

## **ISQM 1: Nvivo Report – Question 4**

### **Nodes\\ED-ISQM 1\_Firm Level\04 Components and structure of ED-ISQM 1\2. Q4 - Agree**

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

##### **Financial Reporting Council United Kingdom**

We support the eight components of the SOQM and agree with that the components continue to be relevant to a firm in addressing specific topics that are fundamental to the performance of engagements, and therefore provide the critical link to the management of quality at the engagement level.

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

##### **Australian Auditing and Assurance Standards Board**

The AUASB is supportive of the principles behind having the 8 components of a Quality Management System. Additionally, the AUASB supports the level of flexibility in the proposed standard whereby firms are not required to organise their systems according to these discreet components. A firm may have different names for the components and may combine components or have additional components.

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

In general, we support the eight components as the key components of the system of quality management as they are specifically designed and highly integrated.

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

We support the eight components and the structure of ED-ISQM 1.

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#### **Files\\4. Accounting Firms**

##### **CAS International**

Yes. We support.

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##### **Crowe Global**

We support the eight components and the structure of ED-ISQM 1.

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##### **Deloitte Touche Tohmatsu Limited**

DTTL is supportive of the eight components and structure of ED-ISQM 1, including the existing emphasis in the proposed standard on the interrelationship between the components.

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## Duncan and Topliss

R4: Yes. Splitting the requirement into 8 clear components helps to focus firm's risk assessment to the different quality objectives.

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## EY Global Limited

We support the structure of the proposed standard into components because this structure provides a logical organization of the requirements of the standard and makes ED-ISQM 1 easier to read. We appreciate the flexibility expressed in paragraphs 13 and 26 of the explanatory memorandum and paragraph A5 of the 'Application and Other Explanatory Material' that firms are not required to organize their systems of quality management according to the components in ED-ISQM 1 and that firms may have different names for the components, may combine the components or may have additional components. This flexibility allows firms to organize their system of quality management in a way that best meets the needs of the firm to achieve the objective of the standard.

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## Haysmacintyre LLP

yes

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## KPMG IFRG Limited

We support the eight components and the structure of the ED. We particularly find the addition of two new components (to those in ISQC1), Risk Assessment Process and Information and Communication, and the enhancements to Resources a positive change, as they reflect topics that continue to be relevant to quality management and link to the management of quality at the engagement level.

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## Mazars

Yes, we consider this approach gives a much clearer understanding and breakdown of the key areas of quality management.

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## Mazars USA LLP

We support the eight components and the structure of ED-ISQM 1. The proposed standard's structure allows for customized integration of the eight components into the firm's system of quality management framework.

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## MNP LLP

Yes, we support the eight components and the structure of ED-ISQM1.

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## Nexia International

YES

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## Nexia Smith & Williamson

Yes, we support these.

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## PKF South Africa

We support the eight components and the structure of the ED-ISQM 1.

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## Files\\5. Public Sector Organizations

### Auditor General South Africa

Yes, the eight components of the system of Quality Management is comprehensive in describing the building blocks which brings about the system of quality management and the structure of ED-ISQM 1 in line with these components describes how each area is linked to quality objectives.

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### Australasian Council of Auditors General

AGAC supports the eight components and structure of ED-ISQM 1.

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### International Organization of Supreme Audit Institutions

The eight components of the system of quality management are consistent with those of the extant standard with the exception of the risk assessment process. Structure/organization of the standard has changed but the base principles remain. As a result, we are supportive of the components and structure.

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### National Audit Office of Malta

Yes.

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### Office of the Auditor General New Zealand

Yes.

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### Office of the Auditor General of Alberta

Yes, we support the eight components of ED-ISQM 1.

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### Office of the Auditor General of Canada

Yes, we are supportive of the components and structure.

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### Provincial Auditor Saskatchewan (1)

Yes, we support the eight components and the structure of ED-ISQM 1.

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### US Government Accountability Office

We support the concepts covered in the eight components of ED-ISQM 1. We appreciate that firms are not required to organize their quality management systems to follow the eightcomponent structure, as long as all requirements within the standard are met

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

## Australian Accounting Professional and Ethics Standards Board

Subject to APESB's significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the eight components and the structure of ED-ISQM 1.

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## CA Ireland

Yes, we support the eight components and the structure of ED-ISQM 1

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## Center for Audit Quality

Overall, we support the eight components and the structure of ED-ISQM 1. We also believe that firms can achieve the objectives and requirements of ED-ISQM 1 without organizing their system according to these discrete components.<sup>3</sup> This flexibility provided within ED-ISQM 1 is critically important to effectively manage and support quality, including from a scalability perspective. For example, a firm may have different names for their components, may combine or have additional components, or may structure their system in a different way (e.g., across functional areas of the firm) and still be able to meet the objectives of ED-ISQM 1. Should the flexibility provided in ED-ISQM 1 differ in the final standard, we would have concerns as the scalability could be negatively impacted.

