

ISQM 1: Nvivo Report – Question 6 and Related Subquestions

Nodes\\ED-ISQM 1_Firm Level\06 Risk assessment process will drive appropriate QO, QR and responses such that objective of standard is achieved\2. Q6 - Agree

Files\\3. National Auditing Standard Setters

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

We believe that application of a risk assessment process has the potential to drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

Hong Kong Institute of Certified Public Accountants

We believe the objective of the standard can be achieved as the risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, which consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives and designing and implementing responses to address the assessed quality risks.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

We do believe that the application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

Files\\4. Accounting Firms

CAS International

Response:

Yes. We agree and believe it will.

Deloitte Touche Tohmatsu Limited

Response: DTTL is supportive of the new quality management approach and believes, consistent with responses to earlier questions, that it provides a framework from which to substantively enhance firms' management of engagement quality. Further, we believe that application of a risk assessment process as intended by the Board will drive firms to establish quality objectives, risks, and responses appropriate to the nature and circumstances of the firm and the engagements it performs, facilitating achievement of the objective of the standard as articulated in paragraph 18 of ED-ISQM 1. See responses to the questions below for further considerations with respect to the firm's risk assessment process overall, as well as observations specific to quality objectives, quality risks, and responses.

EY Global Limited

Yes, we agree that the application of the risk assessment process as defined in ED-ISQM 1 requires firms to establish appropriate quality objectives, quality risks, and responses such that the objective of the standard may be achieved.

PKF International Limited

We believe that the application of a risk assessment process will generally drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

PKF South Africa

We believe that the application of a risk assessment process will generally drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

Files\5. Public Sector Organizations

Auditor General South Africa

Yes, we believe that the application of a risk assessment process will drive firms to establish quality objectives, quality risks and responses which are relevant to the nature and circumstances of the engagements that the firm performs, such that the objective of the standard is achieved.

Files\6. Member Bodies and Other Professional Organizations

CA Ireland

Yes, we believe that appropriate application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

California Society of CPA's

Yes.

Comision Interamericana de Control de Calidad de la AIC

Yes, we believe.

Comite Control de Calidad del ICPARD

Response: Yes, we do.

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

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks. The same rationale should be applied to the other components of the system of quality management. However, in CNDCEC's opinion, for each of the other components of the quality system, the quality objectives identified in the ED-ISQM 1 could be summarized and reduced, since they are too detailed.

Illinois CPA Society

Response: Yes, we believe following a risk assessment process will drive many firms to establish appropriate quality objectives based on this standard, but also should establish additional quality objectives beyond those required by the standard. We concur that the firm should understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives. However, some firms, particularly smaller ones due to lack of resources and/or cost concerns, may not actually follow the requirements close enough to drive the intended objectives.

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

Response: Generally, yes.

Institute of Chartered Accountants in England and Wales

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

Institute of Singapore Chartered Accountants

In general, we agree that the application of a risk assessment process will drive firms to achieve the objective of the standard and should be applied across all ISQM 1 components. However, the extent of application to each component may differ.

The Finnish Association of Authorised Public Accountants

We support the risk approach of the standard. However, the number of different objectives and responses makes the standard quite long and we are concerned that the quality management process and also the documentation requirements hence are too heavy for the SMPs.

Files\\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

Nodes\\ED-ISQM 1_Firm Level\06 Risk assessment process will drive appropriate QO, QR and responses such that objective of standard is achieved\3. Q6 - Agree but with further comments

Files\\2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

ED-ISQM 1 is silent as to when and how often firms need to modify quality objectives, quality risks or responses, as appropriate, in response to changes in the nature and circumstances of the firm or its engagements. We recommend that a requirement that firms reassess quality objectives at least twice annually be considered.

We believe that the proper understanding and application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses

Files\\3. National Auditing Standard Setters

AICPA

We believe the proposed risk assessment process can be effective, however as noted, only if enough implementation support materials are provided.

Institut Der Wirtschaftsprüfer

We do believe that the application of a risk assessment process would drive firms to identify appropriate quality risks and design appropriate responses to those risks, such that the objective of the standards is achieved. However, as we note in the body of our comment letter, the objectives set forth in the draft are too granular, and asking firms to design further objectives would make them far too granular, which defeats the purpose of the risk assessment process.

Saudi Organization for CPAs

I believe more analysis for the overall risk assessment process based on some specific areas from other literature or standards such as risk profile, appetite, tolerable risk attributed to components may enhance this approach for complex firms and increase effectiveness of risk management and its quantifications

Yes, I believe so, otherwise it may result in increasing in degree of judgment area, I believe if the followings are considered, more developments may be achieved and reducing of excessive judgement may be occurred: -

Include clear reporting system and clarify more clearly those who in charge of system

Using same criteria for risk assessment use in ISA 315 such as (what could go wrong, setting likelihood, magnitude)

Enhance such area by adding guidance for types of risks for each of the eight components and linkage them to the eight components of quality management with the appropriate responses will be very useful for that purpose although the accompanied questions, answers and examples were good guide

Yes, the I support with taking into consideration the deliberated results from Responses of other questions

Files\\4. Accounting Firms

BDO International

Part (a) Yes, in our view, successful application of a risk assessment process should enable firms to establish appropriate quality objectives, quality risks and responses. As ED-ISQM 1 sets out very clearly the starting point for a set of quality objectives within each of the components (and to an extent prescribes a set of responses), the real challenge for firms (and networks) will be (a) determining additional quality objectives that apply to their facts and circumstances, (b) identifying additional resources to successfully implement a risk assessment approach and (c) setting up processes, documentation and review tools.

Crowe Global

Response: A risk assessment process will result in firms establishing appropriate quality objectives, quality risks and responses. However, for objectives of the standard to be achieved it is essential that the IAASB delivers practical implementation guidance and is supported by national standard setters, oversight bodies and professional accountancy organisations. Outreach and practical presentation of the requirements are important.

ETY Global

Templates and illustrative examples on risk assessment component as well as Information and communication component.

Yes. Firm are already using enterprise risk management frameworks, and this new quality management approach lead them in a known environment where they used to have great achievements.

Kreston International

The firm's risk assessment process section could contain an explicit requirement to establish a risk assessment process.

Response: The appropriate application of a risk assessment process will drive firms to identify quality risks and responses. As noted previously the use of quality objectives as a term is potentially confusing and may make it difficult for firms to establish these appropriately.

Mazars

Response: Yes, if further guidance is provided on how to identify quality risks, which would ensure a consistent understanding in all firms.

Mazars USA LLP

Response: We believe the application of a risk assessment process will support the objective of ED-ISQM 1; however, more guidance is needed on how to establish quality objectives and identify and assess quality risks to increase consistency of application and reduce contradictions in communication.

Moore Stephens International

Response: Yes, but as noted above we have reservations about how well this will be achieved.

Nexia International

Conceptually YES but it is dependent on the size of firms, i.e. it is more challenging for SMPs.

RSM International Limited

Response: Yes but a comprehensive example will be crucial in this respect.

Files\5. Public Sector Organizations

Office of the Auditor General New Zealand

ED ISQM -1 does not prescribe the frequency of revisiting the appropriateness of risk assessments. We note this is subject to monitoring as part of ED ISQM 1 (para 44 (b)) but there is no further information about the scope and nature of this. The review of the output of the risk assessment process is likely to be reviewed as part of governance and leadership function but this is not explicit in the proposed standard.

We expect that the application of a risk assessment process will drive firms to establish quality objectives, risks and responses. Whether these are appropriate and achieve the objectives of the standard will depend on how well each firm applies the process and how much effort and attention are devoted to it.

Swedish National Audit Office

In general yew, but we also think that the standard could be more risk-based than it is now. The standard "serves" the firms with generic audit quality objectives and that is not always a good thing.

Files\6. Member Bodies and Other Professional Organizations

CPA Australia

Response: We support the risk assessment process as an effective approach to achieving the overall objective. However, we consider that the three-step process is not as clearly articulated in the requirements as it is in the explanatory memorandum and the introduction. The simple diagram of the process in that memo is helpful and should be included in the introduction or appendices to the standard. That process also needs to be more clearly reflected in the requirements under each component. The need to conduct a risk assessment is not actually stated under each component.

Institute of Chartered Accountants of Pakistan

We support the overarching principles of a risk-based approach in the risk assessment process. However, as mentioned earlier risk assessment would be challenging area especially for SMPs. Further, the involvement of judgment and subjectivity would increase the challenge and divergent approaches.

South African Institute of Chartered Accountants

We note the requirements included in paragraph 31 of ED-ISQM 1 for the firm to identify changes in the nature and circumstances of the firm or its engagements and modify the quality objectives, quality risks or responses, as appropriate in response to such changes. This however, does not provide a timeframe but merely states that the firm shall identify changes in the nature and circumstances of the firm or its engagements.

To this end, the one area where ED-ISQM 1 could perhaps be clearer relates to how frequently the firm is required to proactively identify changes in the nature and circumstances of the firm or its engagements that may require changes to the quality objectives, quality risks or responses.

Paragraph 56 of ED-ISQM 1 requires the individual ultimately responsible and accountable for the SOQM to evaluate whether the SOQM provides reasonable assurance that the objectives of ED-ISQM 1 have been achieved at least annually. In line with this requirement, it is recommended that ED-ISQM 1 require the firm to proactively assess whether there has been a change in the nature and circumstances of the firm or its engagement at least annually. In addition for the firm to perform an annual assessment, it is recommended that the standard also include criteria for changes in nature and circumstances of the firm or its engagement where the firm is required to perform an assessment of the quality objectives, quality risks or responses.

It is generally recognised that it will take time for firms to establish the objective, identify the risks and develop the related responses. Firms consulted with indicated that the concept behind this process is something that the majority of firms are familiar with and should therefore result in appropriate quality objectives being established, quality risks identified and appropriately responded to, such that the objective of the standard is achieved.

Paragraph 56 of ED-ISQM 1 requires the firm to undertake an evaluation of the SOQM at least annually, or more frequently, as may be required. As part of this requirement, it is not clear as to whether firms are required to reassess the established quality objectives and related quality risks on an annual, or more frequent basis, as necessary as part of this process.

In continuing with the requirement for the firm to reassess the established quality objectives and related quality risks, with respect to the requirement for the firm to apply a risk-based approach in the designing, implementing and operating a SOQM that take into account the nature and circumstances of the firm and the engagements performed, the standard is not clear in terms of when a firm is required to reassess the established quality objectives. ED-ISQM 1 needs to clarify when a firm is required to reassess the established quality objectives and related quality risks. Either paragraph 56 of ED-ISQM 1 needs to be clear in stating that the evaluation of the SOQM includes such a reassessment or a separate, specific requirement be included. At a minimum, the firm should be required to perform an annual evaluation of the appropriateness and completeness of the firm's quality objectives. In addition, the firm should be required to reassess the established quality objectives when there is a change in the nature and circumstances of the firm or the engagements that it performed.

Nodes\ED-ISQM 1_Firm Level\06 Risk assessment process will drive appropriate QO, QR and responses such that objective of standard is achieved\4. Q6 - Disagree

Files\3. National Auditing Standard Setters

New Zealand Auditing and Assurance Standards Board

As noted above, a response may relate to more than one risk and more than one objective. Mapping this “spiderweb” of objective, risk and response may be time consuming and challenging in practice. We encourage the use of implementation guidance to illustrate how such documentation could be prepared, and from our outreach we consider this would be well received and reinforce the need for flexibility in the approach (i.e., any guidance may have to demonstrate a multiple of ways that this could be achieved).

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.

We are particularly concerned that a risk assessment process that requires intensive resources for a smaller firm may be overly burdensome, and therefore not result in the firm identifying appropriate objectives, risks and responses. We consider significant implementation support will be needed to assist SMPs in this task, and also to enable regulators to carry out efficient and effective file reviews.

Files\\4. Accounting Firms

Baker Tilly International

Response: Given that the standard requires the firm to identify quality objectives, risks and responses, we do believe that this will drive firms to identify these three factors. However, whether these objectives, risks and responses will be sufficient to prevent adverse audit findings and audit failures in and of themselves is doubtful. The vast majority of such findings relate to issues on specific audits, often arising due to “human” failings rather than systematic failings of the firm’s quality systems.

MGI Worldwide

These components are to be managed by establishing quality objectives, some of which are required in the standard and others are to be determined for the specific circumstances of the firm (paragraph 10(a)). There are required responses to each of the objectives and firms will also need to assess whether there are specific objectives and responses that need to be added to reflect the risks for their specific business (paragraph 10(c)). Setting out required objectives and responses may mean firms focus only on these requirements so that a “minimum” level of compliance is achieved, this is especially the case in SMPs which may lack the time/expertise to be able to risk assess their firms and design appropriate responses. The application material and examples from IAASB will be essential to assisting firms here.

Files\\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

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

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

Option to Improve Scalability – Scaled back SQM

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

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

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

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

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

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

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the overarching principles of a risk-based approach in the risk assessment process.

However, as noted previously, APESB is of the view that although the proposals seek to promote professional judgement and scalability, we believe they are highly prescriptive.

Firms are required to identify and assess quality risks to quality objectives being achieved and then design and implement responses to address the assessed quality risks. As responses are stipulated in the standard, firms may tailor quality risks to these responses, preventing them from undertaking a proper risk assessment based on the nature and circumstances of the firm and its engagements.

European Federation of Accountants and Auditors for SMEs

While the application of a risk assessment process has the potential to drive the quality of services rendered by firms, we believe ED-ISQM 1 will need extensive modification before it can realize this potential.

Institute of Chartered Accountants of Scotland (ICAS)

We have concerns that the process for the identification and assessment of quality risks is very onerous and, to some extent, too prescriptive. This creates the risk, specifically in smaller firms, of them failing to fully understand the underlying concept of what is required and therefore, by default, adopting an approach which is too burdensome. Accordingly, this may inhibit the perceived ability of such firms to tailor the quality management system to the firm’s specific requirements.

Wirtschaftsprüferkammer

The interests of audit firms who do not conduct audits of “listed entities or entities that are of significant public interest” in an appreciable extent are not adequately considered in our view.

The firm’s risk assessment process is over-engineered and too complex for these audit firms. As a consequence they may struggle in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for all quality risks.

Therefore we urge the IAASB to reconsider the amount and extend of the elements in order to make the approach more feasible (see Question 4).

Moreover the threshold must be defined clearly and distinct across all jurisdictions wherever the standards are applied and should be adjusted to an “acceptably low Level”.

Nodes\\ED-ISQM 1_Firm Level\06 Risk assessment process will drive appropriate QO, QR and responses such that objective of standard is achieved\5. Q6 - Unclear

Files\\3. National Auditing Standard Setters

Chinese Institute of Certified Public Accountants

ED-ISQM 1 only indicates that risk assessments are both ongoing and periodic. The riskbased approach is a key concept of the standard, and risk assessment process is a significant component of the quality management system. Thus, we recommend more guidance. For example, is there any further guidance on the frequency of risk assessment? Should firms take any additional and specific risk assessment procedures with comprehensive consideration of factors such as frequency and severity of defects?

Files\\5. Public Sector Organizations

International Organization of Supreme Audit Institutions

The concept of operating a quality management framework commensurate with the risks is a rather obvious approach, and one which seems naturally in the interests of audit firms. In order to know if the new approach will work it is necessary to know why the past failures happened. Is it because of or despite the extant ISQC1 and ISA200?

Files\\6. Member Bodies and Other Professional Organizations

Accountancy Europe

We think that application of a risk assessment process has the potential to drive firms to establish quality objectives, quality risks and responses, such that the firm is able to deliver quality.

The language is clear, but there is a way to go before this potential is achieved. Based on the comments made above, we are not confident that the application of ISQM 1 as drafted will drive consistency around the globe.

Chartered Accountants Australian and New Zealand and ACCA

more guidance is needed on how to document such a flexible and interrelated matrix of objectives/risks/responses where risks may map to one or multiple objectives and responses may map to one or multiple risks.

Nordic Federation of Public Accountants

This is the crucial part of the process that will most likely also take a lot of time. We are concerned that it might result in a lot of documentation.

Nodes\\ED-ISQM 1_Firm Level\\06(a) FRAP applies to other components\\2. Q6(a) - Agree

Files\\2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

We agree that the firm's risk assessment process is to be applied to the other components of the system of quality management.

Files\\3. National Auditing Standard Setters

AICPA

We agree the firm's risk assessment process should be applied to the other components of the system of quality management.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes, we support this approach. This will cause firms to assess key areas and risks, directing efforts to the components that are most relevant for the circumstances and nature, and may even create new components.

Hong Kong Institute of Certified Public Accountants

We consider it will be more effective to adopt a consistent approach if the firm's risk assessment process is applied to the other components of the system of quality management.

Japanese Institute of CPAs

We agree that the firm's risk assessment process should be applied to the other components of the system of quality management.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: Yes, we agree.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

We do agree that the firm's risk assessment process should be applied to the other components of the system of quality management. However, based on feedback obtained from smaller practitioners, we would appreciate more implementation guidance on the application of the provisions.

Royal Nederlandse Beroepsorganisatie van Accountants

We agree. The

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.

Baker Tilly Virchow Krause LLP

Yes, we agree that the firm's risk assessment process should be applied to the other components of a firm's system of quality management.

BDO International

In our view a dynamic risk assessment process is critically important to provide for a successful system of quality management and we do support having this apply across the other components (although, see our response to Question 4 above). The elements of ‘establish quality objectives’, ‘identify and assess quality risks’ and ‘design and implement responses’ within this process appear to be logical and have applicability across each component. We also support the flexibility provided to firm decision-makers as outlined in A48 that the risk assessment process may be applied individually to each component, or the process may be applied to individual business units or service lines. A risk-based application allows firms to tailor their systems of quality control to allocate resources to areas of greatest risk to achieving the quality objectives.

CAS International

Response:
Yes. We do agree.

Crowe Global

Response: We agree that the firm’s risk assessment process should be applied to the other components of the system of quality management.

Deloitte Touche Tohmatsu Limited

Response: While recognizing that the approach a firm takes to the risk assessment process may vary, DTTL agrees that a firm’s risk assessment process should be applied to the other components of the system of quality management.

Duncan and Topliss

(a) Yes, it should (at least could) be applied to all 8 components identified and any other quality management objectives identified.

ETY Global

Yes, for global and overall consistency

Grant Thornton International Limited

We agree that the firm’s risk assessment process should be applied to the other components of the system of quality management.

Haysmacintyre LLP

Responses: yes to all above questions.

KPMG IFRG Limited

Yes, we agree that the firm’s risk assessment process should be applied to the other components of the SoQM. As mentioned in our overarching comments, a risk-based approach provides for scalability and designing a SoQM that responds to the circumstances of the particular audit firm.

Kreston International

Response: Yes, the risk assessment process should be applied to other components.

Mazars

Response: Yes, we agree.

Mazars USA LLP

Response: Yes, we agree the firm's risk assessment process should be applied to the other components of the system of quality management.

Moore Stephens International

Response: We do, this is one of the reasons why we believe the risk assessment should be regarded as primus inter pares.

Nexia Smith & Williamson

Yes, we agree.

PKF International Limited

We agree that the firm's risk assessment process should be applied to the other components of the system of quality management.

PKF South Africa

We agree that the firm's risk assessment process should be applied to the other components of the system of quality management.

RSM International Limited

Response: Yes

Files\\5. Public Sector Organizations

Australasian Council of Auditors General

Yes, ACAG supports the application of the risk assessment process across the components of the system of quality management. A risk-based approach to quality management should result in tailored responses that address the risks and circumstances of each firm.

International Organization of Supreme Audit Institutions

Yes, we consider that the risk assessment process should apply to all components of the system of quality management.

National Audit Office of Malta

Yes.

Office of the Auditor General of Canada

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.

Provincial Auditor Saskatchewan (1)

Yes, we agree with applying the firm's risk assessment process to the other components of the system of quality management.

Swedish National Audit Office

Yes.

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 agree the risk assessment process should be applied to the other components of the system of quality management.

CA Ireland

Yes, this approach provides firms with a methodology to work within to ensure that quality objectives, quality risks and responses have been identified. Further guidance could be provided through the publication of more questions and answers which should be regularly updated. We would support the development of guidance material similar to the FRC Staff Education Notes. The scope and authority of all guidance material need to be clearly defined.

California Society of CPA's

Yes.

Center for Audit Quality

We agree the firm's risk assessment process should be applied to the other components of the system of quality management.

Comite Control de Calidad del ICPARD

Response: Yes we do, plus the suggested, simple and practical guide should draw up guidelines for its proper application.

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

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks. The same rationale should be applied to the other components of the system of quality management. However, in CNDCEC's opinion, for each of the other components of the quality system, the quality objectives identified in the ED-ISQM 1 could be summarized and reduced, since they are too detailed.

Illinois CPA Society

Response: Yes, we believe that firm's risk assessment should be applied to the other components of the system of quality management.

Institute of Chartered Accountants in England and Wales

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.

Institute of Chartered Accountants of Pakistan

We support IAASB's proposal but we are concerned that it will not be an easy task for firms to apply risk assessment process to other components of the system of quality management.

Institute of CPAs of Uganda

ICPAU agrees with the proposal to apply the risk management process to all components of the quality management system because it is the only way through which risks to quality in the other components will be quickly identified and addressed. This will also create the situation where all the components work together to ensure production of good quality engagements a trait that was lacking in the extant ISQC 1 whose components appeared rather disconnected.

Institute of Independent Auditors of Brazil (IBRACON)

Yes. It is necessary to highlight the importance in driving improvement in the quality of audit services through a combination of prevention, detection, deterrence and remediation, though some concern (scalability) that it may become an 'exercise', losing the key goal by focusing too much on the process. Another view is that it may in practice increase the checklist approach given the likely increase in controls that would result.

Instituto de Censores Jurados de Cuentas de España

Yes. It is reasonable that this approach is applied to the whole standard and therefore it be applicable to other components of the system.

Malaysian Institute of CPAs

Yes

National Association of State Boards of Accountancy

As we noted in a previous comment, 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.

Royal Institute of Chartered Surveyors

Yes, we agree that the firm's risk assessment process should be applied to the other seven components of the system of quality management because a firm can use this process in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for the other seven components.

South African Institute of Chartered Accountants

SAICA agrees that the firm's risk assessment process should be applied to the other components of the SOQM.

Files\\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

We agree that the firm's risk assessment process should be applied to other components of the system of quality management. The two-step process of preliminary consideration and more detailed consideration in the risk assessment process will adequately assist in identifying appropriate responses to the risks and the objective of the standard is met. If we apply the risk assessment process to all components it will be beneficial in meeting quality management by the firm, for example, the merit in assessing risks associated with resources or communication will provide insight to the firm of the possible dangers and appropriate actions can be taken to achieve quality

Nodes\\ED-ISQM 1_Firm Level\06(a) FRAP applies to other components\3. Q6(a) - Agree but with further comments

Files\\2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

The risk assessment provides the context for designing the policies and procedures necessary to reduce the risk of not meeting those quality objectives to an acceptably low level, and therefore should be applied to all components of the system of quality management. We also agree that it is appropriate that the firm applies the risk identification assessment process to quality objectives within the risk assessment component to ensure that, among other things, the process is structured in a practical and disciplined fashion, is sustainable and is performed by people with the right skills, knowledge and experience.

Files\\4. Accounting Firms

EY Global Limited

We also agree that the firm's risk assessment process should be applied to all components of the system of quality management. We believe the concepts included in paragraph 26 of the explanatory memorandum that the risk assessment process may be applied in a variety of ways should also be included in paragraph A48 of the application material to provide further clarity on how the risk assessment process may be performed.

Files\\5. Public Sector Organizations

Auditor General South Africa

Yes, we agree that the firm's risk assessment process should be applied to the other components of the system of quality management. It is also important for the IAASB emphasise that the risk assessment can be a stand-alone or incorporated in each of the other elements.

Files\\6. Member Bodies and Other Professional Organizations

Comision Interamericana de Control de Calidad de la AIC

Yes, we agree, in addition the practical and simple guide suggested should draw guidelines for its proper application.

CPA Australia

Response: We agree with the risk assessment process being applied to the other components, so that the responses can be focused on the risks relevant to the firm.

The standard needs to reinforce that the firm's risk assessment process component overlays the quality management process for the other seven components. The firm's risk assessment process component needs to be more clearly linked to the establishment of quality objectives, identification of quality risks and design and implementation of responses under each of the seven other components. We suggest that the requirements for this component need to be included as the first component after paragraph 22, as it provides the process for all of the other components. In addition, this link needs to be made clearer in paragraph 26. The requirement could be expanded as underlined: "The firm shall establish the quality objectives for each component of the system of quality management, including the quality objectives required by this ISQM."

Institute of Singapore Chartered Accountants

In general, we agree that the application of a risk assessment process will drive firms to achieve the objective of the standard and should be applied across all ISQM 1 components. However, the extent of application to each component may differ.

In particular, we feel that the level of understanding required for components Information and communication and Monitoring and remediation may not necessitate as rigorous and detailed risk assessment as compared to the other components. In this respect, the guidance is not clear on the scalability of the risk assessment process when applied to each component. If such process is required to be applied across all components, the guidance should be expanded to explain how the application can be managed in respect of these two components.

Nodes\\ED-ISQM 1_Firm Level\06(a) FRAP applies to other components\4. Q6(a) - Disagree

Files\\3. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

As we stated in our response to Question 4, in our view, the system of quality management has 6 components and 2 processes, not 8 components. We agree that the risk assessment process should be applied to the 6 components (governance and leadership, relevant ethical requirements, acceptance and continuance, engagement performance, resources and information and communication).

Chinese Institute of Certified Public Accountants

It is also confusing that ED-ISQM 1 requires that firm's risk assessment process should be applied to the other components of quality management system while COSO framework does not have such requirements

Institut Der Wirtschaftsprufer

No, we do not agree that the firm's risk assessment process should be applied to the other components of the system of quality management. As can be seen from part 4.1 of the body of our comment letter, the foundation and support processes are not subject to risk assessment: only the items 3.1. to 3.5. are subject to quality risk assessment. The other items, however, are subject to monitoring and remedial action should deficiencies be detected through monitoring or other sources.

