult to sift through the material and separate the explanations/rationales for having the requirements, from necessary application material that clarifies how the associated requirements could be implemented.

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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 our view it is the length of the standard, the difficulties to understand scalability options and documentation that are the biggest challenges. We refer to the above.

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We are also concerned that implementing these standards will result in time-consuming documentation and that focus will shift from trying to achieve higher quality engagements to trying to meet assumed requirements from external inspections.

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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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### Royal Institute of Chartered Surveyors

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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We believe other than the initial period, the new standard will allow firms to tailor its quality management systems and should permit for a seamless implementation phase.

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### Self-Regulatory Organization of Auditors Association

As a whole the proposed new approach may be supported but the text consist excessive statements and requirements and should be shortened. The project overstates the role of internal control system in providing quality especially in SMPs and stimulates “paper work”. Definition of “Deficiency” in the firm’s system of quality management requires further edits (para. 19a). The text includes requirements that are not concrete (para.23, 51 etc.) and “quality objectives” that are not really objectives because of excessive disaggregation and should be refined.

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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.

During our outreach activities, the implementation challenges noted by SMPs related mainly to additional resources required for the implementation of the SOQM.

With respect to firms belonging to networks, a challenge was noted in that the member firm’s leadership may not be operating in isolation but rather within a hierarchical management structure that reaches beyond the member firm level. A question around how ultimate responsibility for the SOQM is assigned in this instance was raised.

In continuing with network firms, an implementation challenge relating to the development of a risk assessment methodology and process that can be implemented consistently and result in systems of quality management across a network of firms that are consistent and appropriate was raised.

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Although it may be possible to design such a methodology or process, this will take time to design and then test across the network firms that vary in nature and have differing circumstances. To this end, it was acknowledged that a technology solution for documenting the quality objectives, quality risks and responses for the applicable processes, as well as monitoring the responses, is also critical to drive consistent implementation throughout the network because operating systems of quality management across a network of member firms cannot be managed manually.

The design and implementation of a comprehensive monitoring solution is also a significant implementation challenge for a network of firms; including how to monitor network and member firm responses, the process to perform root cause and remediation and the development of an annual assessment processes. The network will have to design a monitoring process that is applied across all member firms. In the design of the monitoring solution, the network may also want to consider how to include more innovative aspects of monitoring, such as real-time monitoring elements that could improve the quality of engagements that are in-process.

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In relation to the additional investment in resources, there is a real concern around the availability of resources required to implement the proposed new and revised requirements. Firms will experience an increase in costs, which, in all probability is a cost the firm will not be able to pass onto the client.

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In the design and implementation of the system of quality management (SOQM), the firm is required to apply professional judgement at various stages of the process. From a monitoring point of view, significant concerns were noted around how an individual will exercise oversight in relation to the application of professional judgement in the design and implementation of the SOQM and what the firm is required to document to demonstrate compliance with the requirements.

While we understand the reason for the inclusion of paragraph A211, specifically as it indicates that it is neither necessary nor practicable for the firm to document every matter considered, or judgement made about the SOQM, guidance in terms of minimum documentation requirements will be most welcome. Specific areas where this is seen as being of practical importance have been highlighted as such within the applicable section.

To echo the point noted in Response Template: Quality Management Covering Explanatory Memorandum, strong calls for a framework or a model relating to how SMPs could comply with the requirements were heard. Such a framework or model should include guidance that can be used in documenting the outcome of the risk assessment process. To this end, we recommend that the IAASB consider whether it is possible to develop such a framework or model to support firms in implementing the standards as intended.

The view is that for the larger firms, how to demonstrate compliance is less of a concern because the SOQM and documented policies or procedures are such that it is less likely for requirements of ED-ISQM 1 not to apply. From a SMP point of view, it appears to be onerous for them to assess whether each aspect of ED-ISQM 1 has at least been considered. Therefore, in further addressing concerns around scalability, it is our view that the inclusion of a framework that either prescribes or illustrates the minimum documentation requirements will significantly contribute to the scalability of ED-ISQM 1. This way, firms can focus their attention on designing, implementing and operating a reliable risk assessment process that is appropriate and the need for ticking every box required by the standard will be mitigated.