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## Comision Interamericana de Control de Calidad de la AIC

Yes, we support.

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## Comite Control de Calidad del ICPARD

Yes, we do.

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

CNDCEC supports the eight components that form the quality management system (compared to the six elements provided for by the current ISQC 1). The new element of the system concerning the risk assessment process is key to the new approach and, as such, cannot be eliminated. The new element concerning the process of information and communication within the system and for the benefit of the engagement team and of the whole staff of the firm is likewise essential to the effective functioning of the system and to the performance of the engagement.

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## Illinois CPA Society

We support the eight components and the structure of ED-ISQM 1 (para 8).

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## Institute of Chartered Accountants of Pakistan

We support components and the structure of proposed standard.

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## Instituto de Censores Jurados de Cuentas de España

Yes. We do not have comments on that issue.

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## Malaysian Institute of CPAs

Yes.

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## Royal Institute of Chartered Surveyors

Yes. Although ED-ISQM 1 is organized by the eight components as listed below:

Governance and leadership;  
The firm's risk assessment process;  
Relevant ethical requirements;  
Acceptance and continuance of client relationships and specific engagements;  
Engagement performance;  
Resources;  
Information and communication; and  
The monitoring and remediation process.

We understand that a firm is not required to organize their quality management systems by each of the eight components as long as a firm meets all of the requirements of the standard in designing, implementing, and operating its quality management system.

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## Self-Regulatory Organization of Auditors Association

Yes, as a whole

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## South African Institute of Chartered Accountants

SAICA is in support of the eight components and the structure of ED-ISQM 1 and the structure in terms of drafting a standard that is understandable.

There was general consensus around the order of the eight components in ED-ISQM 1 as this makes logical sense in terms of how firms will actually think about the process. The inclusion of quality control objectives within each of the eight components, as opposed to a separate section eliminates the need for the firm to jump around the standard in identifying the requirements.

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## Files\\8. Academics

### UNSW Audit Research Network

We support the eight components and structure of ED-ISQM 1. We note and concur with the explicit recognition that firms are not required to organize their systems according to the discrete components, but believe that the structure provides guidance that is necessary for many firms, especially SMPs, to meet the proposed standard's requirements.

We note our detailed response to Question 1(b) which outlines opportunities for improvement at a more granular level.

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## Files\\9. Individuals and Others

### Training and Advisory Services and Chartered Accountants Academy

Yes

We support the eight components and the structure of ED-ISQM 1, the components are interactive, include governance in quality management which engages public interest. The inclusion of resources is good as it addresses intellectual and technological resources being forward looking. The fact that monitoring and rendition is applied in all other components is also good. It is favorable that firms are not required to organize their systems according to the discrete components. Firms are only required to meet all of the requirements of the standard in designing, implementing and operating systems of quality management. The tailor-made approach allows that if all the requirements of the standard are still met, a firm may have different names for the components, may combine the components, or may have additional components meeting the overall objective of the standard.

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### Vera Massarygina

Yes, as a whole

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## **Nodes\\ED-ISQM 1\_Firm Level\04 Components and structure of ED-ISQM 1\3. Q4 - Agree but with further comments**

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

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

We support the eight components in ED-ISQM 1.

In terms of the structure of ED-ISQM 1, and as evidenced in the diagram on the interrelationship of the components on page 7 of the explanatory memorandum, we suggest that the relevant ethical requirements component be positioned or emphasised as an overarching component.

The extended introductory material in paragraphs 7-15 of ED-ISQM 1 creates extensive duplication. This material could be reduced.

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

#### **AICPA**

We support the identified eight components and the ED-ISQM 1 structure.

An explanation, in application guidance in ED-ISQM 1, of why the Governance and Leadership component is placed before the Firm's Risk Assessment Process would be helpful. We do not disagree with the structure, but it was an item that we discussed with differing viewpoints expressed. Our understanding is that differing viewpoints were also expressed by the IAASB while drafting ED-ISQM 1. Providing insight into the rationale for the placement of the Governance and Leadership component before the Firm's Risk Assessment Process would assist practitioners in understanding the philosophy as they implement ED-ISQM 1. For example, application material might state that "Governance and Leadership are prerequisites for effective implementation of all other components."

Paragraph A5 states that the firm may use different terminology or frameworks to describe the components of its system of quality management. Assuming that "different" means "other than that used in this standard", it is not clear what other framework could be used because it is not clear what framework is used in ED-ISQM 1. We believe the intent to be how the firm organizes its components. We also believe it is important to state that all components need to be addressed in the system of quality management, regardless of the terminology. We suggest the following revision: The firm may use different terminology or frameworks to describe the components of its system of quality management, provided all components in this ISQM are addressed.