New Zealand Auditing and Assurance Standards Board

No, not necessarily. The NZAuASB considers the risk assessment process should be applied to the identified quality objectives, given that the quality risks and responses relate to the objectives rather than the components. This may assist in further emphasising the integrated nature of the risk assessment process.

The risk assessment process does not appear as relevant to the monitoring and remediation component. Rather the identification of a deficiency helps to inform the application of the risk assessment process to the other quality objectives, (i.e., to identify missing objectives, risks or responses, etc).

Files\4. Accounting Firms

MNP LLP

We agree that the firm’s risk assessment process should be applied to most of the components. However, in our view, the “Resources” and “Information and Communication” and even “Monitoring and Remediation” components are supporting activities to the other four components and the required actions required will flow from the objectives and risks identified during the “Governance and Leadership”, “Relevant Ethical Requirements”, “Acceptance and Continuance” and “Engagement Performance” assessments. As such, in our view, it is not necessarily required to undertake a risk assessment on the supporting components

PriceWaterhouseCoopers

Information and communication and monitoring and remediation (refer to our response to question 6(a): We do not believe these components should be subject to the full risk assessment process and have suggested an alternative approach.

Risk assessment process - We find the proposed two-step approach to identifying and assessing risks to be confusing and recommend that the Board reconsider it. The standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome. We provide further details in our response to question 6(c). In addition, similar to our suggestion with respect to the information and communication component, we also suggest that the Monitoring and Remediation component needs to be considered differently. We offer an alternative approach to addressing this component in our response to question 6(a).

The manner in which the risk assessment process is applied to each component may differ depending on the nature of the component. Further to our comments in response to question 4, the information and communication and monitoring and remediation components should not, in our view, be subject to the firm’s risk assessment process, in the same manner as other components. For example, while the risks associated with ineffective provision of information or communication need to be assessed, such risks should be identified (and responded to) through each of the other relevant components, due to the pervasive nature of information and communication, as described in our response to question 4. In addition, given the unique nature of the monitoring and remediation component, it is less well-suited to defining specific quality objectives, risks and responses. As the many detailed requirements illustrate, this component represents activities a firm has to put in place and execute (similar to responses). Because of the level of specificity of the responses in the standard, we do not consider it necessary to specifically identify quality risks arising from this component and believe that doing so will result in a level of circularity with the prescribed responses - the primary risk being that the required response has not been put in place or executed appropriately. Many specific monitoring activities, to us, also represent responses to risks that may have been identified in other components. To subject those to a further level of risk assessment does not seem logical. We suggest that it would be more appropriate to:

- Describe an overall objective for what monitoring and remediation activities as a whole are trying to achieve;
- Identify higher-level risk factors to be assessed, focused on the design and completeness of monitoring and remediation activities and resources needed (see our responses to questions 6(b) and (c) below on risk factors). This would include risk factors that address some of the requirements identified in the ED, including making sure individuals who are competent, capable, and that have sufficient time to perform the monitoring activity, are assigned to those activities;
- Not require a more granular risk assessment related to the execution of the specific monitoring activities; and
- Include consideration of whether certain monitoring activities, for example, engagement level reviews, have been appropriately designed and implemented to meet the overall objective.

By way of example, a firm may have in place a monitoring activity that monitors whether training has been completed by the required target audience. This monitoring activity is also a response to an assessed quality risk around having competent and capable personnel within the Resources component. In our view, it does not make sense to assess the risk that this monitoring activity is not effective separately from what that response is trying to achieve.

Files\6. Member Bodies and Other Professional Organizations

Chartered Accountants Australian and New Zealand and ACCA

We support that the firm’s risk assessment process should be applied to the other components of the system of quality management with the exception of the monitoring and remediation component which we do not support.

European Federation of Accountants and Auditors for SMEs

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.

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.

IFAC Small and Medium Practices Committee

The SMPC is of the view that the ED is over-engineered and too complex for many smaller SMPs that do not undertake audits of listed companies or entities of significant public interest. As previously mentioned, amongst other things, SMPs may struggle to understand the rationale of establishing quality objectives, quality risks and risk responses for the “information & communication component” as information, rightfully, should be used to identify risks, assess risks and address risks. Communication, on the other hand, is a means of implementing policies and procedures as well as being a risk response in and of itself. Our responses to Question 1(b) and (c) above may provide some solutions to this. The fact that the threshold for risk identification is potentially too low is a further key concern in this context.

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?).

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.

Nodes\ED-ISQM 1_Firm Level\06(a) FRAP applies to other components\5. Q6(a) - Unclear

Files\3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports the application of a risk-based approach to quality management, however the AUASB is not supportive of the standard in its current form. The AUASB considers the proposed standard to be a hybrid of risk-based quality management while retaining a granular level of prescription, thereby undermining a proper application of a risk-based approach. The main theme expressed by Australian stakeholders throughout the AUASB’s outreach on ISQM 1 was related to its overall size and level of granularity. 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.

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

We agree with this statement. We consider that the paragraphs 10 (c) and A59 are clear.

“However, the responses required by this ISQM alone will not be sufficient to address all of the firm’s assessed quality risks, as explained in paragraph 10 (c). Accordingly, the firm is required to design and implement responses in addition to those required by this ISQM.” (cf § A59 of the proposed standard)

Saudi Organization for CPAs

Of course, the risk assessment should be applied to the eight components of quality management , but we believe that the process itself should have specific procedures which varies depend on component importance and pervasiveness , severity of risk attributed to each component . using procedures designated for that purpose and for the process of risk management itself should be part of governance and leadership 's responsibilities while for that purpose I believe we need more improvements for governance in ISQM ,importance of the risk assessment procedure or step depend on relevancy of each component to risk that may vary as likelihood and significance expectation derived from monitoring results . Monitoring may have role for evaluating effectiveness and adequacy of performed procedure relevant to type of risk for each component and for engagement

Files\\4. Accounting Firms

MGI Worldwide

Response

There will be a risk that firms may only apply the required responses for the eight components and the associated quality risks but the application of the risk assessment process across all components (properly applied) should enable a more tailored management approach to quality.

Files\\5. Public Sector Organizations

Office of the Auditor General New Zealand

ED-ISQM-1 does not clearly set out that this should be applied to the other components of the system of quality management.

Office of the Auditor General of Alberta

Response: A firm’s risk assessment process should revolve around the firm’s enterprise risk management (ERM). ERM frameworks, such as COSO, enable the firm to incorporate quality management within the ERM.

US Government Accountability Office

We note that under the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control- Integrated Framework¹ and GAO’s adaptation of the COSO framework for the government environment, Standards for Internal Control in the Federal Government,² the control environment component, which most closely aligns to the governance and leadership component of ED-ISQM 1, has a pervasive effect on the overall system of internal control and is the foundation for an internal control system. We do not believe that governance and leadership of a firm should be exempt from the scrutiny of a risk assessment. However, if the governance and leadership of a firm is deficient, it is less likely that the firm will initiate an effective risk assessment process and meet the quality management objectives. This risk may be heightened for governmental audit organizations, for which there may be no separation between governance and leadership and the individual who is assigned responsibility for the quality management system.

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: IAB-IEC believes that this should be investigated further.

Nodes\ED-ISQM 1_Firm Level\06(b) & 6(b)(i) Approach for establishing quality objectives\2. Q6(b)&6(b)(i) - Agree

Files\2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

We strongly support the quality objectives that are required for each component, and agree that those quality objectives, when achieved, collectively should provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.

We acknowledge that the quality objectives in ISQM1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved.

Files\3. National Auditing Standard Setters

AICPA

We believe that the required quality objectives are appropriate. [See specific comments on certain quality objectives in “Paragraph-level comments” below].

Canadian Auditing and Assurance Standards Board

Yes. We believe the quality objectives identified are appropriate.

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

We support the approach for establishing quality objectives. In particular, we consider that the required quality objectives are appropriate.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes, as minimum objectives, the requirements of paragraphs 23, 32, 34, 38, 40 and 42 are appropriate. However, the firm may establish additional quality objectives when necessary.

Hong Kong Institute of Certified Public Accountants

In general, we consider the required quality objectives are appropriate

Japanese Institute of CPAs

We agree with the proposal.

Files\\4. Accounting Firms

Baker Tilly International

Response: We support the approach of including required quality objectives in the standard. However, it is not clear how a firm might go about establishing any additional quality objectives over and above those required by the standard. (See comments below).

CAS International

Response:
Yes, we support.

Response:
Yes. Appropriate.

Crowe Global

Response: The required quality objectives are appropriate.

Deloitte Touche Tohmatsu Limited

Response: DTTL is supportive of the outcome-based nature of the quality objectives and believes that the required quality objectives are appropriate. In addition, we are supportive of the flexibility provided within the standard whereby firms may decide that more granular quality objectives than those set out in the proposed standard are appropriate to enhance the identification and assessment of quality risks.

Response: DTTL is supportive of the approach for establishing quality objectives, including the inclusion of quality objectives that all firms are required to establish, as well as the requirement for firms to establish additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard.

Duncan and Topliss

(b) Yes, to all three questions. Establishing quality objectives leads to a focussed approach of establishing the objectives, assessing the objectives for risks, then responding to those risks. From earlier answers we clearly understood that additional objectives are expected to be established.

ETY Global

Yes, for an integrated quality management system. It clear that additional quality objectives can be established.

Grant Thornton International Limited

We agree that the quality objectives established by ED-ISQM 1 are appropriate.

Haysmacintyre LLP

Responses: yes to all above questions.

KPMG IFRG Limited

Yes, we believe the required quality objectives are appropriate. They cover the aspects of the SoQM in sufficient detail and are equally applicable for larger audit firms and smaller audit firms.

Mazars

Response: Yes, see below

Response: Yes, they appear appropriate on review and we note a firm's response to these is scalable based on the firm's size and audit and assurance offerings.

Mazars USA LLP

Response: Yes, the quality objectives are appropriate.

Response: Yes, we support the approach for establishing quality objectives.

MGI Worldwide

Response
Yes

MNP LLP

Yes, the required quality objectives are appropriate.

Moore Stephens International

Response: We do

Response: Yes

Nexia Smith & Williamson

Yes, we believe that these are appropriate.

PKF International Limited

In our view the required quality objectives are appropriate.

We generally support the approach in ED-ISQM 1 for establishing quality objectives.

PKF South Africa

We generally support the approach in ED-ISQM 1 for establishing quality objectives.

The required quality objectives are appropriate.

Files\\5. Public Sector Organizations

Auditor General South Africa

The required quality objectives in paragraph 23, 32, 34, 36, 38, 40 and 42 of the ED-ISQM 1 are appropriate in addressing the aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management.

Yes, we support the approach for establishing quality objectives.

Australasian Council of Auditors General

ACAG supports the concept of establishing quality objectives.

International Organization of Supreme Audit Institutions

Yes, we support the approach.

National Audit Office of Malta

Yes.

Office of the Auditor General New Zealand

We believe that the 29 quality objectives in the proposed standard are appropriate. We note there are no quality objectives relating to the appropriateness of the firm's training to staff and the evaluation of the effectiveness of this. However, we note the resources component assumes they are sufficiently trained per paragraph 38 (a) of ISQM1.

Office of the Auditor General of Canada

We support the required quality objectives which are derived, in part, from extant ISQC 1. The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.

Provincial Auditor Saskatchewan (1)

Yes, the required quality objectives seem appropriate.

US Government Accountability Office

We believe that the quality objectives are appropriate.

Files\\6. Member Bodies and Other Professional Organizations

CA Ireland

Yes. the quality standards set out under each of the components appear appropriate.

Center for Audit Quality

The required quality objectives are appropriate. We suggest the Board consider ways to assess the appropriateness of the required quality objectives through post-implementation review activities.

Comision Interamericana de Control de Calidad de la AIC

Yes, they are appropriate.

Yes, we support it.

Comite Control de Calidad del ICPARD

Response: Yes, they are.

Illinois CPA Society

Response: We believe a risk-based approach established by the firms' governance and leadership component is appropriate for establishing quality objectives.

Response: Yes.

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

Response: The objectives are appropriate.

Response: IAB-IEC supports the approach for establishing quality objectives as designed in ISQM 1.

Institute of Chartered Accountants in England and Wales

The required quality objectives seem reasonable.

Institute of Chartered Accountants of Pakistan

We support the approach for establishing quality objectives but it will be very judgmental to select a threshold for identifying quality risks. Further, even after selecting a threshold, determining certain areas as high risk or low risk is also judgmental. Further, the scalability would be a challenge.

Yes.

Institute of Independent Auditors of Brazil (IBRACON)

Yes and it is easier to capture the quality objectives, as they are the first paragraph of each component.

Instituto de Censores Jurados de Cuentas de España

Quality objectives defined in Paragraphs 23, 32, 34, 36, 38, 40 and 42 are appropriate to achieve the objective of the standard as described in Paragraph 18.

Malaysian Institute of CPAs

(i) Yes

Royal Institute of Chartered Surveyors

The quality objectives are described at a high level in ED-ISQM 1, and provides 'flexibility' to recognize quality objectives based on a particular division/unit or by the nature of the engagements or by industry according to the entities for whom engagements are performed. Thus, we believe the required quality objectives are appropriate and reasonable.

Self-Regulatory Organization of Auditors Association

Yes

Files\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

The quality objectives are appropriate as they provide adequate guidance on the specific level of quality required to meet the objective, that is, what are you measuring, the target goals, how they are recorded and reviewed. Given that firms vary in terms of the engagements they perform, this requirement will also assist adaptability to a changing environment.

Yes

Nodes\ED-ISQM 1_Firm Level\06(b) & 6(b)(i) Approach for establishing quality objectives\3. Q6(b)&6(b)(i) - Agree but with further comments

Files\1. Monitoring Group

International Forum of Independent Audit Regulators

The IAASB should also develop requirements to support additional or more granular objectives being set to support the subsequent risk identification and response assessment processes.

Files\2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

Quality objectives

Firms are required to establish quality objectives, but the attributes of quality objectives are not defined, and the quality objectives that are identified are set out in general terms. The IAASB notes that "some firms may identify high-level objectives that may be as effective in providing a basis for the identification and assessment of quality risks as firms that choose to establish more granular objectives." (p.12) In our view, without clear guidance, firms may find it challenging to define their objectives and practically identify their related risks.

COSO notes that objectives that are suitable should be specified “so that risks to the achievement of such objectives can be identified and assessed. Specifying objectives includes the articulation of specific, measurable or observable, attainable, relevant, and time-bound objectives.” (p.6)

We recommend that the IAASB revise its draft to set out clear guidance on how these objectives should be defined and encourage the use of the concepts from COSO.

Independent Regulatory Board for Auditors (South Africa)

Although we agree with the principle of establishing quality objectives, we recommend that the process to establish quality objectives be clarified. This could possibly include a decision-making framework, or “factors to consider”, on how to establish additional quality objectives, either as clarified requirements or additional application material. Populations, boundaries and thresholds could be considered in this context. The risk that a significant quality objective is not identified should be mitigated. We encourage the IAASB to also develop requirements to support having more detailed, subdivided and specific quality objectives being set by firms. These more granular quality objectives will provide a better foundation for quality risk identification and assessment and responses to be developed.

Scalability has been introduced by using the phrase “when those objectives are necessary to achieve the objectives of this ISQM” in paragraphs 10 and 26 of ED-ISQM 1. It is not clear what is meant by this condition, when it will be applicable and how the correct application will be measured. Where quality objectives (or quality risks or responses) are conditional, we suggest that this be clear, with further guidance clarifying when a quality objective may not be necessary, in order to avoid having firms use the condition as a loophole.

We believe that the required quality objectives are appropriate.

Files\\3. National Auditing Standard Setters

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

The required quality objectives are appropriate. However, it would be useful if more granular quality objectives and responses for smaller firms are provided. With this, smaller firms will be able to understand better what is required of them and therefore it will ensure that the objectives of the standard are achieved.

Yes, we do support the approach for establishing quality objectives.

Files\\4. Accounting Firms

BDO International

Part (b) The approach for determining quality objectives (as set out in paragraphs 27-30 of the ED-ISQM 1 Explanatory Memorandum) appear to be clear. We encourage the IAASB to capture this content (particularly the diagrams and supporting material) within further implementation materials (either in slide decks, videos, or ‘how to’ concepts within FAQs). We also acknowledge the additional clarification contained within FAQs 3 and 4 on the concept of a risk assessment process.

With respect to the quality objectives outlined in paragraphs 23, 32, 34, 36, 38, 40 and 42 of ED-ISQM 1, we are broadly supportive of the nature and extent of these objectives – recognising that they are designed to be outcome-based with the ability of the firm to determine how they may be achieved. While we support the emphasis placed on culture, leadership and assignment of roles in other requirements, we note that these are all described in terms of ‘the firm’ within paragraph 23. This could give the impression that leadership qualities at the engagement level are not as important in driving quality. We also note that it might help to be more explicit about ‘who’ is responsible for the risk identification and assessment process.

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

EY Global Limited

We support the approach for the standard to include required quality objectives and the quality objectives identified in the standard generally seem appropriate and if achieved, should collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.

Since the firm is responsible for the system of quality management, we observe that the quality objectives in paragraphs 38(d) and 38 (g) in the 'Resources' component and all the quality objectives in the 'Engagement performance' component are not worded as actions of "The firm..." Instead, the quality objectives noted above in the 'Resources' component and all of the quality objectives within the 'Engagement performance' component are directed at personnel or engagement teams. This seems contradictory to both the objective of the standard, which is directed at the firm, as well as to most of the other quality objectives in ED-ISQM 1. Therefore, we recommend these quality objectives be rewritten to require action by the firm to clarify that the responsibility for achieving all the quality objectives lies with the firm.

Kreston International

Response: Subject to the concern regarding the term quality objectives the approach is appropriate.

Response: The quality objectives are generally appropriate. The engagement performance objectives are not clear as the overall objective of the ISQM is broadly to ensure engagements are performed appropriately.

Nexia International

Nexia International supports the approach because identification of QOs is a precondition for scalability. However, smaller firms would worry about not complying with all the QOs, but they could justify not doing something.

YES

Files\\5. Public Sector Organizations

Office of the Auditor General of Alberta

Response: No, we do not agree or believe that the risk assessment process will "drive" firms to establish appropriate quality objectives. Our view is that the standard provides an appropriate framework to help a firm establish quality objectives. A firm and the firm's leadership must first be committed to quality. Without this commitment, a risk assessment process will not have a significant impact on quality.

Response: We support the quality objectives in ED-ISQM 1.

Files\\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

Reduce requirements to that of sole practitioners or SMP, for example, including base level:
Quality objectives, which could be one or more overarching principle-based quality objective(s) per component which are directly relevant to the component and the overall objective of the standard;

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

While the required quality objectives may be appropriate for large firms undertaking complex engagements, APESB is of the view that the level of prescription is too onerous for SMPs and firms undertaking less complex engagements. Further, firms may need to evaluate all potential quality objectives, quality risks and responses to determine if any requirements are not applicable.

Subject to APESB's significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1 and those listed below, we support the approach for establishing quality objectives.

California Society of CPA's

Governance and Leadership - Paragraph 23 – Generally the required quality objectives are appropriate, but (d) may be overkill (organizational structure) although it might be argued that the size of the practice unit provides a practical constraint

Relevant Ethical Requirements – Paragraph 32 – Yes.

Acceptance and Continuance – Paragraph 34 – Yes. We believe that currently less attention is paid to continuance decisions. Perhaps the focus on a new model will help for a period of time.

Engagement Performance – Paragraph 36 – Yes.

Resources – Paragraph 38 – We think these objectives may be problematic and somewhat in conflict with AICPA guidelines that allow CPAs to take on work in unfamiliar areas. The implication, if not a requirement, in these objectives is that personnel are competent from the get go. There does not appear to be the opportunity to “get smart” before issuing a report.

Information and Communication – Paragraph 40 – Generally the required quality objectives are appropriate, however this may be an area where scalability is an issue.

Monitoring and Remediation – Paragraph 42 – Generally the required quality objectives are appropriate, although this may create problems unless the individual responsible for quality management is also the managing partner, or equivalent

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

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks. The same rationale should be applied to the other components of the system of quality management. However, in CNDCEC's opinion, for each of the other components of the quality system, the quality objectives identified in the ED-ISQM 1 could be summarized and reduced, since they are too detailed.

CPA Australia

Response: The quality objectives are very granular and in some cases can be difficult to differentiate from what may be a response. We suggest that the discipline of moving the components, objectives, risks and responses to a table will help to highlight where the objectives may not be at the right level and where they cross over into responses and where there are inconsistencies between components in the level of detail required.

Response: We support the approach to establishing quality objectives to meet the objective of the firm as articulated in paragraph 18. Although, we suggest that the requirements could be limited to the description of the matters which the quality objectives need to address under each component, without necessarily including each of the 33 objectives provided under the components. This would make the standard more succinct and clearer.

Institute of CPAs of Uganda

We note that the objectives embedded in each component of the ED-ISQM 1 are more compliance based with a very prescriptive direction. We would recommend that the Board maintains a principles-based approach and keep any prescriptive material in the guidance material.

ICPAU also supports the approach for firms to establish quality objectives. This is because these objectives will form parameters that the firms can use to evaluate whether their systems of quality management achieve the objectives for which they were set.

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

South African Institute of Chartered Accountants

In our outreach activities, this question was raised numerous times and there was no indication of the quality objectives not being appropriate

SAICA agrees with the requirement to consider whether additional quality objectives should be established based on the nature and circumstances of the firm. This requirement enhances scalability and makes the standard more principles based. We believe that the required objectives as currently stated are sufficiently broad to enable firms to adapt these to the specific nature and circumstances of the firm.

There is, however a concern that the process for establishing quality objectives is not sufficiently clear. We strongly suggest that the IAASB relook at how this process can be clarified. Developing a framework for this process or establishing criteria to be applied by the firm may be solutions to addressing this. It will be particularly useful for the application material to expand on the documentation requirements in relation to the criteria considered.

Nodes\\ED-ISQM 1_Firm Level\06(b) & 6(b)(i) Approach for establishing quality objectives\4. Q6(b)&6(b)(i) - Disagree

Files\\3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports the need for firms to identify their own quality objectives specific to the circumstances of their organisation. However, the AUASB is not supportive of the quality objectives requirements of the standard in its current form. The AUASB considers the granular level of prescription of quality objectives to be counter-intuitive to the very nature of a risk-based approach.

Institut Der Wirtschaftsprüfer

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

Suitable quality objectives are the prerequisite for scalability

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

Quality Management should be based on suitable quality objectives

As noted, we support the change to "quality management" from "quality control" but are concerned that ED ISQM 1 does not appropriately adopt a true quality management approach. In our view, what is needed is a holistic approach to quality management integrated into the firm's strategy as its starting point. The draft lacks the connection to, or extension of, the quality management approach by setting objectives derived from the firm's overall strategy.

As noted above in our response to (b) and in the body of our comment letter, we do not believe the required quality objectives to be appropriate.

As noted in the body of our comment letter, we do not support the approach for establishing quality objectives, which leads to quality objectives that are too granular and actually represent quality risks or responses to quality risks.

Operational quality objectives

Our main concern with the draft relates to the proposed approach to setting quality objectives: the draft requires firms to set many detailed quality objectives (as specified in the draft) as well as additional quality objectives (see paragraph 26) when needed beyond those set forth in the draft in order for the firm to achieve the overall objectives of the standard.

We are convinced that the proposed quality objectives are too granular: we believe that they actually represent requirements or procedures used to respond to risks of not achieving quality objectives, rather than representing quality objectives themselves. What is needed are “real” quality objectives derived from the overall quality objective that are integrated into the firm’s strategy by linking such quality objectives to quality drivers.

By not setting suitable quality objectives, the draft impairs the process by which firms identify quality risks and design responses to those risks. This results in the quality objectives not specifying what should be achieved through the implementation of certain responses. In this context, the requirement to set quality objectives in addition to the granular quality objectives set forth in the draft does not make logical sense because there is no integration of operational quality objectives into the firm’s strategy.

We believe that an appropriate solution would be to set quality objectives by focusing on the main drivers for achieving the overall quality objective. To this effect, we suggest developing quality objectives along the following lines:

Elements

Suggested operational quality objectives

Quality culture

The firm’s leadership cultivates a firm culture that fosters appropriate quality.

Relevant ethical requirements

The firm’s leadership and personnel have a clear understanding of relevant ethical requirements and fulfil them.

Acceptance and continuance

Only clients and engagements as set forth by professional standards and applicable legal and regulatory requirements are accepted or continued.

Engagement performance

Engagements are performed in accordance with professional standards and applicable legal and regulatory requirements.

Resources

The firm has the resources needed (including human resources, technological resources and intellectual resources) to enable the performance of engagements in accordance with professional standards and applicable legal and regulatory requirements to design, implement and operate an appropriate quality management system.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: As mentioned above, in our response to Question 1, the list of quality objectives is very detailed and we would favor an approach with fewer per quality management area, but strong and overarching objectives.

Some quality objectives do not seem to be objectives, but rather risks for not achieving a quality objective. We refer for instance to the one included in paragraph 34 c) about the firm’s financial and operational priorities not leading to inappropriate judgment. We wonder how this can be treated as a quality objective, and how the firm can fulfil it and demonstrate it in practice.

New Zealand Auditing and Assurance Standards Board

The NZAuASB is concerned the required quality objectives are overly granular. We encourage the IAASB to consider raising the objectives to a less prescriptive level. We consider setting the objectives at a higher level will enhance the implementation of a risk-based quality management approach. Overly granular objectives may encourage a greater emphasis on the outcome, rather than the process itself. This approach may also contribute to a checklist approach (by both firms and regulators), rather than a true risk based approach.