It is SAICA's recommendation that the IAASB engage the International Forum of Independent Audit Regulators (IFIAR) in understanding how they intend regulating compliance with the requirements of the QM-EDs. The IAASB can then use input obtained through this engagement to develop the requested illustrative framework or model, thereby providing clarity on the minimum that is expected to be documented on an engagement file.

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## The Finnish Association of Authorised Public Accountants

A clear guidance on what's new and what has changed would be helpful when implementing new requirements. The firms should be able to update and improve their existing systems without the need to start 'from scratch'.

The standard should always include only requirements that are authoritative. Any examples or additional guidance should be left out of the standard and be included in the application material, appendices or other guidance.

The Guide to Quality Control for SMPs and Staff Questions & Answers – Applying ISQC1 Proportionately with the Nature and Size of the Firm should also be updated as soon as possible to help with the consistent implementation and compliance of new and revised standards.

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## Wirtschaftsprüferkammer

Contrary to other standards, which are changed selectively or even far-reaching, here the entire organization of the audit firm potentially needs to be redesigned:

The identification of the additional and modified requirements of the new standards (ISQM 1, ISQM 2 and ISA 220) and the implementation of the new QM-approach will have a significant impact on all audit firms and will significantly shape the future of the performance of engagements. Additional Guidance regarding the additional and modified requirements would be very helpful.

The firm's risk assessment process must be applied to the components of the system of quality management, i.e., audit firms are required to use this process in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for all quality risks.

We expect that most audit firms are challenged by the prescriptive way of managing risks. They have to define quality objectives for each of the components of the proposed system of quality management. In the next step quality risks must be identified and assessed for each quality objective. Finally responses must be designed and implemented for all quality risks.

Under the assumption that 3 quality objectives are defined per component, 3 quality risks were identified for each quality objective and 3 responses are designed and implemented, the audit firm must cope with nearly 200 responses. For both SMP and large Audit Firms, this is in our opinion hardly feasible, but above all not appropriate.

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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”.

Nearly all audit firms have established a quality system during the last years. We assume that most firms tend to develop their existing quality system further, instead of developing a new system. In light of this the IAASB should clearly elaborate what is new and why it is better, especially from the perspective of the public interest. In this context we would ask the IAASB to develop a mapping of extant requirements to the new requirements in ED-ISQM 1.

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We are concerned as to whether all audit firms distinguish what specific adjustments to their existing quality system are necessary to comply with the relevant requirements. It has to be taken into account that the new approach has to build on the existing quality system and that adjustments have to be made during the current business.

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We are in addition concerned that from the scalability perspective the identification and assessment of quality risks is very prescriptive and leaves only little room for flexibility in the application. The approach is therefore challenging to apply. Therefore supporting material for implementation (like an update of the ISQC 1 guidance published by the SMPC or an IAASB staff Q&A’s) would be beneficial before the standards become effective.

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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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We see that the proposed implementation horizon of 18 months is too short. During implementing a new QM approach the firms have to cope with the implementation of ISA 315.

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## Files\\9. Individuals and Others

### Training and Advisory Services and Chartered Accountants Academy

Yes, there are aspects of the standard that may create challenges for implementation

There is a risk of not prioritising quality especially in those circumstances where there is a conflict between financial objectives of the firm and quality moreso for the small firms and solo practitioners where there is no or very little separation between operations of the firm and those handling finances. The impact of technology on the competencies of the engagement partner or engagement team may create challenges for implementation if the personnel have poor technological skills, sole practitioners have limited resources for adaptation to technological advancements

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## Nodes\\ED-ISQM 1 Firm Level\02 Challenges for implementation\4. Q2 - Unclear

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

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

Response: For being implemented on European Union level, this standard must pass the quality test of article 26, 3° of the Audit directive and a cost-benefit analysis.

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