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#### **Canadian Auditing and Assurance Standards Board**

In part. We support the system of quality management as a whole. However, we believe that the system has 6 components and 2 processes, rather than 8 components. The "house" picture in the EM clearly shows the 2 processes (risk assessment process and monitoring and remediation process) as separate from the components. We believe that monitoring and remediation is not a component in the system of quality management but rather a process. We believe this should be made clearer in ED-ISQM 1. Paragraph 8 could be rewritten as follows:

... However, for the purposes of this ISQM, a system of quality management addresses the following eight six components and two processes, which are highly integrated ...

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

We broadly support the eight components and the structure of ED-ISQM1. However, we consider that the scheme of paragraph 11 (Page 7) of the ED-ISQM1 should be included in the application material of or in an appendix to the standard for further clarification.

The scheme is shown here below.

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

We support the eight components. However, it should be clarified how components can be iterative.

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## Kammer der Steuerberater und Wirtschaftsprüfer

We broadly support the eight components. Although we are not clear that the risk assessment process is clearly separated from the components. There is a lot of overlap between components that could generate confusion and potential inconsistency in practice.

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## New Zealand Auditing and Assurance Standards Board

The NZAuASB supports the eight components of the system of quality management, as part of an integrated system. Practitioners who participated in our targeted outreach found it was useful to have the components separately identified, as a useful prompt to get firms started in the process of identifying and managing risks.

That said, we have a question about the value of structuring the proposed requirements and application material around the components, given that the proposals are designed to highlight the integrated nature of the objectives and responses. For example, separating information and communication from the other components seems overly complicated, as information and communication relate to the other components.

It may be more useful to identify the required quality objectives and required responses in a more neutral manner, given that many of the responses may address multiple objectives and risks.

To address concerns of this nature, while recognising the integrated nature of the system, it may be useful for diagrams or an illustrative mapping document to be prepared (possibly separately from the standard) to show the integration while making reference to the eight components.

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## Royal Nederlandse Beroepsorganisatie van Accountants

Yes, in general we do support the eight components. The structure seems logical and the model is robust. Nevertheless, we recommend to clearly make a distinction between “what needs to be managed” and “how it needs to be managed”. The “building blocks in the house” represent what needs to be managed and the two arrows (risk assessment process and monitoring & remediation) represent the process to manage

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## Files\4. Accounting Firms

### Baker Tilly International

Response: The proposed scope of the risk assessment process is reasonable.

However, it would be beneficial to bring the Risk Assessment Process to the forefront of the standard, ahead of the Governance and Leadership section and to clarify that the Risk Assessment Process applies to everything which follows in the standard. This would also assist in putting the required objectives and responses in the following sections into better context.

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Yes. The eight components of ED-ISQM1 are appropriate and we also support the flexibility which the standard provides in enabling firms to adapt the components to their arrangements, and vice versa.

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### Baker Tilly Virchow Krause LLP

We believe that the eight components are appropriate, although, we believe that the proposed standard and related application guidance should make it clear that the eight components are not required to be separate and distinct functions within a firm in order for the firm to be in compliance with the proposed standard.

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### BDO International

While we understand that firms are not required to organise their quality management systems according to these discrete segments we note that ED-ISQM 1 intends that the ‘Firm’s Risk Assessment Process’ component is to be ‘...applied to the other seven components...’ as part of a firm’s systems of quality management. This raises concerns about whether this particular component is actually in fact a component on its own or whether it would be more appropriate, and less confusing for firms who are unfamiliar with quality management frameworks, to posit this as an overarching rather than component-level concept. We note that the diagram on page 7 implicitly reinforces our initial concern.

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Inclusion of a new component ‘Information and communication’ – extant ISQC 1 does not address broader considerations surrounding information and communication which are likely to be critical within firms, offices, business units and engagement teams and potentially across networks too. The emphasis in ED-ISQM 1 on the need for two-way communication is also welcome – including the responsibility of all personnel for communication. Greater focus on ‘Monitoring and remediation process’ as opposed to the previous ‘monitoring’ component in extant ISQC 1. As noted in our Invitation to Comment response, reinforced by the explanatory memorandum for ED-ISQM 1, this has been an area where ISQC 1 was in need of some modernisation.

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## ETY Global

Yes, we do. Nevertheless, we believe using the same terminology, where relevant, like the risk management frameworks would be helpful in understanding and spreading the standard.

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## Grant Thornton International Limited

We support ED-ISQM 1 organizing a firm’s system of quality management into components, given that the proposals also allow firms’ the flexibility to adapt those components, as necessary, to their own terminology and frameworks (paragraph A5 of ED-ISQM 1) and to undertake the risk assessment process for the system of quality management as a whole (paragraph A48).

We would recommend however, providing further emphasis that, irrespective of the terminology or frameworks used, a firm’s system of quality management should be designed to incorporate all of the required quality objectives and all of the required quality responses set out in ED-ISQM 1, to avoid the potential of non-compliance with the proposed standard if firm’s frameworks are significantly different. We do also note some inconsistency in this area in respect of how compliance is achieved. For example, paragraph 26 emphasises that quality objectives additional to those required by ED-ISQM 1 need to be established by firms, whereas paragraph 30, emphasises that the responses the firm develops to address its assessed quality risks need to include those required by ED-ISQM 1. (See our response to question 6 below).