For example, paragraph 23 identifies very specific objectives to address the firm’s governance and leadership. The level of specificity enables some mapping between the required responses and the prescriptive objectives. This could have the unintended consequence of limiting the identification of risks. The quality objective for relevant ethical requirements could also be set at a higher level, for example, “The firm shall establish quality objectives that addresses the fulfilment of responsibilities in accordance with relevant ethical requirements”, without the prescription detailed in parts (a) to (c). If considered necessary, (a) to (c) could be built into the required responses in paragraph 33.

Royal Nederlandse Beroepsorganisatie van Accountants

In our opinion there are too many detailed quality objectives as mentioned earlier. See Q1a and Q1c. Furthermore, we have some remarks at the individual components.

Files\4. Accounting Firms

PriceWaterhouseCoopers

We agree that firms should establish quality objectives as part of their SoQM. The quality objectives set the context for appropriately identifying and assessing the risks to achieving them.

This appendix illustrates our vision of quality objectives and quality risk factors, as described in our response to question 6(b), for two components. The quality risk factors are illustrative only and not intended to represent a definitive or complete list.

Component: Acceptance and continuance of client relationships and specific engagements

Quality objective: The firm enters into engagements only when it is capable, permitted and willing to perform the engagement.

Quality risk factors:

Unclear or insufficient information for assessing client and/or engagement related risks

Engagements are accepted or continued without required leadership consideration being evidenced by their approval

Higher or specific risk engagements are accepted or continued without adequate quality controls in place to appropriately manage those risks to an acceptable level

The firm does not have the resources or competence to undertake the engagement

The firm does not have access to information to perform the engagement

Financial and operational priorities lead to inappropriate acceptance or continuance judgements

Engagements are terminated without appropriately managing regulatory and client relationship issues

Component: Resources

Quality objective: The firm recruits, develops, and retains appropriate personnel to deliver quality engagements and/or to support the firm's system of quality management.

Quality risk factors:

Leadership has insufficient information to assess risks related to recruiting, developing and retaining personnel and to take action as necessary

The human capital function does not have sufficient capabilities for effective recruitment, development and retention of staff and partners

Qualified people cannot be retained

The recruitment plan does not meet resource needs

Quality objective: The firm assigns sufficient and appropriate personnel to each engagement

Quality risk factors:

Engagement partners and team members do not have the appropriate competence, capabilities, and sufficient time to perform quality engagements

Resource needs are not identified by engagement leaders on a timely basis

Qualifications of team members do not match resource requests in terms of competencies, capabilities or sufficient availability of time

Workloads of partners and staff are not appropriately managed

Insufficient information is available to assign personnel to engagements

Quality objective: The firm evaluates, compensates, and promotes personnel in a fair and transparent manner for their performance in demonstrating their commitment to quality.

Quality risk factors:

The human capital function does not have sufficient capabilities to effectively manage the objective setting, evaluation and compensation process

Roles and responsibilities of personnel are not clearly defined or communicated to enable a fair performance evaluation

Evaluation criteria are not consistent with defined objectives and expectations

Evaluation criteria were not communicated to personnel

Insufficient/ineffective coaching and feedback received from engagement leaders

Personnel perceive rewards and recognition for their performance as unfair or insufficient

Quality objective: The firm obtains or develops, implements and maintains IT systems and tools that meet users' needs and are accessible, reliable and secure and are appropriately used by personnel.

Quality risk factors:

The IT function does not have the capability to support the development and maintenance of IT applications used in quality management or in the delivery of engagements

IT applications are not properly implemented

IT applications used are not reliable

Process for granting, monitoring and revoking user access to IT applications is inappropriate

IT applications do not identify, capture, process and maintain relevant and reliable information

Quality objective: The firm provides, and personnel make use of, relevant intellectual resources that enable consistent performance of quality engagements.

Quality risk factors:

Human resources responsible for the development of intellectual resources do not have sufficient capabilities to provide efficient and effective support

Intellectual resources provided to personnel do not meet professional standards

Leadership has insufficient information to assess the effectiveness and efficiency of intellectual resources and their use by personnel and to take action as necessary

Quality objectives and quality risks - We recommend that the prescribed quality objectives within the standard be reshaped into higher level, less granular objectives in order to encourage firms to give greater thought to the potential risks in achieving those objectives. The specificity of the proposed objectives can instead be retained by introducing “risk factors” that the firm is required to take into account in identifying and assessing quality risks. We believe this is a pragmatic compromise that avoids prescribing specific risks that may be viewed as incomplete, while providing useful direction for firms to assist in the determination of potential risks. We elaborate further in our response to question 6(c).

Quality objectives (refer to our response to question 6(b) and appendix 3): We find the objectives, as articulated in the ED, to be too granular and that they have been drafted to reflect or incorporate relevant risk considerations. We recommend establishing broader, less granular, objectives.

However, in our view, the prescribed quality objectives, as articulated in the ED, are too granular and that they reflect or incorporate detailed risk considerations. The overlap between the language used to describe many of the quality objectives and the language of the prescribed responses within certain components highlight this.

We recommend that a more appropriate approach is to establish broader, less granular objectives that, together with our recommendations on risk assessment in part (c) below, will encourage firms to give greater thought to the potential risks to achieving such quality objectives, resulting in a more robust and tailored risk assessment. Broader, higher level objectives will also, in our view, better encourage firms to identify additional quality objectives tailored to the nature and circumstances of the firm. We provide an illustration of this concept for two components in appendix 3.

RSM International Limited

Response: Yes, it is clear but we do not support this requirement. We believe that firms may encounter difficulty in trying to define quality objectives beyond those identified in the standard. Our view is that the quality objectives set out in ED-ISQM 1 are appropriate for all firms.

As such, we believe the quality objectives should be implemented by each firm related to their environment, but a separate evaluation of what may be missing from the quality objectives is not needed or beneficial. If the comment letters received in respect of ED-ISQM 1 identify additional quality objectives which the IAASB considers valid then these should be included in the final standard.

In our view, the open-ended nature of paragraph 26 is an invitation to Regulators to impose quality objectives on firms that are not appropriate.

Response: Yes

Response: Yes

Files\5. Public Sector Organizations

Swedish National Audit Office

In general yew, but we also think that the standard could be more risk-based than it is now. The standard “serves” the firms with generic audit quality objectives and that is not always a good thing.

One way to strengthen the standard objective would be to further guide the firms in defining qualitative objectives for quality. IAASB sets a number of objectives and mandatory responses. The question is whether this drives a “lean back position” by the firms? It would be tempting to just settle with the basics instead for identifying objectives and responses more relevant for the circumstances. We also believe that this approach would stimulate more proactive work. Though we would support if IAASB set an overall quality objective for each component in the ISQM.

Quality objectives. There are several quality objectives defined by the IAASB in the standard. Objectives which would be part of the strategic and operational internal management workplans. We would like to raise the question whether this is consistent with how the structure is within the public sector, and more specific for the supreme audit institutions. This could be interpreted as interfering with the strategic management of a supreme audit institution. The audit supreme institutions (SAI) are independent and their mandates are objectives are specified in the constitution and additional laws

and regulations. The management of the SAIs are then responsible for defining and operationalizing the mandate and objectives. In our view the identification of more specific quality objectives should be a prerogative and responsibility of each SAI. To ensure that the SAI addressed quality objectives our suggestion would be that revised standard include an overall criteria to be fulfilled for each component. Based on this and their mandates the SAI would identify additional and more specific quality objectives. The suggested quality objectives (in the revised ISQM1) could be part of the application material.

If the more specific quality objectives are kept within the standard, we suggest additional application material for public sector auditors (supreme audit institutions). That application material could refer to the independency of supreme audit institutions and the management of the SAIs must evaluate and analyze wither their mandates, laws and regulations and whether the specified quality objectives are relevant for the SAI. If not and they should define their own based on the overall criteria (objective) for each component.

We find them to be too detailed, for example within the components; Resources, Information and Communication.

For the component Ethics and Independence, the objective could be shortened as a-c are repetitive.

We suggest having an overall quality objective (or general criteria) for each component followed by a requirement to identify firm-specific quality objectives. The more detailed quality objectives specified in the revised ISQM could be moved to application material to demonstrate examples of specific quality objectives.

Files\\6. Member Bodies and Other Professional Organizations

Accountancy Europe

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

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

As mentioned above, in our response to Question 1, the list of quality objectives is very detailed and we would favour an approach with much fewer quality objectives – and even trying in some instances to have only one - per quality management area, but strong and overarching objectives. Some quality objectives are not written as objectives, but rather risks for not achieving a quality objective. We refer for instance to the one included in paragraph 34 c) about the firm's financial and operational priorities not leading to inappropriate judgement. We wonder how this can be treated as a quality objective, and how the firm can fulfil it and demonstrate it in practice.

Chartered Accountants Australian and New Zealand and ACCA

We find that the quality objectives stated in ED-ISQM1 are not appropriate as they seem more like responses to risks rather than quality objectives. For example para 23 (f) refers to the firm fulfilling its responsibilities in accordance with law, regulation and professional standards that relate to the governance and leadership of the firm. This objective seems more like a response to the risk of not being in compliance with the law, regulation etc. The objectives are overly granular. The need to consider so many objectives (and to consider the need for further objectives) will require significant time and resource to be invested in performing and documenting the assessment (and ongoing effort to maintain and manage the QM approach). If the process is too resource intensive and time consuming, this may adversely impact audit quality rather than improving it.

European Federation of Accountants and Auditors for SMEs

As we state above the list of quality objectives is exhaustive. We prefer much fewer quality objectives and where possible one per quality management area with a few robust over-arching objectives. We suggest recasting some components as over-arching factors. This will facilitate a significant reduction in the number and complexity of the quality objectives. In any case the proposed quality objectives are far too granular for SMPs especially those that are smaller and those that do not audit listed or significant public interest entities.

In addition, we suggest having far fewer and more general objectives. That is, we suggest having an overarching objective for the standard as a whole and then just a single objective for each relevant area that drives quality.

EXPERTsuisse

In general, we believe that the required quality objectives are correct, but the list of quality objectives is very exhaustive, and we would support an approach with fewer quality objectives per quality management area, but strong and overarching objectives.

IFAC Small and Medium Practices Committee

The quality objectives as currently proposed represent procedures to respond to risks of not achieving quality objectives. They are far too granular. An alternative approach is to set out the actual quality objectives which have been aligned with the main drivers of quality (such as appropriate tone from the top, competent and motivated human resources, effective resource management and efficient engagement delivery) with the subsequent process of identifying quality risks relevant to the firm and responding to these risks based on the judgement of the firm such that the overall quality objectives can be achieved with a reasonable degree of assurance. For this later approach, there is no need for the introduction of “additional quality risks” as a “catch all” provision which may be confusing to some SMPs.

As mentioned earlier, the need for components on “information and communication” and to a lesser extent, the “monitoring and remediation” or – as explained – possibly on other matters remain debatable. These might be subsumed into the other components and potentially reduce the level of granularity. With this approach, the quality objectives will also need to be revised, where appropriate.

In other instances, the quality objectives are far too granular for smaller firms. For example, within the governance and leadership component in para 24(a)(iii), the firm is required to establish structures, reporting lines and appropriate authority for the system of QM as a whole. This objective is difficult to apply in a very small practice environment and is not applicable for a sole practitioner. A suggestion is to move some of the detail in the requirement to the application material if it was to be maintained.

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

In this context, the apparent lack of a clear, systematic approach may then foster a check-the-box mentality rather than true thinking about a firm’s tailored QM process. We are of the view that a much simpler approach is to consolidate all the multiple objectives for each component (should IAASB decide to maintain all eight) into one. As most of the proposed objectives are, in essence, requirements, they could be rewritten as such.

The ED requires a firm to set many quality objectives (specified in the ED on the various components), as well as requiring the firm to set additional quality objectives when needed beyond those set out in the ED in order for the firm to achieve the overall objectives of the standard. The practical problem for practitioners with the proposed approach is that these detailed quality objectives serve as a catch all, because even when firms comply with all the requirements of ISQM 1 they have to essentially “step back” and consider whether compliance with the requirements has actually allowed the firm to fulfil the overall objectives of the standard. In practice, this will also lead regulators (this includes practice inspectors and peer reviewers) to challenge firms’ decisions, where regulators have the benefit of hindsight. This situation can lead to too much subjectivity and overly defensive attitudes both within firms and by the regulators responsible for oversight, which demand the use of valuable resources not directly related to quality engagement performance. For example, more resources being spent on compliance-driven documentation may not actually contribute to a better QM process.

Institute of Chartered Accountants of Scotland (ICAS)

We are concerned that the number of quality objectives within paragraphs 23,32,34,36,38,40 and 42 is excessive and we would favour an approach that includes fewer per component, but rather requires strong and clear overarching objectives. Some quality objectives do not seem to be objectives, but rather risks for not achieving a quality objective. We refer, for instance, to the one included in paragraph 34 c) about the firm’s financial and operational priorities not leading to inappropriate judgements in relation to accepting or continuing with an engagement. We do not see this as a quality objective and are concerned about how a firm could fulfil it and demonstrate it in practice.

As a result, from the scalability perspective, ED-ISQM 1 may be challenging to apply. Larger firms would be supported by staff that have a broad skillset, including risk management skills, while small and medium sized practices may experience significant difficulties in this regard as a result of not having staff with similar skills inhouse.

Korean Institute of CPAs

We believe ISQM 1 providing specified quality objectives and responses as considerations, instead of requirements, could be aligned with the principles-based approach, thereby resulting in designing and implementing tailored responses that are appropriate for assessed quality risks.

If ED-ISQM 1 should retain the eight components for consistency with extant ISQC 1, it would be more appropriate to just apply requirements demanding the design and implementation of responses to assessed risks and provide more detailed quality objectives and responses as a form of consideration, which would be more aligned with the principles-based approach and give flexibility in accepting other risk management system, thereby making it possible to improve practical scalability, rather than going ahead with the extant ED-ISQM 1 proposal that provides individual requirements on quality objectives and responses and demands the inclusion of additional requirements if they occur.

We believe that the requirements, in particular, that require firms to design and implement quality objectives and responses, if ED-ISQM 1 necessitates additional ones demanded by the standards, could invite heated discussion, especially when regulators and firms are not on the same page with additional quality objectives and responses.

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.

Also, we believe that the quality objectives are far too granular.

The Finnish Association of Authorised Public Accountants

We would also suggest that the quality objectives would be treated as risks rather than as objectives. This would fit the 'risk and response' approach that the auditors are familiar with. The objectives should be fewer, more overarching and principals based.

We support the risk approach of the standard. However, the number of different objectives and responses makes the standard quite long and we are concerned that the quality management process and also the documentation requirements hence are too heavy for the SMPs.

Files\\9. Individuals and Others

Vera Massarygina

No

Nodes\\ED-ISQM 1_Firm Level\06(b) & 6(b)(i) Approach for establishing quality objectives\5. Q6(b)&6(b)(i) - Unclear

Files\\6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors IBR-IRE

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

Nodes\\ED-ISQM 1_Firm Level\06(b)(ii) Additional quality objectives beyond those required by the standard\2. Q6(b)(ii) - Requirement is Clear

Files\\3. National Auditing Standard Setters

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

It appears clear in the ED-ISQM1 that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances. We refer to paragraphs 26 and A50.

Hong Kong Institute of Certified Public Accountants

It is clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances as stated in paragraphs 26 and A49 of the ED-ISQM 1.

Japanese Institute of CPAs

We agree with the proposal.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

Yes, the provision requiring the firm to establish additional quality objectives beyond those required by the standard in certain circumstance, is clear.

Files\\4. Accounting Firms

CAS International

Response:

Yes, additional quality objectives might be established to meet firm objectives.

Duncan and Topliss

(b) Yes, to all three questions. Establishing quality objectives leads to a focussed approach of establishing the objectives, assessing the objectives for risks, then responding to those risks. Form earlier answers we clearly understood that additional objectives are expected to be established.

ETY Global

Yes, for an integrated quality management system. It clear that additional quality objectives can be established.

Grant Thornton International Limited

We agree that it is clear that firms are expected to establish additional quality objectives beyond those required by the standard when such objectives are needed to achieve the objective of ED ISQM 1. For example, firms may need to develop more specific objectives that are reflective of their specific facts and circumstances and that are responsive to the environment or jurisdiction in which they operate.

KPMG IFRG Limited

It is clear that an audit firm is expected to establish additional objectives when necessary to achieve the overall objective of standard. We therefore understand there could be certain circumstances that would require an audit firm to establish additional quality objectives beyond those required by the standard.

Kreston International

Response: This is clear.

MGI Worldwide

Response
This is clear from the standard, but whether it will happen in practice will vary.

MNP LLP

Yes, this is clear.

Moore Stephens International

Response: It is clear

Nexia Smith & Williamson

Yes, we agree that this is clear.

PriceWaterhouseCoopers

We think it is sufficiently clear that the firm is expected to establish additional quality objectives beyond those required by the standard, based on the nature and circumstances of the firm and its engagements, to achieve the overall objective of the standard.

RSM International Limited

Response: Yes, it is clear but we do not support this requirement.

Files\5. Public Sector Organizations

Auditor General South Africa

Paragraph 26 of the ED-ISQM 1 clearly states that the firm is expected to establish additional quality objectives beyond those required by the standard when this is necessary to achieve the objective of ISQM 1.

Australasian Council of Auditors General

Yes, paragraph 26 sets out the requirement to establish additional quality objectives beyond those required by the standard when necessary to achieve the objective of the standard.

International Organization of Supreme Audit Institutions

The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.

National Audit Office of Malta

Yes.

Office of the Auditor General of Alberta

Response: It is clear that the firm shall establish quality objectives sufficient for the firm to meet the overall objectives of ED-ISQM 1.

Office of the Auditor General of Canada

We support the required quality objectives which are derived, in part, from extant ISQC 1. The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.

Provincial Auditor Saskatchewan (1)

Yes, it is clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.

Swedish National Audit Office

Yes.

US Government Accountability Office

We believe that the standard clearly states that a firm or audit organization is expected to establish additional quality objectives beyond those the standard requires when necessary.

Files\\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

APESB agrees that it is clear that firms are required to establish additional quality objectives beyond those stipulated in the standard, if necessary, to achieve the overall objective of the standard.

Comision Interamericana de Control de Calidad de la AIC

Yes, it is clear.

Comite Control de Calidad del ICPARD

Response: Yes, it is.

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

It seems sufficiently clear that the firm must establish some further quality objectives (besides those foreseen in the ED-ISQM 1 for all the firms) in relation to the nature and circumstances of the firm and the type of engagement performed.

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

Response: Yes, this is necessary to adjust to the specific situation of the firm. This is an important aspect for the scalability of the standard.

Institute of CPAs of Uganda

Subject to our comments in (i) above, ICPAU believes there is sufficient clarity that firms are expected to establish quality objectives beyond those required by the standard in certain circumstances.

Malaysian Institute of CPAs

(ii) Yes

Self-Regulatory Organization of Auditors Association

Yes

Files\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

A description of the purpose of each component has been included in each lead-in to the requirement to establish quality objectives. Paragraph 26 of ED-ISQM 1 provides the guidance and the explanation that firms can establish additional quality objectives depending on their circumstances. It is not anticipated that all firms though, might go this route.

Vera Massarygina

Yes

Nodes\ED-ISQM 1_Firm Level\06(b)(ii) Additional quality objectives beyond those required by the standard\3. Q6(b)(ii) - Requirement is Clear but conditional or with further commentary

Files\1. Monitoring Group

International Forum of Independent Audit Regulators

The exposure draft requires firms to establish quality objectives and additional quality objectives beyond those required, when necessary, to meet the objectives of the standard but does not provide clear direction on when and how these additional objectives should be developed.

Files\\2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

As currently written, the requirement implies that the mandatory quality objectives, if fulfilled, are not sufficient to meet the objective of the standard. Yet, the IAASB is of the view that the quality objectives in ED-ISQM1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved.

We recognise, however, that circumstances change and one of the benefits of a riskbased approach is that it is adaptable to a changing environment. It is those environmental, social and political changes that impact the nature and circumstances of the firm that may necessitate the need for additional quality objectives to be established to meet the objective of the standard. We believe this should be clarified in the requirement, with emphasis on nature and circumstances of the firm and the engagements it performs. For ease of readability, we also suggest paragraph 26 is split into two requirements.

26. The firm shall establish the quality objectives required by this ISQM.

26A. The firm shall also establish additional quality objectives beyond those required by this ISQM, when due to the nature and circumstances of the firm, and the engagements it performs, those objectives are necessary to achieve the objective of this ISQM. (Ref: Para. A48–A51).

However, we agree that firms need to consider if there is a need to establish additional quality objectives beyond those set out in ISQM1 because:

- ☑ the nature and circumstances of firms and the engagements they perform will vary; and
- ☑ quality objectives need to be reviewed frequently to determine if they are sufficient and appropriate given the constantly changing environment in which firms operate.

Files\\3. National Auditing Standard Setters

AICPA

While we believe it is clear that the firm is expected to establish additional quality objectives beyond those required by the standard when those objectives are necessary to achieve the objective of this ISQM., we are concerned that including such a statement as a requirement may result in an expectation that the firm will need to consider and document their conclusion that “no additional objectives were identified”. We are concerned that this could negatively impact the scalability of the standard, particularly for SMPs. We suggest the IAASB consider how this is positioned and suggest the following as a starting point:

26. The firm shall establish the quality objectives required by this ISQM. The firm shall also consider whether establish additional quality objectives beyond those required in this ISQM, when those objectives are necessary to achieve the objective of this ISQM, and if so, establish those additional quality objectives. (Ref: Para. A48-51)

Additionally, it is not at all clear what factors a firm would considered to determine when additional objectives would be necessary, nor what those additional quality objectives, might be. The IAASB has not provided any examples of factors that would indicate the existence of circumstances requiring additional quality objectives or of any additional quality objectives that might exist. Such examples would be helpful; we have not been able to identify any. The proposed standard is also unclear about whether firms are routinely required to perform an evaluation to attempt to identify additional quality objectives or whether this requirement should be applied when a firm, while implementing the required quality objectives, identifies a gap in the system of quality management indicating the need for an additional quality objective to be established. Accordingly, we believe paragraph A49 should be revised as follows:

A49. The quality objectives that the firm is required to establish are set out in paragraphs 23, 32, 34, 36, 38, 40 and 42. In addition, given the nature and circumstances of the firm and its engagements, the firm:

Is may be required to establish additional quality objectives beyond those required by this ISQM, when those the implementation of the required quality objectives are necessary to does not achieve the objective of this ISQM.

Mmay decide that more granular quality objectives than those set out in this ISQM are appropriate. Establishing more granular quality objectives may enhance the firm’s identification and assessment of quality risks.

Canadian Auditing and Assurance Standards Board

In part. We believe that paragraph 26 makes it clear that the firm is expected to establish additional quality objectives beyond those required by ED-ISQM 1 when these are necessary to achieve the objective of ED-ISQM 1. However, there is no guidance to explain how a firm will determine if additional objectives may be necessary, or the nature of such objectives. Guidance on when a firm may need to establish additional quality objectives, and how the firm will conclude that it needs additional quality objectives, is necessary for this requirement to be applied consistently. It is also unclear what documentation, if any, is needed when the firm concludes that there are no additional quality objectives. We recommend including examples in application material that would assist a practitioner in determining what type of additional objectives may be needed depending on the firm’s

circumstances.

We note that paragraphs 29 and 37 of the EM state that the quality objectives are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved. We find this to be contradictory to the requirement to establish additional quality objectives.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Paragraph 26 and Item A4 make it clear that additional objectives should be set. However, according to the approach, it does not restrict the circumstances, which is not clear. Still, the minimum objectives can be sufficient, especially to SMPs.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: It seems clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required, in certain circumstances only. It would improve scalability if the IAASB made it clear that, for many smaller firms, no additional objectives are likely to be needed. Some objectives might not even be applicable for smaller firms.

Royal Nederlandse Beroepsorganisatie van Accountants

It is clear that additional quality objectives may be required. We feel that for certain (smaller) firms the current set of objectives might be sufficient and thus it might not be necessary to identify further quality objectives. The standard should reflect that and not require more quality objectives, but require evaluation whether more quality objectives are necessary (including implementing them when necessary). Some examples might help to make it more concrete (in or outside the standard). The option that more granular quality objectives may be considered is useful. We agree that this should not be a requirement, but depends upon the circumstances.

Saudi Organization for CPAs

In para. 10.a, it was indicated, as a clarification for additional quality objectives beyond those stated in ISQM, that "The firm is required to establish the quality objectives set out in this ISQM and additional quality objectives beyond those required by this ISQM, when those objectives are necessary to achieve the objective of this ISQM." I believe that the word "necessary" may be ambiguous, subjective and based extensively on professional judgement. Instead, using a clarification for such additional objective as "if were assessed within quality management approach, it would have been identified or considered relevant by negatively impacting quality objectives of ISQM". Consequently, identified quality risks (likelihood or significance) for additional objectives based on this criteria will improve the concept and be considered more precise taking into account impacts on quality risks related to ISQM objectives.

It is quite clear and in previous responses I suggest some improvements for this question for this point .

Files\4. Accounting Firms

Baker Tilly International

Response: Although this requirement is clear from ED-ISQM1.26, the standard would be clearer if this requirement was up front, before consideration of Governance and Leadership (see comments elsewhere) to set the context for required objectives.

It is not clear how a firm is likely to identify objectives over and above those required by the standard and we believe that many firms are likely to identify additional objectives only in limited circumstances. It would be helpful for the IAASB to provide examples of where they consider firms might identify additional objectives.

BDO International

From a drafting perspective, the construction of paragraph 26 means that effectively two requirements are contained within one requirement. This could have the unintended effect that users only read the first part of the requirement (i.e., to establish quality control objectives) and could inadvertently ignore the concept of identifying additional ones beyond those required by ED-ISQM 1. It may be helpful for the IAASB to present these as separate requirements.

Yes, we believe it is clear both within ED-ISQM 1 (paragraphs 10 and 26) and the accompanying explanatory memorandum that firms need to establish additional quality objectives beyond those set out in the standard to achieve the objective of the standard. We also note that the concept of additional quality objectives is reinforced by FAQ 3 in the example implementation materials.