In our view, the firm’s risk assessment process should be the first component included in the proposed standard. The firm’s risk assessment process is something a firm has to put in place for it to be applied to other components in the system of quality management. Governance and Leadership could then be the second component with the other identified components following. This structure would result in the proposed standard following the logical structure of a firm’s system of quality management. Further, because the governance and leadership is the first component in the proposed standard, a somewhat lengthy introduction to the firm’s risk assessment process has been added. Moving the requirements relating to the firm’s risk assessment process to the beginning of the standard may facilitate a more concise introduction. We are of the view that the characteristics of the firm’s risk assessment process component differ from those of the governance and leadership component, in that the firm’s risk assessment process is applied to the governance and leadership (and other) components, whereas the governance and leadership component, whilst closely inter-related to other components, is not applied to them. As such, we believe that placing the risk assessment component before the governance and leadership component does not, in any way, diminish the importance of that component.

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## Kreston International

The eight components of the proposed system of quality management are appropriate.

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The risk assessment process is included in the standard after the governance and leadership component and before the other components. It is understood that the risk assessment process should be applied to all the components. Therefore, placing risk assessment before governance and leadership would make it clearer that it also applies to this component.

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## MGI Worldwide

Paragraph 8 in the standard indicates that the system of quality management “does not operate in a linear manner” and moves on to identifying the eight components, highlighting that these are highly integrated.

The presentation of these components appears as a linear list – starting at the top of the firm, with the tone at the top/leadership and moving “down” through the other components. We support the components, but the structure of their presentation could be taken by some as a linear progression through a “process” and the interrelatedness of the components overlooked.

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## Moore Stephens International

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

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We support the components and the structure up to a point. As noted above we believe that the document would flow better and make more sense if the components were re-ordered and the risk assessment section was the first section. We recognize that it will always be problematic trying to articulate a non-linear process in a linear way, but for us the most sensible way to articulate what is intended would place risk assessment first.

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## PKF International Limited

We support the eight components and the structure of the ED-ISQM 1.

We believe that the diagram depicting the eight components of the quality management systems (as set out on page 7 of the ED-ISQM 1 Explanatory Memorandum), could be inferred as depicting a hierarchy of the eight components. However, ED-ISQM 1 indicates that the eight components are inter-related, which suggests that there is no hierarchical order to the components. To address the risk of misinterpretation, we recommend that the Explanatory Memorandum includes appropriate wording to clarify that the diagram of the eight components is presented for illustrative purposes only and does not represent a hierarchy of the components.

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## RSM International Limited

Yes.

Paragraph A5 states that different terminology or frameworks may be used to describe the components of quality management. We think clarification should be made that if different terminology or frameworks are used, a firm should demonstrate that it still addresses all 8 components.

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

### Accountancy Europe

We broadly support the concepts of the components and the structure of ED-ISQM 1, but we have a number of concerns that we elaborate below. The diagram illustrates well the approach put in place and conveys much better than words the structure and the components. The IAASB could consider including it in the standard.

We think that 'risk assessment process' should not be considered as a component and wonder whether 'monitoring' and 'governance and leadership' should follow a different treatment as well. They are linked to processes but not components per se. In any case, a lot of the cross-referencing and complexity would be reduced if the IAASB would classify 'risk assessment' out of the components and treat it as an overarching process. We are also not fully convinced that a separate quality objective is necessary for 'information and communication'. In any case, there is a lot of overlap between components that generate confusion and potential inconsistency in practice.

Nevertheless, ISQM 1 has inherited a part of the control activities' components from ISA 315 (Revised), but in different places. We appreciate that the problem resides in the fact that with ED-ISQM 1 we are applying 'risk assessment', which is an auditing concept for audit firms, but both should reconcile. We should try to reduce the level of inconsistencies and explain the remaining differences, if any.

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## Belgian Institute of Registered Auditors IBR-IRE

Paragraph 8 of the standard could be completed by a 9th component. We propose to add “the firm’s quality objectives” between “governance and leadership” and “the firm’s risk assessment process”. Consequently, paragraphs 26 and 27 of the standard would then be under that title. The Explanatory Memorandum could be adjusted and we suggest to also add this in the table on p. 7 as a new bloc below “governance and leadership” and above the three blue blocs (relevant ethical requirements, acceptance and continuance, engagement performance).

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## California Society of CPA’s

For the most part, but we think there is some redundancy between governance, risk assessment and ethical requirements.

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## Chartered Accountants Australian and New Zealand and ACCA

We broadly support the eight components and the way those are presented in ED-ISQM1. However, although we are supportive of the content, we are less supportive of the introductory paragraphs. We also emphasise that having the need for an explanatory introduction signals that there is complexity in the drafting of the standard.

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## CPA Australia

This could be alleviated by covering the firm’s risk assessment process before the other components, by moving this component after paragraph 22, and by making it clearer that the steps involved are covered under each component.

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Yes, we do support the 8 components, which we consider contain suitable enhancements to the existing 6 elements.

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## Institute of Chartered Accountants in England and Wales

Some commentators suggested that a number of the components, particularly the risk assessment, information and monitoring components were not really components at all, but that they were overarching processes or pervaded the other components. Others however believe that changing the ordering or structure is unlikely to change behaviour. On balance, we make no comment on this aspect of structure.

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Yes, although some correspondents strongly believe that risk assessment in particular is not a component, but rather an overarching process and that the standard would flow better if it was treated as such.

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## Institute of Chartered Accountants of Scotland (ICAS)

While we acknowledge that the components in ED-ISQM1 reflect what currently happens in practice, in our view, it is not clear why the risk management process should be described as a component of that system. However, if the IAASB remains of the view that the risk management process does represent a component of the quality management system, we believe that the diagram on page 7 of the introductory material is a helpful demonstration of how the risk management process interacts with the other components of a system of quality management. Therefore, we would suggest that this diagram should be included within the body of the final standard or as an appendix as this enhances the understandability of the proposed approach.

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## Institute of CPAs of Uganda

ICPAU is supportive of the eight components and the structure of ED- ISQM 1. The eight components are representative of aspects that are essential in the efforts to have good quality engagements. ICPAU is particularly supportive of the fact that firms may combine the components or have additional components, depending on their circumstances and that the components are highly integrated.

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## Institute of Independent Auditors of Brazil (IBRACON)

Yes. However, it is not clear how the components can be combined or are going to operate in an iterative manner as stated in the diagram of page 7 of the explanatory memorandum. We believe the component 'Information and communication' is implied in all other components and hence, it is not clear what is necessary to be addressed specifically in this component. We believe this is a crucial explanation, especially to address the scalability issue with the inclusion of examples in a non-authoritative guidance as suggested in 1c above.

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## Korean Institute of CPAs

We support firms applying their risk assessment process, reflecting information and communication and a risk-based approach, on components of extant ISQC 1 as essential aspects that enable the operation of each of the other components of a QMS. However, firms' quality assessment process is a one applied when setting up quality objectives, identifying and assessing risks and designing responses, which are a bit different from other components. Given this, it is not certain whether the component is on an equivalent level with other components.

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## National Association of State Boards of Accountancy

Overall, we are supportive of the eight components and the structure of the ED-ISQM 1. However, we believe that the firm's risk assessment process should be applied to the other components of the system of quality management. The risk assessment process should include governance and leadership.

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## The Finnish Association of Authorised Public Accountants

The standard includes a lot of quality objectives and responses to the objectives that relate to the eight components. The structure of the standard is not clear and there is no common subheading nor any balance between different components. Some of them are more overarching than the others, and some have much more objectives or responses than the others. For example, the risk assessment process and communications are, in our opinion, not separate components but fundamental parts of the quality management process. Calling the eight areas 'components' feels a bit artificial. Therefore we would not call them components at all. The numerous objectives and requirements should be highlighted somehow in order to clarify the structure of the standard.

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# Nodes\\ED-ISQM 1\_Firm Level\04 Components and structure of ED-ISQM 1\4. Q4 - Disagree

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

### Irish Auditing and Accounting Supervisory Authority

"The firm's risk assessment process" paragraphs follow the "Governance and leadership" paragraphs in the requirements section. We recommend moving the firm's risk assessment process to the start of the requirements section to aid the comprehensibility of the standard as it applies to all components of the system of quality management, including governance and leadership.

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## Files\\3. National Auditing Standard Setters

### Chinese Institute of Certified Public Accountants

We suggest that IAASB further explain the new quality management system and its eight components, especially the relationship between COSO components and the other three components, and clarify the relationship between quality objectives and internal control objectives. The quality management system should be based on quality management theory. ED-ISQM1 does not provide any theoretical support, which makes it unclear to explain why the quality management system is composed of these eight components. Are there any other factors that can be considered as a separate component of the quality management system? For example, professional skepticism, professional judgment and fees are also critical to

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audit quality. Can each of them be a separate component? ED-ISQM 1 provides quality objectives on understanding relevant ethical requirements while it does not establish quality objectives on technical standards such as audit standards. These need further theoretical support (quality management theory).