Crowe Global

Response: Paragraph 26 specifies that additional quality objectives shall be established if necessary. This is clearly expressed and supported by the application guidance. There is the risk that firms might overlook this aspect of the standard, particularly if the culture of the firm or the environment that it works in leads to a “compliance” culture in setting the quality objectives. Implementation guidance and support from national standard setters and oversight bodies ought to reinforce the importance of applying judgment, being flexible and open to establishing further risk objectives that help the quality (and risk) management of the firm.

Deloitte Touche Tohmatsu Limited

Response: Paragraphs 10(a) and 26 of ED-ISQM 1 are explicit with respect to the requirement for the firm to establish additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard. DTTL, however, agrees with the Board’s view expressed in paragraphs 29 and 37 of the explanatory memorandum that the quality objectives in EQ-ISQM 1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved. While recognizing that the nature and circumstances of firms and the engagements they perform will vary, we recommend that language similar to that in the explanatory memorandum be included in the application material as an indication that the need to establish additional quality objectives is expected to be limited. Inclusion of such language would further support the statement within Question 3 of the Draft Frequently Asked Questions Regarding Proposed ISQM 1 that the IAASB does not anticipate that all firms will need to establish additional quality objectives. Further, examples in the application material of those circumstances in which establishing additional quality objectives may be considered necessary would be helpful in supporting a consistent understanding of the requirement.

EY Global Limited

It is clear that the firm is expected to establish additional quality objectives if needed; however, it is not clear the types of circumstances that would require firms to create additional quality objectives as noted in paragraphs 10(a) and 26 and relevant application material. We believe criteria for determining when firms establish additional quality objectives and examples of possible additional quality objectives are needed in order for firms to practically and consistently apply these requirements. Further, paragraph 29 of the explanatory memorandum states “The IAASB is of the view that the quality objectives in ED-ISQM 1 are comprehensive, and if properly addressed by the firm, will result in the system providing reasonable assurance that its objectives have been achieved.” We believe this concept should be incorporated into FAQ 3. We also recommend the IAASB perform a post-implementation review on ISQM 1 and an area of focus should include the comprehensiveness of the quality objectives.

Mazars

Response: This is set out in ISQM1 ED para 10 and the application guidance but it would be useful to give this more prominence, perhaps by including this in each of the component sections of the standard.

Mazars USA LLP

Response: We believe the application of a risk assessment process will support the objective of ED-ISQM 1; however, more guidance is needed on how to establish quality objectives and identify and assess quality risks to increase consistency of application and reduce contradictions in communication.

Response: Yes, paragraphs 10, 26, and A49-A51 are clear; however, we would encourage guidance to assist firms in understanding that additional quality objectives may be the exception, not the rule. In part, paragraph 29 from the explanatory material could be added to the application material.

Files\6. Member Bodies and Other Professional Organizations

Accountancy Europe

It seems clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required, in certain circumstances only. It would improve scalability if the IAASB made it clear that, for many smaller firms, no additional objectives are likely to be needed. It is important to take into account the fact that these additional quality objectives will most probably be more subjective ones that will need to be properly justified as they might raise questions from regulators.

Belgian Institute of Registered Auditors IBR-IRE

ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

We believe that examples should be provided in order to facilitate and improve proper implementation of the standard.

CA Ireland

Yes. Paragraph 26 clearly indicates that a firm shall establish additional quality objectives beyond those set out in the standard when those objectives are required to achieve the objective of the standard. However, it needs to be emphasised, in particular for smaller firms (including smaller firms within a network) that there is not a requirement to always go beyond the standard, we would welcome the recognition of this in the standard,

California Society of CPA's

Risk Assessment Process – Paragraph 26 – “additional quality objectives beyond those required when necessary to achieve the objective of the ISQM” – There is a potential problem here regarding diversity in application. How likely are practitioners to look for quality objectives beyond what is required?

We believe it is clear that the firm is expected to establish additional quality objectives beyond those required by the standard, but see immediately preceding comment re paragraph 26.

Center for Audit Quality

We agree with the Board's view expressed in paragraph 29 of the Explanatory Memo to ED-ISQM 1 that “the quality objectives in ED-ISQM 1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved.” We strongly encourage the Board to include this language in paragraphs A49-51 of the application material and add the concept into FAQ #3. While we understand firms are expected to establish additional quality objectives beyond those required by the standard in certain circumstances, we would expect those circumstances to be limited. It may be useful to add this statement to the application material to clarify the Board's expectations.

CPA Australia

Response: The introduction (paragraph 10) and requirements (paragraph 26) are clear that additional quality objectives are expected to be established as necessary to achieve the objective of the standard and this is repeated in several places in the application material. There is a concern, that this could create an expectation, for example by regulators, that the firm should always identify additional objectives. However, it should be acceptable that, particularly for smaller firms, additional objectives will not always be necessary. Ideally, the quality objectives should be broad enough to cover a typical, or at least small, firm's needs and not require augmentation. The transfer of the quality objectives to a table in application material or an appendix, as already suggested, so that they become examples rather than being a definitive list would reinforce the need for firms to identify their own objectives which address the firm's circumstances and engagements.

European Federation of Accountants and Auditors for SMEs

While it is clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required we suggest scalability of the standard be improved by clarifying that for many SMPs no additional objectives are likely to be needed.

EXPERTsuisse

Principally it is clear, that the firm in certain circumstances is expected to establish additional quality objectives beyond those required by the standard. Perhaps it would be helpful for SMPs if it would be clearly worked out that, for SMPs in general, no additional quality objectives are likely to be needed.

It seems also clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required, in certain circumstances only. It would improve scalability if the IAASB made it clear that, for many smaller firms, no additional objectives are likely to be needed.

Illinois CPA Society

Response: Yes. Although it is clear, already having identified required objectives/responses may lead to some firms inappropriately deeming that those are enough or otherwise only adding a few tailored ones. We, however, are not suggesting that the required ones be removed as they provide good examples of what objectives/responses should be.

Institute of Chartered Accountants in England and Wales

It is abundantly clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances. To balance the emphasis on this, and as a scalability issue, consideration should be given to noting in the application material the fact that in some cases it may not be necessary to develop further or more granular objectives.

Institute of Chartered Accountants of Pakistan

Although it is clear but it would be judgmental and subjective to apply.

Institute of Singapore Chartered Accountants

While it is set out under paragraphs 10(a) and 26 that firms are expected to establish quality objectives that go beyond those required by the standard, it may be useful to give more prominence to this requirement by including it under each of the component sections. Similarly, the requirement set out under paragraph 10(c) to design and implement responses in addition to those required by the standard can be included under each of the component sections.

National Association of State Boards of Accountancy

Yes, we believe that ED-ISQM 1 is clear that there are quality objectives beyond those required. However, implementation guidance and examples would be helpful in this area.

Nordic Federation of Public Accountants

It is clear that the standard requires this. However, we would encourage the IAASB to clarify scalability options for smaller firms.

Royal Institute of Chartered Surveyors

We believe ED-ISQM 1 provides details on this, however, a few illustrative examples could be useful for a firm to interpret and implement this point

South African Institute of Chartered Accountants

Paragraph 26 of ED-ISQM 1 states that the firm shall establish additional objectives beyond those required by ED-ISQM 1. It is therefore clear that the firm is expected to establish additional quality objectives beyond those required by the standard. However, the particular circumstances that would necessitate the firm to established additional quality objectives is not clear. Criteria for determining when firms should establish additional quality objectives and examples of possible additional quality objectives would be useful in assisting firms in practically and consistently apply these requirements.

In relation to establishing these additional quality objectives, it is SAICA's view that the standard could provide more practical guidance around how the firm actually goes about establishing these additional quality objectives. A framework or set of criteria for how this consideration is document will also be most useful.

The Finnish Association of Authorised Public Accountants

In our opinion, the firms should not be expected to establish additional quality objective beyond those required in the standard. Additional objectives can, though, be necessary, and therefore the requirement could, instead, be a requirement to consider whether additional objectives should be established. This would enhance the scalability of the standard because in the SMPs no additional objectives are likely to be needed.

Wirtschaftsprüferkammer

Yes. Nonetheless we suggest clarifying that additional quality objectives beyond those required by the standard are probably not required in most audit firms, especially for firms conducting only audits of less complex entities.

Nodes\\ED-ISQM 1_Firm Level\06(b)(ii) Additional quality objectives beyond those required by the standard\4. Q6(b)(ii) - Requirement is Not clear

Files\\2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

Although we agree with the principle of establishing quality objectives, we recommend that the process to establish quality objectives be clarified. This could possibly include a decision-making framework, or "factors to consider", on how to establish additional quality objectives, either as clarified requirements or additional application material. Populations, boundaries and thresholds could be considered in this context. The risk that a significant quality objective is not identified should be mitigated.

Scalability has been introduced by using the phrase "when those objectives are necessary to achieve the objectives of this ISQM" in paragraphs 10 and 26 of ED-ISQM 1. It is not clear what is meant by this condition, when it will be applicable and how the correct application will be measured. Where quality objectives (or quality risks or responses) are conditional, we suggest that this be clear, with further guidance clarifying when a quality objective may not be necessary, in order to avoid having firms use the condition as a loophole.

We suggest that the requirements for establishing quality objectives for each of the components should repeat that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances, as per paragraph 26. Paragraphs 32, 34, 36, 38, 40 and 42 should also include this requirement.

Files\\3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB agrees with the IAASB's view expressed in paragraph 29 of the Explanatory Memorandum to ED-ISQM 1 that 'the quality objectives in ED-ISQM 1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved'. We encourage the IAASB to use this wording in the application material of paragraphs A49-A51 as the extent of establishing quality objectives beyond those required by the standard is unclear.

The AUASB understands that there could be certain circumstances that would require a firm to establish additional quality objectives beyond those required by the standard, but these circumstances may be limited. Specifically, the requirement in paragraph 26 of the proposed ISQM 1, as it currently reads, could be interpreted as firms always needing additional quality objectives, which the AUASB understands is not the intention of the standard. We accordingly believe this requirement in paragraph 26 of ISQM 1 needs to be redrafted to make the circumstances where additional quality objectives need to be established clearer.

New Zealand Auditing and Assurance Standards Board

The NZAuASB suggests it could be clearer in the standard as to when it is expected that additional objectives are necessary. Based on the explanatory memorandum, we understand it is not expected that additional objectives are always necessary, and therefore may expect that in many cases no additional objectives would be established, especially where the objectives are very granular. However, from our targeted outreach and our own deliberations we are not confident of a consistent approach being taken in applying and regulating the approach.

Files\\4. Accounting Firms

Baker Tilly Virchow Krause LLP

We believe that the quality objectives in ED-ISQM 1 are comprehensive, therefore, we do not believe that it will be necessary for most firms to establish additional quality objectives. To assist firms in determining when establishing additional quality objectives would be necessary, we believe that it would be helpful if additional application guidance was added to the proposed standard indicating the types of circumstances under which the Board believes it would be necessary for firms to establish additional quality objectives.

PKF International Limited

We have a concern that the use of the word "expected" within this section of the standard may lead to varying interpretations of its meaning. In our view, there may be circumstances, particularly for SMPs, for which additional quality objectives beyond those required by the standard, would not be necessary. For such firms, there is a risk that the phrase "is expected to" may be misinterpreted to mean "shall". Consequently, we believe that ED-ISQM 1 should use "may" rather than "is expected to", where it refers to the firm establishing additional quality objectives beyond those required by the standard. We believe this will also help with the scalability of the standard.

Additionally, regarding question 6(b)(ii), in our view, to more clearly reinforce the point on firms establishing additional quality objectives beyond those required by the standard in certain circumstances, this guidance should be repeated within each of the separate components of ED-ISQM 1.

PKF South Africa

We have a concern that the use of the word "expected" within this section of the standard may lead to different interpretations of its meaning. In our view, there may be circumstances, particularly for SMPs, for which additional quality objectives beyond those required by the standard, would not be necessary. For such firms, there is a risk that the phrase "is expected to" may be misinterpreted to mean "shall". Consequently, we believe that ED-ISQM 1 should use "may" rather than "is expected to", where it refers to the firm establishing additional quality objectives beyond those required by the standard. We believe this will also help with the scalability of the standard.

Additionally, the point on establishing additional quality objectives could be reinforced within each of the eight separate components of ED-ISQM 1, by repeating the guidance for firms on establishing additional quality objectives beyond those required by the standard in certain circumstances.

Files\6. Member Bodies and Other Professional Organizations

Chartered Accountants Australian and New Zealand and ACCA

Paragraph 26 of the ED-ISQM1 requires firms to consider additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard. However, we don't find it clear in which circumstances this might be necessary. This needs to be stated unambiguously.

Deciding which additional quality objectives to include will be an area of increased subjectivity and the assessment may be challenged when viewed retrospectively (hindsight bias) and be subject to unwarranted criticism by regulators. In the absence of clear drafting which emphasizes that the approach is flexible and must be tailored to the individual firm, regulators may need to develop their own "lists" of objectives/risks/response they expect to see.

We would therefore expect to see more guidance on what is expected in regards to the additional quality objectives but also what the practitioner should do when no additional quality objectives are identified.

Furthermore, one of the eight components in ED-ISQM1 is the Firm's Risk Assessment Process which requires firms to establish certain quality objectives for each of the seven components. However, as per para 26 of the ED-ISQM1 firms are required to consider additional quality objectives beyond those stipulated by the standard, when those objectives are necessary to achieve the objective of the standard. Although we recognise that IAASB's intention here is probably to be flexible and assist practitioners satisfying the objective of ED-ISQM1, deciding which additional quality objectives to include will be an area of increased subjectivity, and our stakeholders expressed concerns that a firm's judgement could be expected to be challenged by regulators. We would therefore expect to see more guidance on what is expected in regards to the additional quality objectives but also what practitioners should document when no additional quality objectives are legitimately identified.

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.

IFAC Small and Medium Practices Committee

Para 10 is clear that firms are required to establish additional quality objective(s) beyond those required by the ISQM 1 when those objectives are necessary to achieve the overall objective of the ISQM. Yet, para 22 may be confusing as it states that the proper application of the requirement is expected to provide a sufficient basis for the achievement of the objective of the standard. This text needs to clarify that the requirements are not self-sufficient, as they include a requirement to – where necessary or applicable – go beyond the required quality objectives and procedures as provided (see para 26) and that, the firm will still have to decide whether additional quality objectives are needed beyond those set out in ED ISQM 1. This also means that, without greater clarity, regulators may still challenge the firm's decisions and judgements (and that all these will need to be adequately documented).

Institute of Independent Auditors of Brazil (IBRACON)

Actually, the way it is presented in the ED, it seems that it is always expected to establish additional quality objectives and design additional responses. However, in some cases, the quality objectives required by the standard would be sufficient, especially for smaller firms. Hence, it would be recommended to clarify in what circumstances it is expected that firms develop additional quality objectives and their respective responses.

Instituto de Censores Jurados de Cuentas de España

In our opinion it is not clear. We understand that no additional quality objectives will be established to those required by the standard. Probably, only larger firms will voluntarily establish them.

Nodes\\ED-ISQM 1_Firm Level\06(b)(ii) Additional quality objectives beyond those required by the standard\5. Q6(b)(ii) - Unclear

Files\\3. National Auditing Standard Setters

Institut Der Wirtschaftsprufer

As we note in the body of our comment letter, operational quality objectives should be derived from a firm's strategy. This means that depending upon a firm's size and the complexity of its organizational structure, the number of quality objectives that are needed and their granularity ought to vary. That being said, a requirement to establish additional quality objectives to the very granular quality objectives set forth in the standard makes no sense without being integrated into the firm's strategy.

Nodes\\ED-ISQM 1_Firm Level\06(c) Process for the identification and assessment of quality risks\2. Q6(c) - Agree

Files\\2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

We support the process for the identification and assessment of risk and an approach that requires the firm to design and implement policies and procedures in response to assessed quality risks.

We agree that this approach has the potential for firms to design and implement responses that are tailored to and appropriately address the assessed quality risks. In particular:

The required understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives (paragraph 26) leads to an enhanced understanding of the risks, which is critical to tailoring policies and procedures so that they are responsive to the risks.

Identifying changes and appropriately factoring them into the risk assessment process (paragraph 30) is also critical to a robust risk assessment. Changes as a result of both external and internal factors will create and change risk, and it is important that a firm implements processes that enables it to identify and evaluate the impact of changes on the quality risks on a timely basis and tailor the firm's policies and procedures accordingly.

Files\\3. National Auditing Standard Setters

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes, we support the process for the identification and assessment of quality risks. In our view this process has the same concept of the requirements of ED ISA 315.

Hong Kong Institute of Certified Public Accountants

We support the process for the identification and assessment of quality risks, in particular the clarification that not every quality risk needs to be identified and further assessed. The firm identifies which quality risks need to be further assessed based on a preliminary consideration of the possibility of the quality risks occurring and the effect on the achievement of the quality objectives. Only those quality risks that meet both of the criteria in paragraphs 28(a) and (b) of the ED-ISQM 1 need to be identified and further assessed. The further assessment of the quality risks involves a more detailed consideration of the degree of the likelihood of the quality risks occurring and the significance of the effect of the quality risks on the achievement of the quality objectives.

Japanese Institute of CPAs

We agree with the proposal.

Files\\4. Accounting Firms

Crowe Global

Response: We agree with the proposed process for the identification and assessment of quality risks.

Duncan and Topliss

(c) Again, yes.

ETY Global

Yes. See (b)

Haysmacintyre LLP

Responses: yes to all above questions.

MGI Worldwide

Response

The process should help to focus management on those risks that could have a significant impact on achieving the quality objectives, so should help to focus the firms where required, rather than wasting resources on every risk that could arise.

Nexia International

YES

Files\\5. Public Sector Organizations

National Audit Office of Malta

Yes.

Office of the Auditor General of Alberta

Response: Yes, we support the process to identify and assess quality risks.

Office of the Auditor General of Canada

We believe this approach will result in a firm designing and implementing responses that are tailored to the assessed quality risks.

Swedish National Audit Office

In general yes. Though the application material is quite repetitive and could be shortened.

US Government Accountability Office

We believe that the process for identifying and assessing quality risks is appropriate for the revised quality management framework.

Files\6. Member Bodies and Other Professional Organizations

California Society of CPA's

Yes.

Comision Interamericana de Control de Calidad de la AIC

Yes, we support it.

Comite Control de Calidad del ICPARD

Response: Yes, we do.

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

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks.

Illinois CPA Society

Response: We believe that the identification and assessment of quality risks as discussed in ED-ISQM 1 (para. 10 and 26-31) is appropriate.

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

Response: In general, yes.

Institute of CPAs of Uganda

Subject to our comments in (b) above, ICPAU supports the stated process for identification and assessment of quality risks.

Royal Institute of Chartered Surveyors

Yes, we support the 'two-step' process for identifying quality risks and assessing quality risks, and that the two steps can be undertaken concurrently by a firm.

Self-Regulatory Organization of Auditors Association

Yes

Files\\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

The purpose of assessing the quality risks is to assist the firm in designing and implementing responses, because the reasons for the assessment of the quality risks affect the nature, timing and extent of the responses. We support the process for the identification and assessment of quality risks because in practice, firms do not identify and assess all possible risks but rather focus on key risks judging the chance of the risk occurring and the likely impact should the risk occur. The approach for identifying and assessing quality risks in ED-ISQM 1 echoes the principles in the IAASB's recently published Exposure Draft, ISA 315 (Revised) and helps to reinforce key concepts of a risk-based approach.

Nodes\\ED-ISQM 1_Firm Level\06(c) Process for the identification and assessment of quality risks\3. Q6(c) - Agree but with further comments

Files\\1. Monitoring Group

Basel Committee on Banking Supervision

ED-ISQM 1: identifying quality risks

The quality risks the firm identifies are those that have a reasonable probability of occurring (paragraph 28), which means when the likelihood is more than remote (paragraph A55).

We believe the standard could be strengthened by also requiring a consideration of those quality risks that might be remote, but nevertheless the impact, if they were to occur, could be highly significant. This is not to suggest that the firm should design a response. But we believe the audit firm should be required to consider whether it needs to design a response.

International Forum of Independent Audit Regulators

Audit regulators perform comprehensive inspection programmes and communicate 4 their findings to audit firms. Notwithstanding the inclusion in the 'Monitoring and Remediation' section of external inspection findings, there should be an explicit requirement for firms to take findings from regulators into account as part of their risk assessment process, in particular as part of their identification of quality risks. This could form part of a broader requirement to consider the outcomes from the firm's monitoring process.

The prescribed objectives are understandably high level to facilitate their relevance to firms of differing natures and complexity. However, the high-level nature of the objectives may result in it being more difficult for firms to identify quality risks at the appropriate level of detail. We recommend that guidelines for developing quality risks be developed, that the risk assessment process includes requirements to assess changes in the external environment and a firm's own business model, and that the standard emphasize that the process for identifying and analysing risks must be dynamic. Strengthening of the requirements in this regard will better enable firms to more effectively assess risks and develop related responses and also to prioritize such responses, such that subsequent allocation of appropriate resources to the response can also be more effectively managed.

Files\2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

Risk Identification and Assessment

The exposure draft defines a “reasonably possible” threshold whereby risks must be “more than remote” to be identified. Since risks with a remote likelihood need not be considered, remote risks that could have a significant impact on the business may be excluded from analysis. In our view, remote and high impact risks should be identified and carefully assessed if they have the potential to have a significant impact on the audit practice as a whole. An example could be fraud or mismanagement within an audit practice, which may be viewed as having a remote likelihood, but could have a major impact on a firm. The exclusion of a remote risk that rapidly changes to reasonably possible could lead to the failure to notice and address it in a sufficiently timely manner if it is not part of an overall risk management framework.

We recommend that the IAASB reconsider and broaden its threshold for defining quality risks. The exposure draft could also go further in identifying the need to identify and assess risks due to changes in a firm’s internal and external environment and its own business model, and in clarifying that the process for identifying and analyzing risks must be dynamic and iterative.

Independent Regulatory Board for Auditors (South Africa)

We support the process for the identification and assessment of quality risks (i.e. the principle that this is the next step after the establishment of quality objectives in the firm’s system of quality management). Emphasis can be placed in each requirement that the firm is expected to identify and assess additional firm-specific quality risks beyond those required by the standard in certain circumstances.

Firms need to identify quality risks at the appropriate level of detail. In order to achieve this, we recommend that:

Additional or more granular quality objectives be set by firms (see response in b) above).

Guidelines for establishing quality risks be developed; and

The standard should emphasise that the process for identifying and analysing quality risks must be dynamic and demonstrate continuous improvement.

Strengthening of these requirements will enable firms to more effectively assess quality risks, develop related responses and prioritise such responses, so that the allocation of appropriate resources to the response can also be more effectively managed.

We suggest that there should be an explicit requirement, in the form of a response to a quality risk, for firms to consider inspection findings from audit regulators as part of their quality risk assessment process.

Paragraph 31 of the explanatory memorandum mentions a “threshold” for identifying quality risks. The threshold for identifying quality risks includes those risks for which (a) there is a reasonable possibility of the risk occurring; and (b) if the risk were to occur, it may individually, or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s). More guidance is required to assist the firms in determining whether this threshold has been reached or not, how this would be documented, and whether further action would be required.

ED-ISQM 1 is silent as to when and how often firms need to assess their quality risks. Paragraph A53 states that the identification and assessment process may involve a combination of ongoing and periodic procedures. We recommend that a requirement that firms should assess quality risks at least twice annually be included. In addition, we recommend that a list of criteria that could be considered as “triggers” to determine when further quality risks may have arisen be provided.

We suggest that guidance be provided regarding how to document the process for the identification and assessment of quality risks, and at what detail these should be documented. This guidance could possibly be included in the examples that will be provided as supporting material once the standards are issued. For example, this could be a risk matrix showing how risks can be rated (where formal ratings are used).

Stakeholders indicated that it is not clear what is meant by “significant effect” in paragraph 28(b) of ED-ISQM 1. An example might help to clarify this in paragraph A56.

It is not clear in ED-ISQM 1 whether when an identified quality risk that does not have a reasonable possibility of occurring and if it were to occur, may not individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective (paragraph 28 of ED-ISQM 1), needs to be documented, with the above explanations and reasoning included, in order to demonstrate that a quality risk that needs to be responded to has not been identified. Paragraph A214 includes some guidance in this regard, but stakeholders have indicated that the extent of the documentation is not clear.

Paragraph A54 states that, under this ISQM, not every quality risk needs to be identified and further assessed. We are concerned that this is a loophole in the standard that the firms may use when they have either intentionally or accidentally omitted quality risks. Proposed wording could read as follows: “Under this ISQM, the firm is reasonably expected to identify relevant quality risks and to further assess such risks.”

A further suggestion is that an example could be provided in the application material regarding how a firm will ensure that employees are kept up to date with the most recent quality risk assessments and responses required, especially if quality risk assessments are performed at different levels, in different organisational structures or at different locations. It is understood that the policies and procedures that result from the implementation of the system of quality management at the firm are “live documents”; however, we encourage the IAASB to take practical implications into account.

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

Irish Auditing and Accounting Supervisory Authority

In terms of the risk assessments that firms are expected to perform, we think it is important that firms are required to also consider risks arising from their own culture, their governance, including the network structure where relevant, and their business objectives. We suggest clarifying this in paragraph 27, and including further language as necessary.

Files\3. National Auditing Standard Setters

AICPA

We believe more examples that focus specifically on the risk assessment process would be useful.

Paragraph A59 is very clear, but we believe that this needs to be explicitly stated in the requirements section. In addition, the requirement in paragraph 29 to assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses and the requirement in paragraph 30 that the design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks, are redundant. We propose that paragraphs 29 and 30 be revised as follows:

29. The firm shall assess the quality risks identified in paragraph 28 and, based on that assessment, to provide a basis for the design and implementation of the related responses. (Ref: Para. A48, A58)

30. The firm shall design and implement responses to address the assessed quality risks, including responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks. (Ref: Para. A48, A58A59–A64)

In general, we support the process for the identification and assessment of quality risks. However, effective risk assessment is difficult, and firms will need implementation support, including enough time and guidance materials.