In ED-ISQM 1, eight components of the system of quality management are governance and leadership, the firm's risk assessment process, information and communication, the monitoring and remediation process, resources, the firm's risk assessment process, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, among which the first five components are based on COSO framework, while the latter three components are based on consideration of areas prone to risk in practice. Although these eight components are practical, we don't think they are set on the same dimension. We are unclear on the relationship between them due to the lack of theoretical underpinnings to explain how these components are arrived at. Besides, the five elements of COSO framework are designed to achieve internal control objectives (reliability of financial reporting, operating efficiency and compliance). However, ED-ISQM 1 does not explain the relationship between quality management and internal control objectives. We believe that extant quality management system focuses more on compliance, such as compliance with audit standards and relevant ethical requirements. It seems inconsistent because the quality management system uses components from COSO framework but leave out COSO objectives

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## Institut Der Wirtschaftsprüfer

No, we do not support the eight components and structure of the draft as noted in the body of our comment letter. Please refer to the comment letter for the reasons.

The quality management process should reflect best practice frameworks, which promote a series of interrelated processes which encompass a foundation, core processes and supporting processes.

### 4.1. Elements of a quality management process

The draft seems to confuse the components of a system of quality management with elements of processes, content-related aspects, and elements that form the foundation of an effective quality management system.

For example, the requirements for compliance with professional obligations and for the retention of suitable personnel for performing services (content-related aspects) are placed on the same level as the implementation of a firm's risk assessment process, an information system or the monitoring and remediation process. Network resources, documentation and communication are relevant in all process steps and are not separate aspects of the quality management system.

One reason for this shortcoming in the structure and content of the elements of a quality management process is the use of COSO Internal Control – Integrated Framework, which is designed for a markedly different purpose (financial reporting systems). We firmly believe that COSO ERM (2017) or ISO 31000 would have provided a more appropriate basis for describing the components of a quality management system.

For these reasons, we suggest that a quality management system be described as a series of interrelated process encompassing:

#### Elements

Quality drivers

Responsibility

Foundation

Cultivate a firm culture that fosters appropriate quality

Firm leadership

Integrate quality into the firm's strategy and quality management into the firm's business processes

Firm leadership and those responsible for functional areas and related business processes

Core processes

Define quality objectives for quality drivers in this section

3.1. Ethics

3.2. Clients and engagements

3.3. Resources

3.3.1. Human resources

3.3.2. Technological resources

3.3.3. Intellectual resources

3.4. Resource management

3.5. Engagement Performance

Identify and assess quality risks

Design and implement risk responses

Monitor the design and the effectiveness of items 1 – 11 above, including the achievement of quality objectives, analyzing monitoring results and

performing root cause analysis and implementing remedial actions to address identified deficiencies  
Support processes  
Information and communication management  
Documentation  
Firm leadership  
Individual responsible for ethics function  
Those responsible for business and risk management  
HR leader  
Individual responsible for HR function  
Chief Information Officer  
Those responsible for the firm’s delivery of different engagement types (e.g., audit leader, assurance leader etc.)  
Chief Operating Officer  
Those responsible for the firm’s delivery of different engagement types (e.g., audit leader, assurance leader etc.)  
Leadership and those responsible for business processes

To this effect, we suggest that the quality management system be presented in ISQM 1 as follows:

At the beginning of ED ISQM 1 (Introduction), how a quality management system should be established for a firm should be described

There should be a requirement that the firm’s leadership is responsible and accountable to implement an effective quality management system as described in the introduction (see first bullet).

The quality management process (objective-setting, risk assessment, risk response) does not need to be repeated within the requirements for every content-related aspect (e.g., clients and engagements). Rather, there should be a single quality objective for every content-related aspect and, if deemed necessary, minimum requirements for responses.

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## Japanese Institute of CPAs

However, as stated in our comments on question 4, we believe that the firm’s risk assessment process is the core concept underlying the system of quality management, and it should not be positioned at the same level as the other components. In addition, as ED-ISQM 1 describes the firm’s risk assessment process after governance and leadership, it is difficult to understand that the firm’s risk assessment process should be applied to the other components. Therefore, in order to improve the overall understandability of the standard, we believe that, at a minimum, the firm’s risk assessment process should be described in the first section of the requirement. Indeed, the firm’s risk assessment process is firstly described in the Explanatory Memorandum. As we commented on question 2, the Explanatory Memorandum is easier to understand than the Introduction section of the standard.

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The eight components and the structure of ED-ISQM 1: We do not support the order and level of eight components and the structure of ED-ISQM 1. We believe that the eight components should be positioned at different levels in the system of quality management. However, ED-ISQM 1 positions all components at the same level. As a result, the structure of the standard and the underlying quality management approach are very difficult to understand. We believe that, at a minimum, the description of “the firm’s risk assessment process” should be included in the first section in ED-ISQM 1 among the eight components in the same manner as the Explanatory Memorandum. (Comment to Question 4)