We are concerned that the process required by paragraphs 27-29 of ED-ISQM 1 is not clear as to whether quality risks are all risks or only those risks that are reasonably possible and would have a significant effect. Notwithstanding that quality risk is a defined term, we suggest that paragraphs 27-28 be revised as follows:

27. The firm shall understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives, taking into account the nature and circumstances of the firm and its engagements, to provide the basis for the identification and assessment of quality risks. (Ref: Para. A48, A52)

28. Based on the understanding obtained in paragraph 27, the firm shall identify those quality risks (that is, those risks arising from conditions, events, circumstances, actions or inactions that may adversely affect the achievement of a quality objective(s)) that, before consideration of any responses: (Ref: Para. A48, A53–A54)

(a) Have a reasonable possibility of occurring; and (Ref: Para. A55)

(b) If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s). (Ref: Para. A56–A57)

The distinction between the identification of quality risks in paragraph 28 and the assessment of quality risks in paragraph 29 is not clear. Paragraph 33 of the Explanatory Memorandum to ED-ISQM 1 explains the identification and assessment of quality risks as a two-step process: paragraph 28 being a preliminary consideration, and paragraph 29 being a more detailed consideration. The Explanatory Memorandum further states that “in some instances, the two steps may be undertaken concurrently by the firm.” These explanations are helpful and should be included in ED-ISQM 1.

Paragraph A55 only addresses likelihood. We suggest that paragraph A55 be combined with paragraph A57 to reinforce that quality risks are assessed both for likelihood and magnitude. We note that likelihood and magnitude are the terms used in other standards. Consistency among standards aids adoption.

Because we are not clear as to what is meant by the term “significant effect” in the context of risks and are concerned that it may be analogized to “significant risks” as used in the ISAs, we suggest that paragraph 28(b) be revised as follows:

(b) If they were to occur, may result, individually or in combination with other quality risks, have a significant effect on the achievement of in a quality objective(s) not being achieved.

Guidance is needed about the degree of specificity that would be appropriate in documentation with regard to the requirements in paragraphs 27 and 28, so that firms do not think they need to document every condition, event, circumstance, action or inaction that may adversely affect the achievement of its quality objectives, no matter how insignificant.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

Yes, we do support the process for identification and assessment of quality risk. However, as mentioned above, more implementation guidance on the application of the provisions would be useful.

New Zealand Auditing and Assurance Standards Board

As noted in our response to ED-ISQM 1, 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.

However, concern was raised that the bar for developing a response may be set too low. The Board shares the concern. The application material in paragraph A55 states that having a reasonable possibility of occurring is when its occurrence is “more than remote”. This may imply that almost all risks require some response, which may be overly onerous on firms and direct effort away from key risks.

Implementation examples, outside of the standard, may be a useful way to encourage firms (especially SMPs) to think about all relevant risks to their circumstances and thereby meeting the spirit of the standard and ensuring a great level of consistency to the risks to quality. During our outreach workshops, we asked practitioners to firstly identify risks to the objectives and then as a second step to identify related responses. It was quickly apparent that the risk and response are related. When asked to identify risks, practitioners seemed immediately drawn to a response. The reverse was also true, i.e., that when given the list of prescribed responses, the identification of risks generated new ideas for risks. This suggests that the requirement in paragraph 28, that stresses that the firm shall identify those quality risks before consideration of any responses, will be challenging. While we understand the logic of the IAASB’s approach, we think it likely that the starting point for many firms will be to look at what they are currently doing rather than more broadly. This in turn may result in the firm asking why they are doing what they are doing, i.e., using the responses to identify the risks. The NZAuASB encourages the IAASB to revisit the level of prescriptiveness in the standard, in particular to avoid that type of unintended consequence.

Practitioners noted this assessment is highly judgemental and raised concern that regulators, with the benefit of hindsight, could start to challenge a firm’s judgement and assessment about why a risk is unlikely to occur, etc. Practitioners requested that if there are key risks which firms should be responding to, it would be more helpful for the standard to identify those risks, rather than having to debate with regulators at a later stage why a risk was not identified by the firm or was assessed as a low risk not requiring a response. While recognising the importance of a regulator being able to discuss such matters with a firm during an inspection, the Board agrees that the standard should be clear as far as possible where the responsibility lies for the relevant judgements.

The NZAuASB is supportive of the requirement to assess the quality risks. Assessing both the reasonable possibility of occurrence and the significance of the effect on the achievement of a quality objective is a useful way both to improve the scalability of the standard and to enhance the robustness of firm’s system of quality management. Practitioners we heard from were also supportive of this two-step approach, noting that ranking risks may prove to be a useful tool for the firm’s senior management to direct its focus on key risks.

Royal Nederlandse Beroepsorganisatie van Accountants

The firm’s risk assessment process is similar to the risk assessment process that is performed in engagements and is based on the COSO model. This enables firms to focus on priority issues. The pictures on page 13 and 14 of the explanatory memorandum helps to understand how risks should be assessed. However, the level of detail that needs to be considered might be challenging. We recommend clarifying this.

The ‘preliminary consideration’ and ‘more detailed consideration’ as described in paragraph 33 of the explanatory memorandum are not so clearly described in paragraphs 28 and 29 of the exposure draft itself. It is also not mentioned that this consideration could be combined. We prefer a combination of the considerations. We recommend to make more clear that the two phase process can be combined.

We support this process. The distinction between preliminary and detailed process could also be combined (see also Q6a). We think that there is a spectrum of risks just like in ED ISA 315. This is not mentioned explicitly. For consistency purposes, the spectrum should be considered. We also recommend to clarify what is meant by ‘more than remote’ in paragraph A55 as explanation for ‘a reasonable possibility of occurring’.

Saudi Organization for CPAs

Yes, I support the process, and we believe adding some clarifications in regard to responsibilities for managerial level personnel or partners whom will be responsible for the identification, assessment and evaluation or the change in profile of firm quality risk.

Firm's Quality risk based class of clients such as financial institutions, for which the company specialized in providing specific service for, may reflect that the risk should be managed through adequate resources, experts, highly qualified personnel, so extensive definitions and tools for managing risks will provide better results such as appetite of the risk that will reflect matrix of magnitude and probability, for such annual monitoring report is required, so on engagements level it will be clarified what is effective and efficient for risk assessment to target. Tolerable risk should be aligned with objective of setting lower level of quality risk as a quality objective then feedback will be affecting the responses if identified and maintained within gradual periodic review system, the for GAP between responses and tolerable risk identified must be analyzed, I believe that such improvements will create more logical steps and will reduce the professional judgement used by those considered other than SMPs and which are involved with significant public interest and publicly listed companies. And will be coincide with their adequacy of resources taking into account effect on public interest.

The quality management approach raise question regard how to judge both the likelihood of occurrence and the magnitude of quality risk that would have affected quality objectives stated in paragraph 18(a) and (b). Unlike the concept of risk of material misstatement in ISA 315, which is under revision, procedures necessary for understanding and assessing risks are not clearly stated and paragraph 8 emphasized only professional judgement in the design, implementation and operation of system. We believe that clarifying procedures such as observation, inquiries, walkthrough and reading policies, manuals and previous review reports may be appropriate for risk assessment understanding and identification stages. Consequently, professional judgement is applied for such procedures. In addition, those procedures would act as risk assessment understanding procedures, the same as ISA 315.

Although there is no definition or description for word "significant" as stated in paragraph 28(b), significance and likelihood are relevant to reasoning of responses. We suggest to set such a definition within ISQM to clarify the terminology as there is no materiality terminology described as in ISA 315 to judge significance.

Statement that demonstrates more precise disclaimer about the completeness of all conditions and circumstances that shall be taken into account in risk assessment will be preferable. Since circumstances' (Ref :Para A22,A23) and A60 are not exclusively specified, but are generally included in the body of the Standard, not as appendix, I suggest to raise the need for exercising professional skepticism to seek other relevant circumstances. As the ISQM is based on risk assessment and remedial actions after determining the root causes of the identified deficiencies, there are cautions that objectives of ISQM will be compromised by dealing with risks reactively, rather than proactively identifying those cases which lack of policies or adequate response and which will need responses.

Enhance such area by adding guidance for types of risks for each of the eight components and linkage them to the eight components of quality management with the appropriate responses will be very useful for that purpose although the accompanied questions, answers and examples were good guide.

Files\\4. Accounting Firms

BDO International

Definitions

'Reasonable possibility' – in the context of the risk identification and assessment process we had views from within our network that there may be a need to provide improved clarification on the definition or intention of this concept so as to avoid an excessive number of potential risks being identified.

Part (c) We support the approach adopted by the IAASB regarding the identification and assessment of quality risks and specifically the application guidance in paragraph A54. We also support the emphasis in ED-ISQM 1 for firms to use a process or threshold to identify and then assess quality risks as this leads to firms adopting a more consistent approach to risk identification and assessment. We also note that this threshold approach is in alignment with ED-315 which should aid users. While we can understand the IAASB's decision not to provide a set of quality risks as part of the requirements – by providing quality objectives and a set of prescribed responses – the IAASB has implicitly identified some of the potential quality risks that could affect a firm. Whether this is intended or not, it may at least help firms to identify some initial quality risks before going on to develop a

more customised and tailored set specific to their facts and circumstances. While we note the rationale for not including required responses for ‘Acceptance and continuance of client relationships and specific engagements’ and ‘resources’ this could lead to inconsistency in how firms respond to these components while also implying that these two areas are of lesser importance relative to the other components.

Additional implementation materials would be helpful in the following areas:

Risk Identification

Risk identification is fundamental to the effectiveness of this process and is a process that could be easily challenged; therefore, further insights with respect to the extent of risk identification, including documentation expectations, would be helpful to ensure that firms and regulators of firms will be more commonly aligned in their views of the requirements.

‘Individually and in combination’ and ‘significant impact’ concepts

The proposed standard uses these terms with respect to assessing risks. While these terms appear to have clear meanings in every day usage, application of these terms within the context of a risk assessment framework may vary among firms without additional guidance, including what support may be necessary to evidence. We recognise that some guidance has been provided in the draft FAQs (specifically number 7) however this is likely to be an area that requires more guidance.

CAS International

Yes, we support and welcome more implementation guidance.

EY Global Limited

We support the approach taken such that firms identify and assess their own quality risks and the fact that quality risks are not prescribed by the standard. We agree, as stated in paragraph 35 of the explanatory memorandum, this approach will result in the quality risks identified and assessed by a firm being customized and tailored to the nature and circumstances of the firm.

However, we disagree with the inclusion of potential quality risks in paragraph A129 as the firm should identify and assess its own quality risks. The inclusion of potential quality risks in the standard is not in line with the described intentions for the firm’s risk assessment process, which emphasize the importance of the risks being specific to the nature and circumstances of the firm. Examples of quality risks that are included in the application material could be misconstrued as quality risks that firms are expected to identify. Any example quality risks that the IAASB believes may be useful in firms’ efforts to implement ED-ISQM 1 are better suited to implementation materials, such as the FAQ materials.

In addition, see the ‘Other Matters’ section for suggested improvements to the practical example as it relates to the identification and assessment of quality risks

Grant Thornton International Limited

Firm’s risk assessment process – further guidance is needed to support the practical application of paragraphs 28 and 29, which require the identification and assessment of risks. Specifically, in respect of how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a “significant effect” should be measured or determined would be helpful.

We have highlighted a number of areas in our detailed response where we are of the view that further application material is warranted. In particular, we would highlight the requirement for firms to identify and assess risk. Specifically, how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a “significant effect” should be measured or determined would be helpful. Absent this additional application material, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting their risk assessments should they be subject to challenge by regulators or through other inspection mechanisms.

We support the concept of requiring firms to identify and assess quality risks before consideration of responses to address the risk that a quality objective is not achieved. However, we do have concerns with the two-step process of the identification of the risk and then its subsequent assessment, including introducing the thresholds of “reasonably possible” and “individually or in combination with other quality risks.” In respect of the two-step process, we are of the view that whilst this may be a conceptual way to determine the risks for which a firm may need to develop a response, it is not clear how this would be practically applied, or if there is a substantive difference between the identification requirement and assessment requirement, other than a more detailed consideration of the risks. It is also unclear what documentation would therefore be required to reflect this two-step process.

In respect of determining whether the identified risk should be further assessed, the proposals seem to introduce two thresholds that firms have to consider, firstly if it is reasonably possible and then if it is reasonably possible, whether it individually or in combination with other quality risks will have a significant effect on the achievement of the quality objective. Reasonably possible was a concept introduced in the recent ISA 315 (Revised) exposure draft, where a reasonable possibility was equated with more than remote. We note that ED-ISQM 1 follows the same approach in paragraph A55 of the proposed standard, and we would reiterate our comment in our response to the ISA 315 (Revised) exposure draft, that we do not believe that this is an

appropriate equation. Further, we are of the view, that absent the additional application material, highlighted in our response to question 3 above, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting its risk assessment should it be subject to challenge by regulators or through other inspection mechanisms.

KPMG IFRG Limited

We support the new risk-based approach to quality management. However, as described in our overarching comments, we find it counter-intuitive to the risk-based approach that there are no risks set out in the ED and yet the ED includes required responses.

We agree with the approach set out in the ED to identify the reasonable possibility of occurrence and significance of the effect when evaluating identified quality risks, thereby allowing audit firms to focus resources on risks that will have a significant impact on achieving the objective of the standard.

However, the interpretation of various elements of the ED and the assessment of those risks requires judgement, and therefore may drive inconsistent implementation by audit firms. Additional guidance may be helpful in particular related to paragraph 28 of the ED, including a description of what is considered to have a “significant effect” on the achievement of a quality objective(s).

We note that paragraph 32 of the Explanatory Memorandum states that the “IAASB is of the view that a consistent approach to identifying and assessing risks helps to reinforce key concepts of a risk based approach” and therefore the approach taken in ISQM1 for identifying and assessing risks echoes ISA 315 – Identifying and Assessing the Risks of Material Misstatements”. However, this presents challenges that in an audit engagement “significance” is grounded in financial statement materiality, while no such evaluation tool is provided in the ED for assessing significance.

Kreston International

Response: The process for identification and assessment of quality risks is appropriate. The term reasonable possibility of occurring is important for consistent application and this could be defined in the standard rather than as part of the application material.

Mazars USA LLP

Specifically, more examples of quality risks, quality indicators, and how to evaluate deficiencies and findings would be helpful.

Response: Overall, we support the process of the identification and assessment of quality risks. We are not convinced the analogy to ED-315 (see explanatory memorandum paragraph 32) is appropriate. More guidance is needed to assist firms in how the risk assessment process will take place in the context of a system of quality management as opposed to following a process similar to what is in ED-315 for risks of material misstatement in financial statement audits.

MNP LLP

Yes, we support the process for the identification and assessment of quality risk. However, more guidance would be helpful to assist with the practical application of the risk assessment process.

Moore Stephens International

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

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

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

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

Response: Yes; however, we do not support the absence of mandatory quality risks in the draft ED.

Nexia Smith & Williamson

Paragraph 28(a) refers to quality risks that have a reasonable possibility of occurring and cross-refers to paragraph A55, which then says: “There is a reasonable possibility of a quality risk occurring when the likelihood of the occurrence is more than remote.” It would seem simpler to us to change paragraph 28(a) to refer to risks that are not remote and delete paragraph A55.

Yes, we support this process.

PKF International Limited

In general, we support the process for identification and assessment of quality risks.

However, in our view there is a risk of varying interpretations of the requirements relating to the starting point of the risk assessment process. This concern arises from:

the flow chart in paragraph 33 of Section 3 “Significant Matters”, of the Explanatory Memorandum, which introduces the concept of the “whole population” of quality risks; and
paragraph 27 of ED-ISQM 1, which requires a firm to form an understanding of the factors which could adversely affect the achievement of quality objectives. Such an understanding under paragraph 27, is required to be gained by firms prior to applying the threshold test to identified risks, as set out in paragraph 28.

We believe that the concept of the “whole population” of quality risks (as per the first bullet point above), and the open-ended nature of the understanding that needs to be formed (under the second bullet point above), could each be subject to varying interpretations. In our view, some firms and other stakeholders in the standard, could interpret these two points as acting in combination to require the firm to determine, for each quality objective, a comprehensive set of quality risks for which there is no level of risk threshold. In other words, the “whole population” of risks could be interpreted as including every possible theoretical risk, no matter how trivial the theoretical risk may be in context of the corresponding quality objective.

Under such an interpretation, this “whole population” of risks may subsequently be reduced after applying the risk threshold criteria in paragraph 28 of ED-ISQM 1, but only after the initial stage of identifying quality risks prior to applying any threshold. To interpret the proposed standard along the lines we have indicated, would lead to an overly onerous process of identifying the “whole population” of risks and would undermine the scalability objectives of the ISQM project.

Consequently, in order to promote consistent interpretation and to help achieve scalability, we believe the IAASB should revise the wording on the initial stage of identifying quality risks, to provide a clearer, less ambiguous explanation on the design of this stage of the overall risk assessment process, and the related documentation requirements.

PKF South Africa

In general, we support the process for identification and assessment of quality risks. However, there is a risk of different interpretations of the requirements relating to the starting point of the risk assessment process. This concern arises from:

the flow chart in paragraph 33 of Section 3 “Significant Matters”, of the Explanatory Memorandum, which introduces the concept of the “whole population” of quality risks; and
paragraph 27 of ED-ISQM 1, which requires the firm to form an understanding of the factors which could adversely affect the achievement of quality objectives. Such an understanding under paragraph 27, is required to be gained by firms prior to applying the threshold test to identified risks, as set out in paragraph 28.

We believe that the concept of the “whole population” of quality risks (in a) above) and the open-ended nature of the understanding that needs to be formed under b) above, could each be subject to different interpretations. In our view, some parties using the standard, could interpret these two points as being a requirement on the firm to determine a comprehensive set of quality risks, for each quality objective, to which there is no level of risk threshold. In other words, the “whole population” of risks could be interpreted as including every theoretical risk, no matter how trivial the risk may be.

If the standard is interpreted, as we have suggested above, this would not achieve the scalability objectives. Rather, it would lead to considerable extra effort for firms to identify every quality risk without any minimum level to their risk. Under this interpretation of the requirements, this “whole population” of risks would then be reduced after applying the risk threshold criteria in paragraph 28 of ED-ISQM 1.

Consequently, we believe the IAASB should revise the wording applied to the initial stage of identifying quality risks, to ensure that the requirements for the initial stages of the risk assessment processes, and specifically documentation requirements, are less ambiguous to interpret and that the final wording helps to promote the scalability of the standard.

RSM International Limited

Response: Yes, but we believe this will be challenging for firms and implementation guidance is needed.

The explanatory memorandum paragraph 33 describes a two step process for the evaluation of quality risks. This process is implied, but not explicitly stated in paragraphs 28 and 29 of ED-ISQM 1. The explanation in the explanatory memorandum is helpful and should be included in the standard or application guidance. It should be emphasized more strongly that risks need to address both aspects of paragraph 28 to avoid firms believing that all potential risks would need to be considered and documented, even insignificant or unlikely risks.

Files\5. Public Sector Organizations

Auditor General South Africa

Yes, we support the process for the identification and assessment of quality risks. However, we recommend that practical examples of quality risks be provided in the application material.

It would be more beneficial to also include examples of risks to quality objectives and the assessment thereof in the application guidance.

Australasian Council of Auditors General

Yes, however increased guidance regarding the assessment of quality risks would be helpful. In particular, how to assess the significance of the effect on the achievement of a quality objective, i.e. the factors that would indicate that the ‘identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance....’ (paragraph 56).

International Organization of Supreme Audit Institutions

We agree with the process, however risk should be assessed in a dynamic way, as the engagement progresses. The standard could provide some clarification.

Provincial Auditor Saskatchewan (1)

Yes, we support the process for the identification and assessment of quality risks. Though, the Board should consider providing some examples of quality risks for clarification.

Files\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

APESB is also of the view that the application material which notes that the reasonable possibility of quality risks occurring is more than remote, may be too low of a threshold and will unnecessarily increase the number of risks which then need to be applied against the second identification threshold.

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the process of applying the threshold requirements of a reasonable possibility of occurring and significant effect to determine quality risks that require responses. However, APESB is of the view that having separate steps for identification and assessment unnecessarily complicates the process and the delineation between the two steps is unclear. These steps could be combined into one process, be it either identification or assessment, to simplify implementation.

APESB is also of the view that the application material which notes that reasonable possibility is more than remote, may be too low of a threshold and will unnecessarily increase the number of risks which then need to be applied against the second threshold.

CA Ireland

However, additional guidance would be useful, for example, in relation to identifying and addressing quality risks.

The requirement to identify quality risks is logical in the context of designing and implementing appropriate controls to address the quality risks. However, this will require a significant amount of professional judgement on the part of firms as it will require firstly the identification of the quality risk, the assessment of the possibility of the risk occurring and the effect on the achievement of the quality objectives.

This is an area which may take a considerable amount of time and effort for firms. The length of the implementation period and the availability of guidance will be of great importance.

Additional guidance with regard to the extent of risk identification and the documentation expected in this regard would be helpful to firms and regulators to ensure that their views are aligned in this regard.

Chartered Accountants Australian and New Zealand and ACCA

In light of the minimal guidance provided, we are of the opinion that practitioners will find it difficult to apply the new approach to the eight components of ED-ISQM 1. In particular, the identification of quality risks could be challenging. As the risks for SMPs and sole practitioners are likely to be similar across firms, it would be beneficial, and reduce the implementation cost, if more guidance and/or illustrative examples in this area are included in ED-ISQM1.

We support the process. However, it causes confusion as to why certain key risks aren't identified when objectives and responses are. We believe that this increases the work effort and raises concerns regarding consistent application. This additional burden will significantly impact SMPs if each firm has to start from first principles in identifying risks. Further guidance is needed in this area.

Exercise of professional judgements in determining the significance of the effect of a quality risk, Paragraph A56 of ISQM 1 states that "The significance of the effect of a quality risk on the achievement of a quality objective(s) is judged in the context of the underlying conditions and events that gave rise to the quality risk, as well as the nature and circumstances of the firm and its engagements..." It could be difficult to apply the threshold as provided in the proposed standards. ED-ISQM1 only states that there is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote. We are concerned that this is too low a bar and will lead to too many risks being identified. Firms need to focus on those risks that actually impact their quality. The work effort will be too onerous if there are too many risks and will not achieve the outcome of increasing audit quality.

In addition, to assessing what constitutes "significant effect" firms are also required to exercise professional judgement. There is minimal guidance provided on the determination of "significant of the effect of a quality risk". In the "Draft Examples: How the Nature and Circumstances of the Firm and the Engagement It Performs Affect the implementation of Proposed ISQM 1", the examples provided are mainly on ethical requirements. More guidance is therefore needed with a wider range of examples.

EXPERTsuisse

In general, we support the process for the identification and assessment of quality risks as it is very prescriptive and does not leave a lot of room for interpretation, though it may be difficult for SMPs to apply.

Paragraph A54 of ED-ISQM 1 states that "not every quality risk needs to be identified and further assessed". This statement is key regarding the scalability of the standard, whereas the likelihood of occurrence of a quality risk defined as "more than remote" leaves room for interpretation.

Institute of Chartered Accountants of Pakistan

We support the approach for establishing quality objectives but it will be very judgmental to select a threshold for identifying quality risks. Further, even after selecting a threshold, determining certain areas as high risk or low risk is also judgmental. Further, the scalability would be a challenge.

Yes, we support the process for the identification and assessment of quality risks.

Institute of Independent Auditors of Brazil (IBRACON)

Yes. The risk-based approach for identifying and assessing quality risks in ED-ISQM 1 presents the same language and principles of ED ISA 315, including the preliminary consideration of the possibility of the quality risks occurring and their effect ('educated guess') and when assessing the identified quality risks, their detailed consideration for the design and implementation of the related responses. The diagram shown in page 13 of the explanatory memorandum can contribute with the understanding and should be incorporated in the implementation guidance.

Instituto de Censores Jurados de Cuentas de España

The preparation of an illustrative list of main quality risks that can affect SMPs would be useful. However, the illustrative character of the list and the fact that every firm is responsible for the identification and assessment of their risks must be clearly stated to avoid confusion.

Yes. Despite the above stated (question 3 regarding SMPs), criteria to identify and assess quality risks are adequately set.

Malaysian Institute of CPAs

. Details of quality risks and the required related responses are not provided. If these are provided would be helpful for implementation.

(c) Yes

National Association of State Boards of Accountancy

Yes, we support the process for the identification and assessment of quality risks. Again, implementation guidance and examples would be helpful. We also recommend the concept of "reasonable possibility" be included in Paragraph 28(b) such that "if they were to occur or may have a reasonable possibility of occurring, may individually or in connection with other quality risks, have a significant effect on the achievement of a quality objective(s)."

Nordic Federation of Public Accountants

We support a risk-based approach that is tailored to the firm's nature and circumstances.

A crucial part of the risk assessment process is the threshold stated in para. 28, especially since all those risks should be assessed according to para. 29. Para. A55 describes this threshold as: "There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote". We believe that this threshold needs clarification, since "more than remote" would otherwise capture almost all imaginable risks and consequently lead to quite an amount of risk assessments and documentation. We also believe that "more than remote", without further guidance, is much lower than "a reasonable possibility of risk".

We are especially concerned with how the threshold for risk assessment should be interpreted, i.e. on risks that are "more than remote", according to para. A55. We believe that this description is very unclear and sets the threshold too low. Also, we think that "more than remote" does not correspond with the description in the related requirement paragraph (para. 28).

South African Institute of Chartered Accountants

A specific area of concern noted relates to how the firm demonstrates compliance with the risk assessment process as contained in ED-ISQM 1; particularly as it relates to the initial identification and filtering of risks, even before these are considered to be actual identified quality risks that need to be assessed.

SAICA supports the process for the identification and assessment of quality risks. Certain practical challenges have, however been noted in this regard. Firstly, ED-ISQM 1 is silent as to when and how often firms are required to assess quality risks. Paragraph A53 states that the identification and assessment process may involve a combination of ongoing and periodic procedures. It is our recommendation that a list of criteria be developed for firms to consider in determining when additional quality risks may have arisen.

The diagram illustrating the process for the identification and assessment of quality risks included on page 13 of the Explanatory Memorandum to ED-

ISQM 1 makes reference to quality risks (whole population). The concept of the whole population is further referred to in paragraph A175. Practically, there is uncertainty around how firms ensure that the whole population has been considered in the identification and assessment of quality risks. ED-ISQM 1 contains no prescribed minimum quality risks and this was an area of significant debate during our outreach activities. There were conflicting views as to whether the standard should prescribe minimum quality risks or not.

It is SAICA's understanding that a decision to not include quality risks was taken because this merely entailed writing the response in the form of a quality risk and therefore did not add any value. In testing this, we support the IAASB's decision not to include prescribed quality risks. ED-ISQM 1 does, however also not include prescribed responses to all of the components; namely Acceptance and Continuance of Client Relationships and Specific Engagements, as well as Resources. While we support the decision not to include the prescribed quality risks, we would recommend that each component at least include minimum prescribed responses that firms need to implement in addressing the identified quality risks.

This is also an area where minimum documentation requirements is seen as being welcomed; specifically with relation to what the firm is required to document for quality risks that may form part of the whole population but the nature of these quality risks is such that the firm does not believe that any further consideration with respect to the likelihood or impact is required.

In taking this a step further, we suggest that the IAASB consider providing implementation guidance on how to document the process for the identification and assessment of quality risks.

Paragraph A55 of ED-ISQM 1 indicates that there is a reasonable possibility of a risk occurring when the likelihood of its occurrence is more than remote. It is our understanding that the term more than remote has been included to address the matter of practically, where the standard is saying that the firm is not expected to note and respond to each and every risk that is identified. The term more than remote did however give rise to the concerns. Although we acknowledge that the firm is required to exercise professional judgement in the identification and assessment of quality risks, it is recommended the IAASB consider either describing more clearly what is meant by the term more than remote or additional guidance on this be included in either the application and explanatory material or in the appendix to the standard.

Questions were raised around whether the assessment of a quality risk being less than remote applies when the firm is identifying the quality risks or whether this is applied in assessing the identified quality risks. Based on the current reading of the ED-ISQM 1, it appears that the assessment of a risk being less than remote is applied when identifying the quality risk. This creates uncertainty around what is required by the firm in assessing the quality risk if the threshold relating to the likelihood of the risk occurring has already been applied.

In referring to the assessment of a quality risk, it is assumed that the assessment relates to determining the nature of the risk and the required response and is no longer about the threshold. I apply the threshold to identify the quality risks that require a response and then I assess these quality risks in determining the appropriate response.

To address the confusion that seems to be prevalent among firms, it is recommended that the two requirements relating to identifying a quality risk and then assessing the quality risk be separated into two separate requirements, in line with the way ISA 315 (Revised) is proposing this be addressed. Paragraph 28(b) makes reference to a quality risk having a significant effect on the achievement of the quality objectives. It is our view that further guidance on what is meant by significant effect is needed to clarify what the IAASB intends with this requirement.

In concluding our comments in relation to the risk identification and assessment process, it is our view that this is an area that firms, particularly SMPs are feeling uneasy about, in terms of how to practically apply these requirements. To this end, we would like to emphasise the importance of implementation guidance in this area; firstly to demonstrate how the IAASB envisages these requirements being practically applied and implemented and secondly to demonstrate how this step can be scaled to apply in the SMP environment.

The following views in relation to the documentation requirements were noted:

One view in this regard stemmed from the requirements contained in paragraph A54 of ED-ISQM 1, which states:

Under this ISQM, not every quality risk needs to be identified and further assessed. The firm identifies which quality risks need to be further assessed based on a preliminary consideration of the possibility of the quality risks occurring and the effect of the achievement of the quality objectives. Only those quality risks that meet both of the criteria in paragraph 28(a) and (b) need to be identified and further assessed.

In line with the spirit of a risk assessment process, only risks that have the potential to impact the achievement of audit quality should be considered. The conclusion reached here in relation to documentation is that the firm can think of many quality risks (i.e. the whole population) but is only required to document quality risks that have a more than remote possibility of occurring and effect may that may cause a quality objective not to be met. All other quality risks are not within the scope of the EM-ISQM 1 and therefore no documentation is required around these. A concern in relation to the monitoring of this was however noted.

In contrast to the view expressed above, the risk assessment process as contained in ED-ISQM 1 was compared to the risk identification and assessment process followed by the auditor during the performance of an audit where a risk matrix is used. Here, all identified risks are documented and then assessed in terms of being significant or not. If a similar approach is not followed in the performance and documentation of the quality management risk assessment process, the firm may experience difficulty in demonstrating that certain risks were identified but not documented because they were not considered to be quality risks within the scope of the ED-ISQM 1.

Furthermore, in performing the risk assessment process, the firm is applying professional judgement and unless this process is clearly documented, the firm may again find it difficult to demonstrate compliance with ED-ISQM 1.

In assimilating this to an area where there is current ambiguity, reference is made to paragraph 26 of ISA 240 and the requirement relating to revenue recognition. The confusion in practice relates to whether the presumed significant risk is per individual assertion that is identified or is this for all

assertions and the auditor is then required to document why certain assertions are not considered to be significant risks. It is envisaged that firms may experience similar confusion based on the requirements contained in ED-ISQM 1 in relation to the risk identification process. It is our view that as ED-ISQM 1 is currently written, the acceptable approach in relation to documentation; particularly as it relates to risk identification and assessment is not clear and is an area that requires further clarification. In taking this a step further, the monitoring of the risk assessment process, particularly as it relates to the assessment of the identified quality risk in determining whether a response is required will be challenging and a difficult assessment to make (your assessment of my assessment). This may give rise to boiler plate risks emerging.

Files\8. Academics

UNSW Audit Research Network

As noted above in our response to Question 1(b), we support the requirements as they relate to the identification and assessment of quality risks, but note in our response threats arising from the intrusion of expected responses in the assessment of quality risks, the joint versus separate assessment of likelihood and magnitude aspects of quality risks, the potential for discussion to identify a broader suite of quality risks for further consideration, and concerns that defining reasonable possibility as more than remote may cause confusion and increase the number of quality risks that will need to be identified and assessed.

The Firm's Risk Assessment Process

We note that the risk assessment process bears similarities to the risk assessment process presented in ED-ISA315 in that risks are identified before consideration of any responses (in ED-ISA315 inherent risk is determined before consideration of the controls). Research highlights that auditors incorporate an expected level of control effectiveness when making assessments of inherent risk (Miller, Cipriano and Ramsay 2012), and to the extent that this could also mean that anticipated responses intrude on the assessment of quality risks, the possibility of occurrence and significance of effect (paragraph 28a) may be underestimated. Given that this may mean that quality risks are not subject to further assessment (see paragraph A54), we believe that paragraph A54 should reinforce the requirement that the preliminary consideration of the possibility of the quality risks occurring, and the effect on the achievement of the quality objectives, is before consideration of any responses.

In addition, we note that no guidance is provided with regard to whether the assessment of quality risks with reference to possibility of occurrence and the significance of effect in paragraph 28 is a joint or separate assessment. Recent research (Simon, Smith and Zimbleman 2018) reports that decomposition of fraud risk assessments into likelihood and magnitude components (compared to a holistic / joint assessment) lead auditors to "...discount their fraud risk assessments for higher risk fraud schemes" (p. 274). To the extent that this translates into assessments of quality risks, separately assessing possibility and significance may result in critical quality risks being under-assessed. We recommend that consideration be given to amending paragraph A54 to suggest a joint consideration of possibility and significance.

For further consideration, given the importance of identifying quality risks to the firm's system of quality management, we propose that discussion be noted in the application material relating to paragraph 28 as a means of identifying quality risks, similar to the requirement in paragraph 16 of ISA240 when identifying where the entity's financial report may be susceptible to material misstatement due to fraud. Our research (Chen, Khalifa and Trotman 2015; Chen, Khalifa, Morgan and Trotman 2018), as well as that of other network members (Trotman, Simnett and Khalifa 2009) and others (e.g., Carpenter 2007) highlights the benefit of team discussion in identifying fraud risks for further consideration, and we believe that such an approach may be beneficial in identifying a broad range of quality risks that can then be the subject of a preliminary consideration. We suggest that paragraphs A53 to A54 be expanded to note team discussion as a possible mechanism through which quality risks may be identified.

Finally, we are concerned that 'reasonable possibility' is explained in paragraph A55 as being 'more than remote'. This may give rise to confusion and mean that too many quality risks will need to be assessed and responded to.

Research suggests that 'reasonable possibility' and 'more than remote' are not equivalent. In 2016, the Korean Accounting Standards Board and the Australian Accounting Standards Board reported results of a survey eliciting Korean and Australian preparers' and auditors' interpretation of linguistic probability statements contained in International Accounting Standards. Australian preparers and auditors perceived remote to mean a probability of 9.0% (range: 3.2% to 12.1%). However, these same preparers and auditors perceived reasonably possible to mean a probability of 57.2% (range: 49.7% to 72.7%). Similar results are reported in Amer, Hackenbrack and Nelson (1994), that is, remote: 12.33%; reasonably possible: 58.57%.

To the extent that paragraph 28(a) captures quality risks for which the likelihood of occurrence is more than remote (i.e., more than approximately 10%), a considerably larger number of quality risks will be identified for further assessment, and a considerably larger number of quality risks will require a response. Given that the objective of the firm is to implement a system of quality management that provides reasonable assurance, we believe that reasonable possibility is the appropriate threshold for quality risks to be subjected to further assessment and for which a response may be required.

Nodes\ED-ISQM 1_Firm Level\06(c) Process for the identification and assessment of quality risks\4. Q6(c) - Disagree

Files\3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB has concerns with the process to identify quality risks as described by paragraph 28 of ED – ISQM 1 with particular reference to: The threshold of ‘reasonable possibility of occurring’. Reasonably possible was a concept introduced in the recent ISA 315 Exposure Draft where a reasonable possibility was equated with “more than remote”. ED-ISQM 1 follows the same approach in paragraph A55 and we reiterate our comment made in response to the ISA 315 exposure draft that the AUASB does not support this concept; and The threshold of ‘if they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective’. In practice there could be challenges in the consistent interpretation and determination of the term ‘significant effect’.

Canadian Auditing and Assurance Standards Board

No. We find the two-step process to be overengineered and more complicated than it needs to be. We believe this complexity is evidenced by the draft examples provided by the IAASB with the ED, in particular scenario 2 for firms that perform compilations and review engagements. In this scenario, when identifying quality risks, the firm has identified three risks. For each of these risks, the firm has determined the likelihood of occurrence. Then, when assessing the identified quality risks, the guidance states that the firm determines the likelihood of occurrence, noting that the assessment of likelihood of occurrence is a more precise assessment of how probable it is that the quality risk will occur. Considering likelihood both when identifying and assessing risks is likely to be confusing to practitioners and may result in inconsistent application. We believe that the approach to considering likelihood could be simplified so that it is only addressed once during the process. We believe that paragraphs 28 and 29 can be combined, and the examples revised accordingly to streamline the process.

Further, for SMPs and sole practitioners, we believe guidance is needed to assist them in identifying potential quality risks that may affect their firm. As risks vary between firms, we recommend non-authoritative guidance, as opposed to application material.

We also believe that clarity is needed in determining which risks need a response. Paragraph A55 states that there is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote. It is not clear how the firm would determine what is “more than remote”. Further “more than remote” is a very low threshold compared to “reasonable possibility”. A similar issue was raised by respondents to the Exposure Draft of ISA 315 (Revised). We encourage the IAASB to delete references to “more than remote”, consistent with ISA 315 (Revised).

We support the risk assessment approach to establish quality objectives, quality risks and quality responses. However, as we note in our response to Question 6(c), we have specific concerns about the process for identifying and assessing quality risks.

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

We have a concern with the introduction of PCAOB terminology that we find inappropriate in an ISA environment, especially the terms “reasonable possibility” in paragraph 28. Even if the notion of “reasonable possibility” could be helpful to explain the level of likelihood, we consider that a different term should be used because of its connotations with standards issued by PCAOB. Moreover, associating this notion with the wording “more than remote” in paragraph A55 is confusion in an ISA environment. It implies a lower threshold than the ISA term “acceptably low level” and will confuse practitioners. Moreover, there will also be a translation issue.

We therefore recommend the IAASB to remove the notion of “reasonable possibility” from the proposed standard.

Institut Der Wirtschaftsprüfer

We refer to section 4.2 of the body of our comment letter. In this vein, we believe that the process for the identification of quality risks is inappropriate for two reasons:

First, the threshold used to identify risks is too low

Second, there needs to be some form of “materiality concept” for the risks of departure from a quality objective (i.e., a significant departure).

Unless these issues are appropriately resolved (we note that the threshold issue has not yet been resolved for ISA 315 (Revised) as yet either), we do not believe that the process for the identification of quality risks can be appropriate.

Using the statement in the application material in paragraph A54 “...not every quality risk needs to be identified and further assessed...” to seek to limit those risks that are identified that need not be further assessed without solving the risk threshold and “materiality” issue is not appropriate.

Furthermore, the threshold and materiality issues require further clarification because the diagram on page 13 of the Explanatory Memorandum and the definition in the draft indicate that the whole population of quality risks does need to be considered at the start of the identification process (see paragraph 28) and only those risks failing this 2-step threshold test on preliminary consideration would subsequently be assessed using a more detailed consideration of the same 2-step threshold test (see paragraph 29). In our view, not only the threshold issues and materiality need to be clarified, but also the difference between “preliminary consideration” and “more detailed consideration” needs to be made much clearer if this approach is to work in practice.

Identifying quality risks

The required threshold for risk identification (see paragraph A55: “There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote”), which is also proposed for ISA 315 (Revised) and is used by the PCAOB is too low. 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. This is exacerbated by the fact that quality risks must be identified and assessed for all (far too granular) quality objectives.

The definition of risks and which risks are to be identified should be based on recognized frameworks for risk management processes, e.g., COSO ERM (2017).

It is conceptually questionable to refer to a risk identification threshold defined in ED ISA 315 (Revised) which is designed for a markedly different purpose (audit of financial statements). Furthermore, the low threshold will result in the identification of too many minor risks that would need to be assessed.

We suggest that the IAASB consider whether to have the quality management process identify risks of significant departures from quality objectives that are unlikely to be at most acceptably low. These identified risks would then need to be assessed to conclude whether or not they are acceptably low. If assessed as being acceptably low, no further response is required.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: The process for the identification and assessment of quality risks is very prescriptive and does not provide a lot of flexibility in the application. From the scalability perspective, it may therefore be challenging to apply. Big firms would be able to be supported by staff that have a broad skillset including risk management, while smaller firms may fall short in having staff with such competences in house.

We did not support the introduction of PCAOB terminology that we find inappropriate in an ISA environment. While the notion of ‘reasonable possibility’ is helpful in explaining the level of likelihood, a different term should be used because of its connotations with standards issued by the PCAOB. In addition, associating this notion with the wording ‘more than remote’ is confusing in an ISA environment. It implies a lower threshold than the ISA term ‘acceptably low level’ and will confuse practitioners. We also want to stress, that using terms with only small nuances in English will trigger translation issues.

Files\4. Accounting Firms

Baker Tilly International

Response: No, we do not support the proposals for the identification and assessment of quality risks.

We are concerned that the IAASB has identified “required objectives” and “required responses” but has not identified the “required risks” to which the responses will apply. In earlier discussions with the IAASB, we understood that the Board also proposed to develop required risks. We are concerned that this is no longer the case. We believe that, for there to be an appropriate “required response”, then should be a corresponding “required risk”, otherwise it is not clear that the response will address the risk nor is it clear why the firm should implement the response.

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

Furthermore, we are concerned that there is a very “low bar” for the identification of quality risks with the standard stating that the firm is required to identify those risks which have a reasonable possibility of occurring; reasonable possibility is defined as “...the likelihood of its occurrence is more than remote” (ED-ISQM1.A55). We believe that this definition will lead to the identification of an excessively large number of quality risks which require responses. In conjunction with the lack of clarity provided by the IAASB not identifying required risks, this makes it difficult for firms to assess what is a “reasonable possibility”. However, we would not support the identification of a large number of risks which may be largely irrelevant to small and medium sized practices; as noted elsewhere we would support a more “bottom-up” or “building blocks” approach to the standard, including the identification of quality risks.

Whilst introducing a risk assessment process is reasonable, we are concerned that defining “reasonable possibility” as “anything more than remote” will mean that there a very low bar for the identification of risks for which responses are required. This is likely to lead to an excessively large number of risks and associated responses, and by extensions resources, required to address the identified risks.

We are disappointed that the IAASB has moved away from its original intention to include required risks in the standard in addition to required objectives and required responses. Indeed, we find it very difficult to understand how a risk assessment process can be incorporated into a standard which identifies responses which a firm is required to implement but to which there is no risk attached. It appears that the IAASB has taken the view that identifying risks is too difficult and has therefore delegated this to individual firms to resolve. Further support for firms in identifying quality risks is important.

Deloitte Touche Tohmatsu Limited

ED-ISQM 1 — The firm’s risk assessment process

With respect to the identification and assessment of quality risks as part of the firm’s risk assessment, DTTL recommends additional guidance regarding how to assess the significance of a quality risk, including the determination of the effect that a quality risk could have on the achievement of a quality objective. We also recommend that the requirement to perform a preliminary assessment of the significance of a quality risk followed by a “further assessment” (i.e., a more detailed consideration) of the significance of a quality risk be removed. Requiring a two-step process such as this may result in excessive documentation of risks that do not rise to the level of having a significant effect on the achievement of a quality objective. Lack of clarity in these areas could result in inappropriate execution, including inconsistencies in how quality risks are identified and assessed. (See Appendix II, Question 6(c))

Response: Consistent with previous responses, DTTL is supportive of a risk-based approach to quality management. Further, DTTL agrees with the principle in ED-ISQM 1 that it is not reasonable or practicable for firms to identify and assess every possible risk, and as such, a process that includes a threshold for identifying and assessing those quality risks that are important for the system of quality management is necessary. However, expanding upon the guidance in paragraphs A56 and A57 of the standard, we believe additional examples or explanations would be helpful to support a consistent understanding with respect to determining the “significance” of the effect of a quality risk on the achievement of a quality objective(s), including the determination of whether the quality risk would have a significant effect on the achievement of a quality objective(s) “in combination with other quality risks that have a reasonable possibility of occurring.”

Further, with respect to the two-step process for the identification and assessment of quality risks as set out in paragraphs 28 and 29 of ED-ISQM 1, while we recognize the Board’s acknowledgment that the two steps may be taken concurrently, DTTL proposes combining the requirements, as both steps involve the firm’s consideration of the possibility of risks occurring and their effect on the achievement of the quality objectives. Furthermore, maintaining the same requirement in two paragraphs creates confusion as to how the same activity (i.e., assessing quality risks) is performed twice — through a preliminary assessment and then through more detailed consideration. Specific recommendations are suggested as follows:

Paragraph 28

Based on the understanding obtained in paragraph 27, the firm shall identify and assess those quality risks, before consideration of any responses, that:
Have a reasonable possibility of occurring; and
If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

Paragraph 29

The firm shall assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses.

PriceWaterhouseCoopers

We support the concept of having a process for identifying and assessing quality risks. As noted in our response to part (b) above, we suggest that a more robust risk assessment may be encouraged through defining broader quality objectives. To complement those quality objectives, we propose introducing a requirement that describes risk factors (or “considerations”) that the firm is required to take into account in identifying and assessing the quality risks related to achieving the quality objectives for that component, in accordance with the firm’s risk assessment process.

We believe the incorporation of risk factors that a firm is required to take into account in identifying and assessing quality risks represents a pragmatic compromise between the views expressed by some stakeholders that the standard should prescribe quality risks that would be expected to be common for all firms, and the objective of requiring a firm to tailor its risks to the nature and circumstances of the firm. The standard can make clear that the required risk factors are not a definitive list, and a firm may identify additional risk factors in identifying and assessing its quality risks. Appendix 3 illustrates example risk considerations.

The proposed drafting of the prescribed quality objectives and responses implies the nature of the risks that a firm should identify. A list of factors may encourage a firm to think more broadly than only the risks implied by the prescribed responses.

We also believe this approach will provide a better bridge between the quality objectives, risks and responses.

Two-step approach to identification and assessment of risks

We find the proposed two-step process for identifying and assessing risks - making a “preliminary consideration of the possibility of the quality risks occurring and their effect on the achievement of the quality objectives”, based on a “reasonable possibility” threshold, to be both confusing and problematic to implement. The reasonably possible threshold concept, which has also been adopted in the proposed revisions to ISA 315, blurs the identification and assessment of risks by requiring an assessment of the risk for the purposes of determining whether the risk should in fact be “identified”. We think this will give rise to confusion and inconsistency in approach and documentation.

In our view, the standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome. Additional guidance could be included to explain how the firm may consider the potential likelihood and magnitude of quality risks that may occur to assist in the determination of which risks could potentially have a significant effect on the achievement of a quality objective, based on the firm’s facts and circumstances and views on how the risk factors may affect the firm.

In practice, as the explanatory memorandum states, firms are likely to identify and assess risks through a combined process. It is unclear what incremental assessment is anticipated from the “more detailed assessment” as described in the explanatory memorandum.

Paragraph 28 & A54-A57 Two-step process (refer to our response to question 6(c): We do not support the proposed two-step approach. We suggest the standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome.

Quality risks (refer to our response to question 6(c) and appendix 3): We recommend the incorporation of risk factors in each component that a firm is required to take into account in identifying and assessing quality risks related to achieving the quality objectives for that component.

Risk assessment process - We find the proposed two-step approach to identifying and assessing risks to be confusing and recommend that the Board reconsider it. The standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome. We provide further details in our response to question 6(c). In addition, similar to our suggestion with respect to the information and communication component, we also suggest that the Monitoring and Remediation component needs to be considered differently. We offer an alternative approach to addressing this component in our response to question 6(a).

This appendix illustrates our vision of quality objectives and quality risk factors, as described in our response to question 6(b), for two components. The quality risk factors are illustrative only and not intended to represent a definitive or complete list.

Component: Acceptance and continuance of client relationships and specific engagements

Quality objective: The firm enters into engagements only when it is capable, permitted and willing to perform the engagement.

Quality risk factors:

Unclear or insufficient information for assessing client and/or engagement related risks

Engagements are accepted or continued without required leadership consideration being evidenced by their approval

Higher or specific risk engagements are accepted or continued without adequate quality controls in place to appropriately manage those risks to an acceptable level

The firm does not have the resources or competence to undertake the engagement

The firm does not have access to information to perform the engagement

Financial and operational priorities lead to inappropriate acceptance or continuance judgements

Engagements are terminated without appropriately managing regulatory and client relationship issues

Component: Resources

Quality objective: The firm recruits, develops, and retains appropriate personnel to deliver quality engagements and/or to support the firm's system of quality management.

Quality risk factors:

Leadership has insufficient information to assess risks related to recruiting, developing and retaining personnel and to take action as necessary

The human capital function does not have sufficient capabilities for effective recruitment, development and retention of staff and partners

Qualified people cannot be retained

The recruitment plan does not meet resource needs

Quality objective: The firm assigns sufficient and appropriate personnel to each engagement

Quality risk factors:

Engagement partners and team members do not have the appropriate competence, capabilities, and sufficient time to perform quality engagements

Resource needs are not identified by engagement leaders on a timely basis

Qualifications of team members do not match resource requests in terms of competencies, capabilities or sufficient availability of time

Workloads of partners and staff are not appropriately managed

Insufficient information is available to assign personnel to engagements

Quality objective: The firm evaluates, compensates, and promotes personnel in a fair and transparent manner for their performance in demonstrating their commitment to quality.

Quality risk factors:

The human capital function does not have sufficient capabilities to effectively manage the objective setting, evaluation and compensation process

Roles and responsibilities of personnel are not clearly defined or communicated to enable a fair performance evaluation

Evaluation criteria are not consistent with defined objectives and expectations

Evaluation criteria were not communicated to personnel

Insufficient/ineffective coaching and feedback received from engagement leaders

Personnel perceive rewards and recognition for their performance as unfair or insufficient

Quality objective: The firm obtains or develops, implements and maintains IT systems and tools that meet users' needs and are accessible, reliable and secure and are appropriately used by personnel.

Quality risk factors:

The IT function does not have the capability to support the development and maintenance of IT applications used in quality management or in the delivery of engagements

IT applications are not properly implemented

IT applications used are not reliable

Process for granting, monitoring and revoking user access to IT applications is inappropriate

IT applications do not identify, capture, process and maintain relevant and reliable information

Quality objective: The firm provides, and personnel make use of, relevant intellectual resources that enable consistent performance of quality engagements.

Quality risk factors:

Human resources responsible for the development of intellectual resources do not have sufficient capabilities to provide efficient and effective support

Intellectual resources provided to personnel do not meet professional standards

Leadership has insufficient information to assess the effectiveness and efficiency of intellectual resources and their use by personnel and to take action as necessary

Engagement leaders do not use available intellectual resources on their engagements

Tools and guidance do not adequately support personnel for effective and efficient engagement planning, execution, reporting and documentation

Files\5. Public Sector Organizations

Office of the Auditor General New Zealand

We consider the application material in respect of identifying quality risks could be improved so that it provides more context about how the firm should go about establishing quality risks.

In respect of the process for the identification and assessment of quality risks, it is our view that the application material does not acknowledge that some quality risks will be the same each year.

Without more clarity around the identification and assessment of quality risks, the result could be that the responses the firm is required to develop become onerous and distract the firm from addressing the key risks.