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We do not support the order and level of eight components and the structure of ED-ISQM 1. Although ED-ISQM 1 positions all “components” at the same level in the system of quality management, we believe that they should be positioned at different levels. In addition, ED-ISQM 1 includes descriptions of “the firm’s risk assessment process” which is the foundation of the quality management system, between the descriptions of the other components. As a result, the structure of the standard and the underlying quality management approach are very difficult to understand. We believe that “the firm’s risk assessment process,” which is the core of the proposed quality management approach, and “governance and leadership,” “resources,” “information and communication” and “monitoring and remediation process,” which support “the firm’s risk assessment process,” should not be positioned at the same level as the other three components (i.e., “relevant ethical requirements,” “acceptance and continuance of client relationships and specific engagements” and “engagement performance”). The other three components, which relate to the performance of the individual engagement, should be treated as the processes to which the firm’s quality management approach is applied. We believe that, at a minimum, the description of “the firm’s risk assessment process” should be included in the first section in ED-ISQM 1 among the eight components in the same manner as the Explanatory Memorandum. In addition, we suggest that the components of the quality management approach (i.e., “the firm’s risk assessment process,” “governance and leadership,” “monitoring and remediation process,” “resources” and “information and communications”) be positioned at a different level from the processes related to the performance of the individual engagement (i.e., “relevant ethical requirements,” “acceptance and continuance of client relationships and specific engagements” and “engagement performance”) or alternatively, the Introduction section (paragraph 11 of ED-ISQM 1) be expanded to explain this.

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## Files\4. Accounting Firms

### PriceWaterhouseCoopers

As a matter of providing a logical flow to the standard, it may be more appropriate to include the firm's risk assessment process, which explains the role of quality objectives, risks and responses, prior to the governance and leadership component. While we recognise the importance of the role of the governance and leadership component with respect to the oversight of the SoQM, in our view reordering these components may aid understanding.

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Information and communication component - In our view, information and communication need to be considered throughout the firm's system of quality management, due to their pervasive impact. For each component/functional area of the firm's SoQM to function in the best interests of supporting quality, it is vital that effective communication and provision of information be embedded in the firm's processes. We suggest, in our response to question 4, an approach to better integrate information and communication within each component within the standard.

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Structure (refer to our response to question 4): We recommend the matters addressed in the information and communication component could be more appropriately addressed within the standard through:

establishing overarching objectives addressing information and communication, potentially as part of the governance and leadership component; identifying risks factors within each component linked to the critical role and purpose of effective information and communication in the successful functioning of that component; and relocating and/or repositioning any required responses to better integrate with the purpose of those other components and the potential risks to be addressed.

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We support the matters addressed within each of the eight components described in the ED. However, we make two observations on structure.

#### Maintaining flexibility

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

#### Information and communication

In our view, information and communication may best be addressed by incorporating relevant considerations directly into the other components of the SoQM due to their pervasive importance to the effective functioning of those other components. As the ED notes, the information and communication component is an "integral part" of the effective operation of the other components. For example, paragraph A69 gives examples of how responses within the information and communication component also address assessed quality risks in the relevant ethical requirements component. In our view, information and communication needs to be considered throughout the firm's SoQM. For each component/functional area of the firm's SoQM to function in the best interests of supporting quality, it is vital that effective communication and provision of information be embedded in the firm's processes.

In that context, we recommend that the matters addressed in the information and communication component could be more appropriately addressed within the standard through:

establishing overarching objectives addressing information and communication, potentially as part of the governance and leadership component; identifying risk factors (see our comments in response to question 6 on the design of the firm's risk assessment process) within each component linked to the critical role and purpose of effective information and communication in the successful functioning of that component; relocating and/or repositioning any required responses to better integrate with the purpose of those other components and the potential risks to be addressed.

In the event that this remains as a separate component, it will be important that this interrelationship - this pervasive foundational element to the effective operation of other components (as described in paragraph A135) - be reinforced, both within the standard and also through implementation support materials. As part of applying the firm's risk assessment process to the other components, it is important to think about the risks that may arise in relation to information and communication, rather than thinking about information and communication in isolation.

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## Files\\5. Public Sector Organizations

### Swedish National Audit Office

Our suggestion is to exclude risk assessment and monitoring from the components. These both components are more related to the process of QM itself while the other components are more substantially oriented.

We suggest a specific section that prescribes the whole process for identifying objectives, risk identification etc. Thereafter a section on the components. This would provide a clearer overview of the process and perhaps also a shorter Introduction (as some of the paragraphs could be moved to that “process section”, §10-12)

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We suggest a specific section that prescribes the whole process for identifying objectives, risk identification etc. Thereafter a section on the components. This would provide a clearer overview of the process and perhaps also a shorter Introduction (as some of the paragraphs could be moved to that “process section”, §10-12)

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

### European Federation of Accountants and Auditors for SMEs

While we support the proposed risk-based approach we suggest further refinement. Some components, such as ‘information and communication’, ‘monitoring and remediation process’, ‘governance and leadership’ and especially ‘risk assessment process’, may be better presented as over-arching factors. This would reduce the number of quality objectives, reduce cross referencing and simplify the structure and substance of the standard.