We consider ED-ISQM-1 is not helpful as it includes required responses with no identified risks. While the quality risks they are addressing are obvious it does not reflect the intended process of the standard. We understand the reason for doing so was to provide flexibility and assist with the scalability. However, we consider this may also result in the benefits of the risk assessment process not being achieved as ED-ISQM 1 requires certain responses. In doing so, there is a risk firms will focus on these and retrofit the risk assessment process.

It is our view that small firms need more certainty around minimum expectations, which does not appear to be addressed in the standard. We also question the value of requiring each SMP to perform this process for essentially the same risks. We consider the IAASB should consider developing a set of common “default risks” based on the responses identified that could be included in the standard.

Files\6. Member Bodies and Other Professional Organizations

Accountancy Europe

The process for the identification and assessment of quality risks is very prescriptive and does not provide the necessary flexibility in its application. From the scalability perspective, it is likely to be challenging to apply. Large firms may well have plentiful resources with the required specialist skillsets, many SMPs, and potentially some mid-tier firms, on the other hand are less likely to have such resources.

Paragraphs 26 to 29, dealing with the firm’s risk assessment process, are not properly structured. We understand that the proposed ISQM 1 has inherited the risk identification process of ISA 315 as recently exposed by the Board.

We mentioned in our response to the ISA 315 ED that we did not support the introduction of PCAOB terminology that we find inappropriate in an ISA environment. While the notion of ‘reasonable possibility’ is helpful in explaining the level of likelihood, a different term should be used because of its connotations with standards issued by the PCAOB. In addition, associating this notion with the wording ‘more than remote’ is confusing in an ISA environment. It implies a lower threshold than the ISA term ‘acceptably low level’ and will confuse practitioners.

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.

Belgian Institute of Registered Auditors IBR-IRE

The “firm’s risk assessment process” could identify quality risks which could have a “significant effect” on the achievement of a quality objective (par. 28 b)). However, the standard does not provide a definition of “significant effect”. In this respect it is not very clear how the failure to achieve a quality objective could influence the second general objective of the standard (engagement report issued by the firm or engagement partners are appropriate in the circumstances) (See also question 12).

Center for Audit Quality

We generally support the principle of identifying and assessing quality risks. This is an important part of the system of quality management that will require sufficient time to implement effectively. However, we question whether it is necessary for the process of identifying and assessing quality risks to align with the principles in the IAASB’s recently published Exposure Draft, ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatements as noted in paragraph 32 of the Explanatory Memorandum to ED-ISQM 1. While we support a risk-based approach in both proposed standards, we believe the approach to identifying and assessing quality risks may differ compared with identifying and assessing risks of material misstatement in the context of an audit.

As it relates to paragraphs 28 and 29 of ED-ISQM 1,4 firms may not undertake these requirements in two separate steps. Further, the identification and assessment of quality risks is likely to be an iterative process. We believe firms will benefit from having flexibility in developing an approach to meet the requirements of these paragraphs. Therefore, we encourage the Board to strengthen the language used in A53 to state “In some circumstances, the identification and assessment of quality risks may be undertaken concurrently.”

CPA Australia

Response: Whilst we are supportive of a risk-based approach we consider that it is not appropriate for the requirements to specify responses without identifying the risk to which each relates. Therefore, as stated previously, we suggest providing examples of risks and present the responses as examples only.

We note that the assessment of risk is based on “reasonable possibility” of occurrence and the “significance” of the effect on achieving the objectives. Whilst we support this concept of risk, we are concerned that the application material describes “reasonable possibility” as the likelihood of occurrence of the quality risk being “more than remote”, although in our view, based on a plain English understanding of these phrases, the two terms are not equivalent. We recommend avoiding use of the phrase “more than remote” as it suggests a very low bar for identifying and assessing risk and would potentially suggest that the large majority of risks require assessment. Whilst these terms are consistent with the exposure draft for ISA 315, we also expressed the same concerns with respect to the wording in that proposed standard.

The threshold for identifying quality risks, being those with a “reasonable possibility of occurring”, which the application material states means the “likelihood of its occurrence is more than remote”, sets a low bar.

European Federation of Accountants and Auditors for SMEs

Therefore, we suggest having a higher threshold for risk identification and assessment, in place of “more than remote likelihood of occurrence”, preferably one that takes both the likelihood of occurrence and likely magnitude of impact into account.

We support the principle of applying a risk-based approach that is tailored to the firm’s nature and circumstances. However, the identification and assessment of quality risks is highly prescriptive and fails to allow much room for the exercise of professional judgement in its application. More flexibility would enhance scalability.

For many SMPs, the initial assessment of risk, and its documentation, is likely to prove especially challenging. ISQM 1 is a step change from ISQC 1 and entails significant change management.

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.

We support the principle of applying a risk-based approach that is tailored to the firm’s nature and circumstances. This is an appropriate way of addressing QM for all firms of professional accountants. In our view, the statement in para A54 “...not every quality risk needs to be identified and further assessed...” is of such significance that it should be recognized in the requirements section. However, this statement also needs further clarification, since the diagram on page 13 of the EM indicates that the whole population of quality risks need to be considered at the start of the identification process (para 28) and only those risks failing this 2-step threshold test on preliminary consideration would subsequently be assessed using a more detailed consideration of the same 2-step threshold test (para 29). In our view, the difference between “preliminary consideration” and “more detailed consideration” needs to be made much clearer if this approach is to work efficiently in practice. Our key concern in this context is still the overly low threshold as proposed (see above). 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.

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

Institute of Chartered Accountants in England and Wales

Para 28(a) which should refer to risks that are 'more than remote' rather than risks that have a 'reasonable possibility' of occurring (verbose, para A55 does nothing more than equate the two terms and should be deleted)

the proposed requirements lack internal consistency in that they include mandatory risk responses but no mandatory risks. This will be hard to explain to those not involved in the development of this standard. We acknowledge the difficulties associated with specifying mandatory risks but examples of risks, or factors to be taken into account in determining them, outside the standard, possibly in a new type of IAASB publication, may be the solution;

We note above, and in our response to ED-ISA 315, the fact that we disagree with the identification of a 'reasonable possibility' with one that is 'more than remote' as an excessively low hurdle driven, we believe, by a desire on the part of some firms to integrate as far as possible the requirements of US and IAASB standards within their methodologies. It would be more honest, given the fact that para A55 simply equates the two phrases to refer to a 'more than remote' possibility, rather than a 'reasonable' one.

We note in our main points above our concern about the lack of internal consistency in the proposals arising from the inclusion of responses for which no mandatory risks are identified. We understand the difficulties associated with articulating the range of risks that can attach to a particular response, but IAASB needs to include such risks, or at least factors to be taken into account, within an examples document outside the standard. For many firms, the initial identification, articulation and assessment of risk in particular is likely to be challenging. Assessments are likely to vary and firms might need extensive documentation to demonstrate to regulators why they have assessed risk in a particular way.

Institute of Chartered Accountants of Scotland (ICAS)

Finally, we do not support the introduction of PCAOB terminology. We do not believe that this is appropriate in an ISA environment. While the notion of ‘reasonable possibility’ is helpful in explaining the level of likelihood, a different term should be used because of its connotations with standards issued by the PCAOB. In addition, associating this notion with the wording ‘more than remote’ is confusing in an ISA environment. It implies a lower threshold than the ISA term ‘acceptably low level’ and could create confusion among practitioners.

The Finnish Association of Authorised Public Accountants

As we wrote in our response to ISA 315 (revised), the standards should not include so many different levels of risk - e.g. likelihood, 'reasonable possibility', 'more than remote' and 'acceptably low level'. The nuances of these different terms are difficult to translate and can cause inconsistency in the compliance of the standard even if the translation was perfect.

The terminology and other aspects regarding the risk assessment process should be as consistent with the revised ISA 315 as possible. The new approach to scalability, which we hope to be successfully incorporated in the revised ISA 315, should also be as consistent with ISA 315 as possible.

Wirtschaftsprüferkammer

The requirements regarding the process for the identification and assessment of quality risks are very strict and prescriptive, allowing little flexibility in the application. Options to scale down the requirements are not evident: according to Para 21 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.

Para 26 to 29 regarding the firm's risk assessment process are not easily understandable. New terminology specifically from the US PCAOB's standards is introduced ("reasonable possibility" and "more than remote likelihood" – without exploring whether these terms are aligned to the overall objective of an ISA audit (to reduce audit risk to an acceptably low level). As mentioned in our response to ISA 315 Exposure Draft the introduction of PCAOB terminology is inappropriate in an ISA environment and implies a lower threshold than the ISA term "acceptably low level".

Due to its significance we suggest to enhance the value of the statement in A54 "...not every quality risk needs to be identified and further assessed..." by relocating the statement in the requirements section.

Additional explanations are necessary regarding the consideration of the risks: it is explained in A54 that "the firm identifies which quality risks need to be further assessed based on a preliminary consideration of the possibility of the quality risks occurring and the effect on the achievement of the quality objectives. Only those quality risks that meet both of the criteria in paragraph 28(a) and (b) need to be identified and further assessed. The further assessment of the quality risks involves a more detailed consideration of the degree of the likelihood of the quality risks occurring and the significance of the effect of the quality risks on the achievement of the quality objectives".

Given the importance of the consequences of the identification and assessment of quality risks the difference between "preliminary consideration" and "more detailed consideration" must be made clearer.

The interests of audit firms who do not conduct audits of "listed entities or entities that are of significant public interest" in an appreciable extent are not adequately considered in our view.

The firm's risk assessment process is over-engineered and too complex for these audit firms. As a consequence they may struggle in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for all quality risks.

Therefore we urge the IAASB to reconsider the amount and extend of the elements in order to make the approach more feasible (see Question 4).

Moreover the threshold must be defined clearly and distinct across all jurisdictions wherever the standards are applied and should be adjusted to an "acceptably low Level".

Due to its significance we would suggest to enhance the value of the statement in A54 "...not every quality risk needs to be identified and further assessed..." by relocating the statement in the requirements section.

According to A55 an extremely low threshold would be established in the standard by the introduction of PCAOB terms ("There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote"). In our view this would imply a lower threshold than the ISA term "acceptably low level" and therefore potentially confuse practitioners and stakeholders. The threshold must be defined clearly and distinct across all jurisdictions wherever the standards are applied.

Files\9. Individuals and Others

Vera Massarygina

No

Quality objectives are introduced in para.18. Taken as a whole the project overstates the role of quality control or management system in audit firms. It is clear from para.19a), definition of Deficiency in the firm's system of quality management (referred to as "deficiency" in this ISQM). In SMPs there may be no formal system but reports may be appropriate.

Nodes\\ED-ISQM 1_Firm Level\06(c) Process for the identification and assessment of quality risks\5. Q6(c) - Unclear

Files\\4. Accounting Firms

Mazars

Additional examples would be helpful in the following areas:
quality risks;
quality indicators;
how to evaluate deficiencies.

Response: We note that the standard sets out what quality risks should address and the policies and procedures it should have in place – we are unclear where in the standard the processes required to do this are set out.

Nodes\\ED-ISQM 1_Firm Level\06(d) & 06(d)(i) Approach for designing and implementing responses\2. Q6(d)&6(d)(i) - Agree

Files\\2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

If implemented correctly, we agree that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks.

We support the approach that requires the firm to design and implement responses to address the assessed quality risks (points i. to iv. below address both questions d) i. and ii.).

Files\\3. National Auditing Standard Setters

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

We consider that this approach will result in a firm designing and implementing responses that are tailored to appropriately address the assessed quality risks.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes. The firms are required to design and implement responses to assessed quality risks. Even if the proposed prescribes some responses, the firms will develop the responses according to the specific circumstances.

Hong Kong Institute of Certified Public Accountants

We support and believe the approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks of the firm.

Japanese Institute of CPAs

We agree with the proposal.

Files\4. Accounting Firms

CAS International

Response:

Yes, we do support the approach that requires the firm to design and implement responses to address the assessed quality risk

Response:

Yes, we believe it will encourage firms to design and implement responses that suit the objectives.

Duncan and Topliss

(d) Yes, the standard clearly requires firms to design and implement responses to the assessed quality risks. Again, yes, it is clear that the firm should implement responses in addition to those required by the standard.

ETY Global

Yes. See (b)

Grant Thornton International Limited

We are of the view that if a firm commits to fulfilling the requirements of the proposed standard, it should result in responses that are appropriately designed and implemented to address the assessed quality risks. The appropriate design of responses to address the assessed quality risks is critical to the operation of a system of quality management.

Haysmacintyre LLP

Responses: yes to all above questions.

Mazars USA LLP

Response: Yes, we believe that this approach will result in the firm designing and implementing responses that are tailored to and intend to appropriately address the assessed quality risks.

Response: Yes, we support the approach that requires the firm to design and implement responses to address the assessed quality risks. This process is critical to effective implementation of ED-ISQM 1 and requires enough time to perform with an effective outcome (more support for a minimum of 24 months implementation period).

MGI Worldwide

Response

In good firms yes, in other firms, there may be too much reliance on only the required responses, which will be implemented, but the additional objectives and responses may be missed.

Nexia International

YES

Nexia Smith & Williamson

Yes, we believe that this approach will produce tailored risk assessments and responses.

PKF International Limited

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

We believe that the approach will result in a firm designing and implementing responses that are tailored to, and which will appropriately address, the assessed quality risks.

Files\\5. Public Sector Organizations

Auditor General South Africa

Yes, we do support the approach that requires the firm to design and implement responses to address the assessed quality risks. We also do believe that this approach will result in a firm designing and implementing responses that are tailored to appropriately address the assessed quality risks.

International Organization of Supreme Audit Institutions

Yes, following the requirements of the standard should lead to appropriate responses to the quality risks. However, it is not clear why previous audit failures have happened, and therefore whether it was a problem with the extant standards or for other reasons. Therefore it is difficult to assess whether the updated standard will result in improvement.

Yes.

National Audit Office of Malta

Yes.

Provincial Auditor Saskatchewan (1)

Yes, this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks.

US Government Accountability Office

We support the approach that requires a firm to design and implement responses to address the assessed quality risks. Under this approach, it is more likely that a firm will design and implement responses that are tailored to the particular assessed quality risks.

Files\\6. Member Bodies and Other Professional Organizations

California Society of CPA's

Yes.

Yes.

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

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks.

Illinois CPA Society

Response: Yes.

Response: Yes, we support that the firm should design and implement responses to address the assessed quality risks, including the responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessment given the quality risks (para. 30 and A48).

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

Response: This approach will lead to more tailored responses than the extant ISQC 1.

Response: Yes, this makes the standard more scalable.

Institute of CPAs of Uganda

ICPAU supports the approach that requires the firm to design and implement responses to address the assessed quality risks. ICPAU also believes that subject to the comments in (a) and (b), this approach will result in firms designing and implementing responses that are tailored to and appropriately address the assessed quality risks.

Institute of Independent Auditors of Brazil (IBRACON)

Yes. Although the standard already prescribes some responses, it is clear that a firm will need to design and implement additional responses. We agree that only prescriptive responses would deter firms from identifying and assessing their quality risks, considering the nature and circumstances of the firm and the engagements it performs.

Instituto de Censores Jurados de Cuentas de España

Yes. Adapting those responses in the standard (Para.24, 25, 33, 35, 39, 41 and 44 to 57) to the circumstances of the firm is reasonable.

Royal Institute of Chartered Surveyors

When a firm has identified a quality risks that has reached the threshold criteria, given the factors and guidance provided in ED-ISQM 1, we believe the firms will design and implement responses to address the assessed quality risks.

Files\\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

We believe the approach will result in tailored responses to address the assessed quality risks. This is because only identified quality risks will be responded to, considering the nature, timing and extent of the responses should reflect the reasons for the assessment. ED-ISQM on paragraph A60 clearly explains some of the factors to consider in designing a tailored response.

Yes

Nodes\\ED-ISQM 1_Firm Level\06(d) & 06(d)(i) Approach for designing and implementing responses\3. Q6(d)&6(d)(i) - Agree but with further comments

Files\\1. Monitoring Group

International Forum of Independent Audit Regulators

We recommend greater emphasis on preventative required responses that enable the firm to identify and resolve audit quality issues in a timely manner through early identification, escalation and intervention, i.e., before risks materialize.

We also recognize and support the approach taken in view of scalability and adaptability for the varying practices worldwide. We believe that complex practices (and networks) may need to do significantly more than the minimum requirements set out in the exposure draft to meet the objective. The exposure draft also does not provide sufficiently clear direction on identifying and responding to risks that relate to the quality objectives. As a result, there is a risk that auditors may overlook or not pay sufficient attention to the general requirement for responding to risks in paragraph 30. Instead, they may focus too much on the multiple

3 paragraphs in the standard that set forth the minimum responses, and such responses may only address a subset of the risks related to a particular objective.

Files\\2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

Responses

The IAASB has used the term responses to highlight the importance of responding to quality risks and the proactive nature of the new approach to quality management. However, the responses that are identified in the exposure draft are at a high level, and not conducive to testing for operating effectiveness.

Responses continue to be defined as policies or procedures, and a number of the required responses are consistent with the extant ISQC1; the continuation of this terminology into the new standard could lead to responses that cannot be tested as ongoing tasks and activities.

In our review of firm quality management practices, we observed that descriptions of responses, which took the form of processes and controls, were too high level to enable an assessment of whether the control was appropriately designed, and effective and corrective actions taken to address audit quality issues were not described or evidenced. For example, for an unplanned change in lead engagement partner, there were no evident specific actions taken by the firm to support the new partner. Firm testing focused on whether the control had been performed rather than an assessment of the effectiveness of the control. Further, certain controls did not achieve their intended control objective or were not operating effectively. For instance, in tight time frames, progress reports and monitoring were neither sufficiently frequent nor granular enough to enable proactive intervention by leadership.

COSO defines internal control as a dynamic and iterative process, with a process consisting of ongoing tasks and activities, (p.1,3) and requiring organizations to have “persuasive evidence to show that the components and relevant principles are present and functioning” (p.29) and operating together. We view these concepts as critical and recommend that they be more clearly conveyed.

Proactive Leadership for Quality Management

One of the key public interest issues that was raised for this project was the desire to strengthen proactive firm leadership to support the engagement partner in providing high-quality audit opinions and prevent an audit quality deficiency from occurring. We believe more can be done to fully realize this objective.

The term “proactive” does not appear in the proposed standard itself, and only twice in the application guidance, in reference to root causes of identified deficiencies. At the root cause phase, a proactive approach is too late to address past system failures.

One of the key findings from our review of firm quality management practices was that the policies or after-the-fact detective controls that are currently in place at some firms would not have identified an audit deficiency before the audit report was released. While these ex-post responses may form a part of a functioning system of quality management, we believe audit firms should do more to prevent audit quality issues from occurring.

The required responses that are identified in the exposure draft for the components of the system of quality management are more consistent with the findings that we identified in our review; they are not proactive. While we acknowledge that they are not intended to be comprehensive, they are perhaps indicative of the sorts of actions that would be viewed as appropriate or acceptable in addressing quality risks; ongoing monitoring activities, for example, are described in the application guidance as generally routine activities, and periodic monitoring activities, such as the inspection of training records or post-engagement reviews, are after-the-fact (A156). We believe the responses could be improved if they were more specific and provided an increased emphasis on proactive measures.

In CPAB's approach to evaluating quality processes to assess audit quality, we outline our expectations for the audit firms we regulate. For example, leadership should be able to demonstrate that they have effective processes to:

- Dynamically manage their client portfolio to identify emerging risks within their client base.
- Objectively evaluate and approve client acceptance and continuance and identify and monitor higher risk engagements.
- Reliably forecast resources, prioritize and align them to engagement risk, and resolve projected shortfalls in a timely manner.
- Monitor resource usage against capacity constraints to identify excessive workloads.
- Realign resources in a timely manner to maintain audit quality as circumstances change.
- Monitor the progress of audits and encourage two-way communication in order to support the escalation of matters requiring their intervention.

Further to the importance of proactive quality management as a public interest issue, we recommend that the IAASB identify and emphasize more proactive responses.

Adopting a more proactive approach to achieving quality results in the design and implementation of responses to quality risks, with greater emphasis on preventative measures;

Financial Reporting Council United Kingdom

We support the process for the identification and assessment of risk and an approach that requires the firm to design and implement policies and procedures in response to assessed quality risks.

We agree that this approach has the potential for firms to design and implement responses that are tailored to and appropriately address the assessed quality risks. In particular:

- ☑ The required understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives (paragraph 26) leads to an enhanced understanding of the risks, which is critical to tailoring policies and procedures so that they are responsive to the risks.
- ☑ Identifying changes and appropriately factoring them into the risk assessment process (paragraph 30) is also critical to a robust risk assessment. Changes as a result of both external and internal factors will create and change risk, and it is important that a firm implements processes that enables it to identify and evaluate the impact of changes on the quality risks on a timely basis and tailor the firm's policies and procedures accordingly.

We would also encourage the IAASB to relocate the prescribed responses to an Appendix in the standard.

Irish Auditing and Accounting Supervisory Authority

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

Files\3. National Auditing Standard Setters

AICPA

In addition, the requirement in paragraph 29 to assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses and the requirement in paragraph 30 that the design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks, are redundant. We propose that paragraphs 29 and 30 be revised as follows:

29. The firm shall assess the quality risks identified in paragraph 28 and, based on that assessment, to provide a basis for the design and implementation of the related responses. (Ref: Para. A48, A58)

30. The firm shall design and implement responses to address the assessed quality risks, including responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks. (Ref: Para. A48, A58A59–A64)

It is not explicit in the standard that one response can address quality risks in different components. We believe it would be helpful to add application guidance to state this explicitly.

We believe this has the potential for firms to appropriately address the assessed quality risks; however, we are concerned that firms will not perform the assessment as the IAASB intends for it be performed.

Peer reviews performed on non-listed entities in the United States show that many firms currently believe that they have appropriately responded to the requirements of ISQC 1 by using third-party practice aids without having tailored those practice aids to the nature and circumstances of their firm. This indicates that many firms will struggle with designing and implementing responses that are tailored to, and appropriately address, their assessed quality risks. Enough implementation time and implementation support materials will help provide firms with the opportunity to evaluate their processes and obtain the resources necessary to successfully achieve the objectives of the Proposed Standards.

We support this approach.

Canadian Auditing and Assurance Standards Board

However, determining what those responses should be will be a challenge, especially in a small firm environment. The process for determining whether a quality risk requires a response is challenging and could potentially result in practitioners determining they need a response to every risk to avoid being challenged during monitoring or other inspection. Paragraph A64 explains that a risk and response may not always be a one-to-one relationship. We believe that non-authoritative guidance needs to be developed to demonstrate this concept in more detail.

In part. The approach is based on the firm appropriately identifying risks. As noted in responses to other questions, practitioners will need guidance on identifying and assessing quality risks. If the firm does not identify the quality risks (e.g., they do not identify the “right” quality risks or all the quality risks), then the responses may not be appropriate. SMPs and sole practitioners especially will need guidance in this area.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: Yes, however we believe that especially for small firms more specific guidance is required; a catalogue of typical risks and related responses which can be then modified according to the specific circumstances would be helpful. This guidance should be separate from the standard.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

We believe that to ensure that the approach results in a firm designing and implementing responses that are tailored to and appropriately addresses the assessed quality risk, more implementation guidance is required on the application of the provisions here to ensure that the objective of the standard is achieved.

Response:

Yes, we do support the approach that requires the firm to design and implement responses to address the assessed quality risk.

New Zealand Auditing and Assurance Standards Board

The NZAuASB considers the approach should result in a firm designing and implementing tailored responses if the intent of the standard is followed. However, the NZAuASB is concerned with the amount of prescriptiveness here. By listing the required responses, there is a risk that the standard will encourage firms to take, or continue with, a bottom up approach using a “checkbox compliance” mentality and working backwards to identify risks to meet the prescribed responses. Firms may see this as the quickest way to ensure that it is, or remains, compliant with the standard.

Implementation examples, outside of the standard, may be a useful way to encourage firms (especially SMPs) to think about all relevant risks to their circumstances and thereby meeting the spirit of the standard and ensuring a great level of consistency to the risks to quality.

During our outreach workshops, we asked practitioners to firstly identify risks to the objectives and then as a second step to identify related responses. It was quickly apparent that the risk and response are related. When asked to identify risks, practitioners seemed immediately drawn to a response.

The reverse was also true, i.e., that when given the list of prescribed responses, the identification of risks generated new ideas for risks. This suggests that the requirement in paragraph 28, that stresses that the firm shall identify those quality risks before consideration of any responses, will be challenging. While we understand the logic of the IAASB’s approach, we think it likely that the starting point for many firms will be to look at what they are currently doing rather than more broadly. This in turn may result in the firm asking why they are doing what they are doing, i.e., using the responses to identify the risks.

The NZAuASB encourages the IAASB to revisit the level of prescriptiveness in the standard, in particular to avoid that type of unintended consequence.

Yes, the NZAuASB agrees in principle with the process for identification and assessment of quality risks. However, this is complicated by the inconsistency in logic, whereby the proposals include required responses with no identified risks. As mentioned above, SMPs have queried the value of requiring each individual firm to perform this process for essentially the same risks. The IAASB may consider adding a “thinking list” of common risks into the standard, based on the responses identified while still retaining the requirement for firms to identify any additional risks. This may also enhance the scalability of the standard.

Royal Nederlandse Beroepsorganisatie van Accountants

Apart from the fact that we do not believe that this approach works for ‘micro’ firms (see above), we feel that this approach will help the firms designing and implementing responses that are tailored to and appropriately address the assessed quality risks. But we worry that the high number of required objectives and responses might lead to boilerplate implementations.