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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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### IFAC Small and Medium Practices Committee

The Committee is of the view that the current proposed risk-based approach with all the eight components can be further refined. For example, the establishment of a separate quality objective for “information and communication” in para 40 could be confusing. Information should be used to identify risks, assess risks, and address risks. Communication is a means of implementing policies and procedures, as well as being a risk response in and of itself. Hence, “information and communication” is relevant to all quality objectives, rather than being a stand-alone component. As such, SMPs may struggle to understand the rationale to require firms to establish quality objectives, quality risks and risk responses for this aspect. Similarly, establishing quality objectives for “monitoring and remediation” is equally confusing, because monitoring and remediation are an integral part of the firm’s QM process for each quality objective by element (or component). Hence, the need for such granularity is debatable. It could also be questioned whether the risk assessment process should be treated as a separate component, again for a similar reason.

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We believe that the current proposed risk-based approach with all the eight components warrants further examination based on our response to Question 1. Some may be better termed as “over-arching factors” rather than components. As indicated in our response to question 1, there is also a question whether it makes sense for the risk assessment process to be applied to the firm’s monitoring and remediation process (i.e. process on a process?).

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

IAB-IEC agrees with the eight components but does not agree with the structure of ISQM 1 (cfr. Question 1) (c)).

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## Institute of Singapore Chartered Accountants

As a matter of providing a logical flow to the standard, we consider that it may be more appropriate to include the firm’s risk assessment process, which explains the role of quality objectives, risks and responses, prior to the governance and leadership component. While we recognise the importance of the role of governance and leadership component with respect to the oversight of the system of quality management, we believe that reordering these components may aid understanding.

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## Nordic Federation of Public Accountants

We agree that information and communication are key matters in a robust quality management system, but we do not support having information and communication as a required stand-alone quality objective. In our opinion information and communication is a means, an ongoing-support system, to reach the objectives and it should not be an objective in itself. Hence, information and communication should be an integrated part of the other required quality objectives.

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We believe that the Information and Communication component should not be a stand-alone component, but rather be an integrated part of the other components.

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

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## Wirtschaftsprüferkammer

WPK at large supports the eight components and structure of ED-ISQM 1. Most of the components were part of ISQC 1. Nevertheless in our understanding the proposed components remain a mixture of real processes (e.g. Firm’s risk assessment process), content-related aspects (e.g. relevant ethical requirements) and preconditions to achieve the quality objectives (e.g. resources). We would suggest overthinking the components in order to make the concept more feasible, stringent and holistic. The concept should consider principle elements (esp. quality culture), core process elements (e.g. ethical issues, resources, risk management etc.) and supporting elements (esp. documentation, information and communication).

However we wonder if the components “Information and Communication” and “Risk assessment process” are separate components. They are in our view rather overarching parts of the firm’s quality management process. By including “Information and Communication” into one or more other components the complexity of the standard could be reduced easily and significantly without noticeable quality losses. The same is valid for the component “Monitoring and Remediation”.

Due to the fact that audit, review or other assurance engagements are people-business and that the performance of these services depends heavily on the outcome the elements “Engagement Performance” and “Resources” should be more emphasized.

It should be noted that especially small audit firms may not consider all of the components.

The problem we heard from our members (practitioners) with this approach is that detailed quality objectives might serve as a “catch all risk”, because even when firms comply with all the requirements of ISQM 1 they have to essentially reassess whether compliance with the requirements is given at any time. With the benefit of hindsight it cannot be ruled out that regulators might question the firms’ decisions when the firm assesses their risks in advance.

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As mentioned earlier we wonder if the components “Information and Communication”, “Risk assessment process” and “Monitoring and Remediation” are compelling separate components. By including them into one or more other components the complexity of the standard could be reduced easily and significantly without notice-able quality losses.

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Due to the fact that audit, review or other assurance engagements are people-business and that the performance of these services depends heavily on the outcome the both elements “Engagement Performance” and “Resources” could be more emphasized.

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The simplest and most effective way to reduce the complexity would be to reduce the number of components by putting them together. For example: the component “Information and Communication” contains elements of other components (esp. “Acceptance and Continuance” and “Engagement Performance”) and could be considered there. The component „Monitoring and Remediation“ is in our view not a separate but rather an overarching part of the firm’s quality management process. By doing so the complexity could be reduced easily and significantly without noticeable quality losses.

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## Nodes\\ED-ISQM 1\_Firm Level\04 Components and structure of ED-ISQM 1\5. Q4 - Unclear

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

#### Saudi Organization for CPAs

i observed that term governance would be enhanced by linkage to quality management reporting system , requiring segregation among those have operating responsibility and maintain this function should be clearly stated for firms involved in providing audit for publicly listed entities and setting its rule for other components separately, may be enhancement for governance in such entities will have pervasiveness effect over all other components so that I believe this area needs more improvements in form of required segregation , reporting's level , accountability to add value to the process

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