Saudi Organization for CPAs

Yes we believe the approach after deliberating other answers will result in designing, implementing responses that are tailored to and appropriately addressed quality risk (kindly consider answer for question (ii) below for same purpose

We support the approach with some cautions in regard responses that we find necessary to be deliberated in future for more improvements as follow:

The responses (as defined) and the approach may be enhanced if it is specified when it is required to have general responses or specific responses and have definitions for both type of risks, for examples have sanctions from authorities or professional as result from QPR “Quality Peer Review” may request that entity has a high level of response rather than ordinary response directed toward remedial actions of inadequate response of previous deficiencies- (ex. Those with no response in leadership ac constitute control environment), i recommend to have two categories of responses (general response and specific responses categories) to be aligned also with applicable method of risk assessment approach as adopted in ISA 315 and ISA 330

Files\4. Accounting Firms

BDO International

Part (d) We support the need to design and implement responses to quality risks. This requirement ensures that firms take responsibility to create tailored responses to the assessed quality risks that they face. We also agree that ED-ISQM 1 is clear that firms have to design and implement responses in addition to those required in the standard.

Promoting a more consistent approach: as we note in our individual responses, we are supportive of the IAASB’s intent to ensure that the suite of quality management EDs provide flexibility to firms of all shapes and sizes. Even though the approach adopted in ED-ISQM 1 enables firms to add to the quality objectives and risk responses, the inconsistent provision of objectives and responses across all components could generate confusion on the part of key stakeholders (including divergent interpretations by regulators operating across different jurisdictions). This could also send mixed messages about the relative importance attached to all eight components.

While we can understand the IAASB’s decision not to provide a set of quality risks as part of the requirements – by providing quality objectives and a set of prescribed responses – the IAASB has implicitly identified some of the potential quality risks that could affect a firm. Whether this is intended or not, it may at least help firms to identify some initial quality risks before going on to develop a more customised and tailored set specific to their facts and circumstances. While we note the rationale for not including required responses for ‘Acceptance and continuance of client relationships and specific engagements’ and ‘resources’ this could lead to inconsistency in how firms respond to these components while also implying that these two areas are of lesser importance relative to the other components.

Crowe Global

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

Response: This approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks, but as with other responses, implementation support will be essential.

Deloitte Touche Tohmatsu Limited

Response: Consistent with previous responses, DTTL is supportive of a risk-based approach to quality management, including the process for designing and implementing responses to address the assessed quality risks.

With respect to the definition of response, we strongly believe that paragraph 36 of the explanatory memorandum is helpful in clarifying the Board's view that responses to quality risks are analogous to controls and, as such, the definition of response in ED-ISQM 1 has been aligned to the definition of controls in ED-315. To further facilitate a consistent understanding of the requirements, we recommend including such language within the application material to the standard.

Response: DTTL believes a risk-based approach provides a framework for firms to design and implement tailored responses that appropriately address the assessed quality risks. With respect to the required responses to quality risks, DTTL is supportive of the language included in paragraph 38 of the explanatory memorandum; specifically, the recognition that for those responses required by the standard, the firm would still tailor them, taking into account the assessed quality risks that the responses address, as well as the nature and circumstances of the firm and the engagements it performs. To further facilitate a consistent understanding of the requirements and emphasize the importance of designing responses that are based on, and responsive to, the reasons for the assessments given to the quality risks, DTTL recommends including such language within the application material to the standard.

EY Global Limited

To further clarify what is meant by responses, we recommend that the IAASB add the text from paragraph 36 of the explanatory memorandum that "responses to quality risks are analogous to controls" to the application material of the definition of response. We believe that providing this information in the application material will better assist firms to identify responses that are able to be effectively monitored.

As noted above, we support the risk assessment process included in ED-ISQM 1 that focuses a firm's attention on risks that, should they occur, would be likely to affect engagement quality for that firm, and for a firm to design and implement responses based on their own identified and assessed quality risks. Therefore, we believe that ED-ISQM 1 should place more emphasis on the importance of firms designing responses that are appropriately responsive to their own quality risks and less emphasis on required responses. The current approach of requiring a number of responses that are fairly specific in nature will, in our view, have the unintended consequence of firms focusing primarily on the required responses and not sufficiently focusing on designing and implementing a full suite of responses that are appropriate to address the firm's quality risks. See our response to Q6(d)(i) in 'Appendix 1 EYG Response to ED-ISQM 1' for further comments on the required responses included in ED-ISQM 1.

We fully support the approach for firms to design and implement responses based on the identified and assessed quality risks. Therefore, we believe that required responses in the proposed standard should be limited to as few as possible to emphasize the importance of firms designing responses that are appropriately responsive to firms' quality risks. For example, the 'Monitoring and remediation process' component has a significant number of very detailed required responses, which are not principles-based and are inconsistent in their nature and detail with the required responses in other components. See suggestions for paragraphs 44, 45, 46, 51, 53 and 54 of the 'Monitoring and remediation process' component in the 'Editorial and typographical suggestions' section below for proposals on how to make the required responses included in the component more principles-based. By limiting the number of required responses in the standard, it will appropriately promote the standard's intended behavior for firms to 'think through' the responses that are appropriate to implement based on the firm's nature and circumstances.

Further, required responses should be principles-based such that it is more evident that further tailoring to the required response for the firm's quality risks is required. Required responses that are principles-based also more easily allow for firms to make changes to their design to address future circumstances (i.e., 'future-proofing') and for firms to appropriately scale the required responses to the nature and circumstances of the firm.

We believe the IAASB should review all the required responses in ED-ISQM 1 and consider changes to those that are not sufficiently principles-based. The objective of the review is to avoid unintended consequences of narrowing a firm's consideration of the responses that are necessary in the firm's circumstances, which may be more or different responses to the narrow response identified. The consequences would then be that the required response will not mitigate the relevant identified and assessed quality risks and subsequently the related quality objective likely will not be met.

We also believe that the application material should be reviewed to avoid any examples in the application material being misconstrued to be additional required responses. The danger with overly prescriptive application material for required responses is the same as the concern noted above, that firms will focus on the responses in the application material instead of focusing on designing responses that appropriately address firms' quality risks. We believe the application material paragraphs (e.g., A68, A88, A95, A119, A134) include examples that are overly specific and should be considered for

removal or relocation to implementation materials.

Finally, we believe that required responses that directly overlap with quality objectives should be removed from the standard to improve the readability and avoid the possible unintended consequences related to required responses described above. For example, in the ‘Engagement performance’ component, the required response in paragraph 37(f) that relates to the assembly and retention of documentation is duplicative of the quality objective in paragraph 36(c) that also addresses document retention. In this instance, we recommend the quality objective in paragraph 36(c) to be reworded to “The engagement documentation is appropriately assembled and retained for an appropriate period of time” and the required response in paragraph 37(e) be deleted. We believe all required responses warrant specific re-consideration from the perspective of whether they are already sufficiently covered by a quality objective and all responses viewed to be duplicative should be deleted.

KPMG IFRG Limited

Approach to Quality Risks and Objectives

We are supportive of the enhancements to the extant standard in introducing a risk-based approach to quality management requiring the identification of quality objectives, quality risks and relevant responses to those quality risks.

However, the ED’s approach to prescribing required responses without having prescribed risks may cause confusion, as it may be viewed as counter-intuitive to not have the related risks as required in the risk-based approach.

In addition to the above, we also note there is an inconsistency in the level of granularity of the various prescribed responses between the components. For example, some components, such as “Resources” contain no prescribed responses, some components, such as “Relevant Ethical Requirements”, contain very detailed control descriptions such as 33(d), whilst others are higher level, such as 33(b). While we understand the IAASB’s preference to retain the existing requirements from extant ISQC1 (in the form of required responses), we propose deleting prescribed responses from the requirements and including these into the Application Guidance of the ED.

We agree with the concept of proactively identifying risks and designing and implementing responses to address only those risks that warrant it (i.e. the assessed risks). However, and as mentioned in our response to question 1.c) above we find it counter-intuitive that in some cases the ED prescribes required responses without identifying the risks they are addressing.

We believe the ED is clear that the firm is expected to design and implement responses in addition to those required by the standard, however we note and as included in our overarching comments, the inconsistency in the level of granularity of the various prescribed responses between the components. For example, some components, such as “Resources” contain no prescribed responses, some components, such as “Relevant Ethical Requirements”, contain very detailed control descriptions such as 33(d), whilst others are higher level, such as 33(b). While we understand the IAASB’s preference to retain the existing requirements from extant ISQC1 (in the form of required responses), we would propose deleting prescribed responses and including these into the Application Guidance of the ED.

We support the approach in the ED to designing and implementing responses to address the assessed quality risks.

However, the definition of responses currently included with the ED includes policies or procedures, but does not explicitly refer to controls. We would welcome further clarification of the meaning of the view that “responses to quality risks are analogous to controls” as included in paragraph 36 of the Explanatory Memorandum, and encourage the Board to reflect this concept in paragraphs A59-64 of the Application Guidance.

Kreston International

Response: This approach is supported.

Response: Resource constraints may make this challenging for SMPs and it is likely that in many cases commercially designed solutions will be applied with minimal tailoring to reflect the firm’s situation.

Mazars

Response: Yes, but further guidance should be provided on how to do that.

Response: Yes, it will also highlight areas where there is a requirement to put in place additional/new responses to quality risks.

MNP LLP

We believe the approach to developing quality objectives and identifying and assessing quality risks, should theoretically result in firms designing tailored responses and appropriately addressing assessed quality risks. However, there is a risk that the process and the sheer volume of quality objectives, risks and responses is of such magnitude that the firm may find it challenging to manage this amount of information. As a result, firms may be at risk of losing sight of the overall objective of the standard, which is to improve overall engagement quality.

Moore Stephens International

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

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

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

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

Response: We believe that it could have the results you desire; however, we wonder if it would not have been a better move to start with a blank sheet of paper when articulating mandatory responses. We believe that the familiarity of some of these may breed complacency with some firms which may in turn lead to sub optimal outcomes. This would be unfortunate.

Response: We do

PKF South Africa

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

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

PriceWaterhouseCoopers

We suggest our recommendations in response to parts (b) and (c) above, would further reinforce the development of tailored responses by a firm, based on a more robust quality risk assessment.

We support the approach of requiring firms to design and implement responses to address the assessed quality risks. The ED prescribes many responses, which for a number of firms will represent the majority of their responses.

RSM International Limited

Response: Yes as set out in (d) above

Response: Yes, we agree with this approach. We believe this is a key foundation to the scalability of the standard. However, we think firms will struggle to understand how to do this and therefore why we believe significant implementation guidance and training is required.

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.

The approach should result in firms designing and implementing responses tailored to address assessed quality risks.

Office of the Auditor General of Alberta

Response: ED – ISQM 1 provides a framework for which firms can use to address quality risks. As noted previously, a firm’s leadership must first be committed to quality. Without this commitment, a risk assessment process will not have a significant impact on quality.

Swedish National Audit Office

Not necessary.

There is a risk that the firm settles with the “standardized” quality objectives and also settle with the mandatory responses required by the standard. There is also a risk that the firms may “tailor” the risk to fit the already identified quality objectives and mandatory responses.

Yes.

Files\\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

APESB is of the view that the number and prescriptive nature of required responses may impact on firm’s tailoring their systems in a way that is inconsistent with the principles of the standard. As stated in response to question 6 above, firms may tailor quality risks to the required responses and not undertake a proper risk assessment based on the nature and circumstances of the firm and its engagements.

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the approach to require firms to design and implement responses to address assessed quality risks.

CA Ireland

The requirement for firms to design their own responses may result in a significant divergence within the profession therefore we would support additional guidance through Q&A and case studies to assist firms.

Yes.

Center for Audit Quality

We support the approach that requires the firm to design and implement responses to address the assessed quality risks. If a firm appropriately defines its quality objectives and risks, this would promote the design of responses that are appropriately tailored to the assessed risks, including, where applicable, additional responses that are necessary to

address risks identified by the firm. This is an important part of the risk assessment process that will require sufficient time to implement effectively. We find the concept included in paragraph 36 of the Explanatory Memo to ED-ISQM 1 that analogizes responses to controls useful. We encourage the Board to reflect this concept in paragraphs A59-64 of the application material. We believe that providing this information in the application material will better enable firms to design and implement responses to assessed quality risks that can be effectively monitored.

Chartered Accountants Australian and New Zealand and ACCA

Our answer relates to our response to c) above. It is unclear, and confusing for practitioners, as to why certain key risks aren't identified in the standard when objectives and responses are. This may result in firms trying to come up with risks that tie in with those objectives and responses rather than assessing their actual quality risks. Supplying a list of required responses may lead to a bottom up approach. We recommend that some key risks are identified in the standard, or in the application material with an additional requirement that the firm is required to assess whether there are additional risks applicable to their individual circumstances. This will reduce the implementation burden for SMPs who are likely to have a degree of commonality in key risks.

Comision Interamericana de Control de Calidad de la AIC

Yes, if you are provided with tools that tell you how to do it, contained in a practical and simple guide.

Yes, we support it

Comite Control de Calidad del ICPARD

Response: Yes, as long as you are provided with tools that tell you how to do it, contained in a practical and simple guide.

Yes, we do.

CPA Australia

In addition, the requirements specify numerous (32) responses, without taking into account the outcomes of the quality risk assessment. Inclusion of these responses in the requirements creates an expectation that they will either be carried out or a justification provided as to why they are irrelevant. This makes the standard, which aims to be principles-based, quite prescriptive for smaller firms which may not require all of the responses stipulated. The inclusion of responses in the absence of risks, is at odds with a scalable risk-based approach and makes implementation more difficult. In a risk-based approach you would expect risks to be identified first and responses only then designed to address those risks, not the reverse. It may be possible to include the responses in application material or an appendix, as suggested above, and provide examples of risks which may be faced by firms to address each quality objective. To further demonstrate scalability, examples of risks and responses could be identified for different sized firms, such as International network firms, national networks and small firms or sole practitioners. By inclusion in an appendix, the objectives and responses then become examples which can be applied by firms, amended or added to in a genuinely scalable manner. This then provides granularity and illustrates the requirements without being prescriptive, which will help small to medium practices understand how to implement the requirements but not lock them into addressing a long list of objectives and responses.

Response: We consider that it could be made clearer that additional responses are required. 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. Furthermore, the lists of responses should not be mandatory as this suggests they are definitive and will not need additional responses. Mandatory responses make the standard seem prescriptive contrary to the principles-based intention, and does not reflect that the responses should be addressing assessed risks. In addition, we question whether for some firms the responses provided may be sufficient and will not need augmentation or for others the responses may not all be necessary. Consequently, flexibility for judgement is limited even though this standard intends to be principles-based. Instead, the responses could be provided as examples in application or an appendix rather than in the requirements. This would better reflect the need for firms to develop their own responses to address identified risks.

Response: We support the requirement for responses to address assessed risks.

We note that responses are defined as "policies and procedures" (paragraph 19(t)), which is intended to reflect the definition of controls in the COSO framework. Therefore, we suggest that the IAASB considers whether the term "controls" should be used. This could assist in linking the responses needed to service providers' reports, which may be required on their controls to show their response to quality risks equivalent to service organisations' controls reports under ISAE 3402.

Response: Yes, we support the approach to responses being tailored to address risks. However, the provision of a mandatory list of responses, provided in the proposed standard, without risks having been assessed is inconsistent with the risk-based approach.

European Federation of Accountants and Auditors for SMEs

We support the IAASB's approach and consider it appropriate that SMPs identify, design and implement their responses to the quality risks to achieve the firm's quality objectives. However, we believe ED-ISQM 1 needs significant revision if it is to be truly scalable.

IFAC Small and Medium Practices Committee

Yes, the SMPC supports the IAASB's approach in this respect. It is appropriate for SMPs to identify, design and implement their responses to the quality risks to achieve the firm's quality objectives. However, it is the SMPC's contention that the standard, as it is, is too granular in trying to cater to all sizes of firms and thus, the costs of implementation may outweigh the perceived quality benefits for certain smaller SMPs

Institute of Chartered Accountants of Pakistan

Subject to our concerns on implementation challenges for SMPs, in general, if applied, this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks.

We support the approach that requires the firm to design and implement responses to address the assessed quality risks. However, as discussed earlier, for SMPs, it will be challenging to do so and would involve substantial additional cost.

Malaysian Institute of CPAs

Yes but it may challenge SMP's in terms of their technical competency, adequacy of resources and their ability to implement effectively.

National Association of State Boards of Accountancy

While the responses required by the ED-ISQM 1 are clear, we do not believe that the required responses have been appropriately connected to the quality risks. Additional guidance in this area would be helpful.

We support the approach that requires the firm to design and implement responses to address the assessed quality risks. We recommend a revision in the last sentence of Paragraph 10(c) to refer to the sufficiency of responses as "may not" instead of "will not" such that "the responses required by this ISQM alone may not be sufficient to address all of the firm's assessed quality risks..."

Self-Regulatory Organization of Auditors Association

Yes

Yes, however we recognize that it could increase volume of WP.

South African Institute of Chartered Accountants

SAICA supports the approach that requires the firm to design and implement responses to address the assessed quality risks. We believe that this approach supports the firm in the consistent performance of high quality audit engagements and ultimately achieving the objective of ED-ISQM 1. During our outreach activities, the question around whether the prescribed minimum responses are applicable to all firms in practice was raised numerous times. Participants were however not forthcoming in identifying specific responses that they felt should be removed. In relation to the documentation of responses, paragraph A63 of ED-ISQM 1 indicates that the need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm. This paragraph implies that the documentation of responses does become less formal in the smaller and less complex firms, which is welcomed in line with the objective of addressing the concerns relating to scalability. However, the concern again was noted around how the firm will demonstrate compliance where formal documentation is not required in all instances. This may give rise to practical issues during the performance of both internal and external inspections.

In terms of additional examples or explanations that may be useful, a mapping, perhaps included in the appendixes of how the responses will address the objectives will be useful. It is envisaged that this mapping will illustrate a SOQM, taking into the account the minimum prescribed requirements before exercising professional judgement in adapting the system for the unique nature of circumstances of a firm.

ED-ISQM 1 does, however also not include prescribed responses to all of the components; namely Acceptance and Continuance of Client Relationships and Specific Engagements, as well as Resources. While we support the decision not to include the prescribed quality risks, we would recommend that each component at least include minimum prescribed responses that firms need to implement in addressing the identified quality risks.

If implemented correctly by firms, SAICA believes that this approach will result in firms designing and implementing responses that are tailored to and appropriately address the assessed quality risks.

Nodes\\ED-ISQM 1_Firm Level\06(d) & 06(d)(i) Approach for designing and implementing responses\4. Q6(d)&6(d)(i) - Disagree

Files\\3. National Auditing Standard Setters

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.

Additionally, the AUASB is concerned that the pre-determined required responses may not be applicable where a firm has no associated risk. The AUASB recommends that the IAASB provide guidance / clarity around this position.

As noted previously in our response to Question 1(a), the risk assessment process as currently designed in ISQM 1 we consider may be overly complex, based on the number of prescribed quality objectives required by this proposed standard, with each component having multiple quality objectives and multiple pre-defined required responses. The AUASB recommends the removal of pre-defined required responses to quality risks in each component of ISQM 1, as we consider it appropriate that firms determine their own specific responses tailored to their specific risk circumstances.

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.

The AUASB supports the need for firms to design and implement responses to address their specific quality risks identified. However, the AUASB is not supportive of the design and implementation requirements of the standard in its current form. The AUASB considers the granular level of prescription of design and implementation responses to be counter-intuitive to the very nature of a risk-based approach. Furthermore, the AUASB questions how the standard can propose granular requirements around design and implementation to respond to assessed quality risks when the standard does not have requirements around what those risks are. Additionally, the AUASB is concerned that the pre-determined required responses may not be applicable where a firm has no associated risk. The AUASB recommends that the IAASB provide guidance / clarity around this position. This level of granularity undermines a proper application of a risk-based approach. Furthermore, the AUASB has concerns that providing a list of required responses may lead to a bottom up approach, starting with the checkbox compliance mentality and working backwards to identify risks to meet these responses.

As expressed in response to question 1(a), the AUASB considers the proposed standard to be a hybrid of risk-based quality management while retaining a granular level of prescription thereby undermining a proper application of a risk-based approach. The main theme expressed by Australian stakeholders throughout the AUASB's outreach on ISQM 1 was related to its sheer size and level of granularity. 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 without the need for such granularity.

Institut Der Wirtschaftsprüfer

We do believe that the approach will result in the firm designing and implementing responses that are tailored to and appropriately address assessed quality risks – our issue is that not all assessed quality risks need to be responded to (see our response to (d) above).

We do not support the approach that requires the firm to design and implement responses to address all assessed quality risks because the firm may assess some risks as being acceptably low, and therefore no responses are required for those risks. The draft does not appropriately deal with this issue.

Files\\4. Accounting Firms

Baker Tilly International

Response: Subject to our comments above relating to the identification of risks, firms will be encouraged to develop a response to address identified risks. However, the success of firms in doing so will depend on the level of sophistication of the firm and the extent of awareness of such risk assessment techniques in jurisdictions around the world. This is likely to be a challenge for smaller, less sophisticated firms in jurisdictions where risk assessment is not embedded in the culture in the same way as it is in the majority of the larger, more advanced economies of the world. We also draw your attention to our comments about the lack of “required risks” and the consequent inability to link the “required responses” to those risks.

Response: In any risk assessment process it is important to identify appropriate responses to any assessed risks. However, we refer you to our earlier comments about the challenges in identifying risks and our concerns that the IAASB has proposed “required responses” but has not identified the risks that those responses are intended to address. It is therefore difficult for firms to understand the full context of the required responses. Furthermore, we are concerned that there is a lack of consistency in the standard between the “required objectives” and the “required responses”. For each component there is a list of objectives followed by a list of responses. However, it is not clear how the responses map to the objective, let alone how these would link to the risks that the firm is required to identify. For example, the numbers of required objectives and required responses in certain components is as follows:

- Governance and leadership – six objectives but only three responses
- Ethical requirements – three objectives but four responses
- Acceptance and continuance – four objectives but only a single response
- Engagement performance – three objectives but six responses
- Resources – eight objectives but only a single response
- Monitoring & Remediation – only three objectives but then 13 paragraphs setting out responses.

Files\\5. Public Sector Organizations

Office of the Auditor General New Zealand

We consider ED-ISQM-1 is not helpful as it includes required responses with no identified risks. While the quality risks they are addressing are obvious it does not reflect the intended process of the standard. We understand the reason for doing so was to provide flexibility and assist with the scalability. However, we consider this may also result in the benefits of the risk assessment process not being achieved as ED-ISQM 1 requires certain responses. In doing so, there is a risk firms will focus on these and retrofit the risk assessment process.

Files\\6. Member Bodies and Other Professional Organizations

Accountancy Europe

The approach has been designed based on required and extensive quality objectives. We wonder how this approach responds to objectives where there is no risk.

Institute of Chartered Accountants in England and Wales

Tailored and appropriate responses are only as good as the assessed risks, and we note in our main points above and elsewhere in this response our concerns regarding required responses in the absence of related risks, and our belief that this needs to be addressed by IAASB. Absent such guidance, required responses looking for risks to attach themselves to may not be well matched.

Korean Institute of CPAs

If ED-ISQM 1 should retain the eight components for consistency with extant ISQC 1, it would be more appropriate to just apply requirements demanding the design and implementation of responses to assessed risks and provide more detailed quality objectives and responses as a form of consideration, which would be more aligned with the principles-based approach and give flexibility in accepting other risk management system, thereby making it possible to improve practical scalability, rather than going ahead with the extant ED-ISQM 1 proposal that provides individual requirements on quality objectives and responses and demands the inclusion of additional requirements if they occur.

We believe that the requirements, in particular, that require firms to design and implement quality objectives and responses, if ED-ISQM 1 necessitates additional ones demanded by the standards, could invite heated discussion, especially when regulators and firms are not on the same page with additional quality objectives and responses.

We believe ISQM 1 providing specified quality objectives and responses as considerations, instead of requirements, could be aligned with the principles-based approach, thereby resulting in designing and implementing tailored responses that are appropriate for assessed quality risks.

Nordic Federation of Public Accountants

This is a logical consequence of this way of drafting, i.e. combining principles-based overall objectives with several requirements. The more detailed those requirements are, the closer you get trying to achieve an exhaustive list with the consequence that you end up with a completely rules-based standard. We are not supportive of this approach.

We also wonder if this means that there are no scalability options in this part of the process.

Para. A59 and A69 include some examples of additional responses regarding the ethical requirements, but the standard does not include similar examples with regard to the other quality objectives. Without any further guidance, this requirement is entirely based on professional judgment and lacks predictability. There is a significant risk that it will be up to the regulators and oversight bodies to decide which additional responses should be designed and implemented – and also, that these expectations will be communicated first at an external quality control.

This additional requirement to “do more” is actually related to the overarching quality objective and if the associated requirements would instead have been examples of how to comply with those overarching quality objectives, this last requirement would not have been necessary and the whole structure would make more sense. Instead of having a requirement to “do more”, an alternative approach would be to use the content in the requirements as examples in the application material.

We support the approach, but we are uncertain whether the granularity within the standard and the costs related to implementation will correspond to increased quality engagements in SMPs.

The Finnish Association of Authorised Public Accountants

We support the risk approach of the standard. However, the number of different objectives and responses makes the standard quite long and we are concerned that the quality management process and also the documentation requirements hence are too heavy for the SMPs.

Wirtschaftsprüferkammer

The approach bases on extensive quality objectives. It remains unclear how the firm responds to objectives where there are no risks.

Files\9. Individuals and Others

Vera Massarygina

No, it could only increase volume of WP.

Nodes\\ED-ISQM 1_Firm Level\06(d) & 06(d)(i) Approach for designing and implementing responses\5. Q6(d)&6(d)(i) - Unclear

Nodes\\ED-ISQM 1_Firm Level\06(d)(ii) Requirements to design & implement additional responses is clear\2. Q6(d)(ii) - Requirement is clear

Files\\2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

Yes.

Files\\3. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Yes. It is clear that firms are expected to design and implement additional responses.

Hong Kong Institute of Certified Public Accountants

Besides, the standard is explicit that the firm is required to design and implement responses to address the assessed quality risks, in addition to the responses required by the standard as stated in paragraphs 10(c) and A59 of the ED-ISQM 1.

Japanese Institute of CPAs

We agree with the proposal.

Kammer der Steuerberater und Wirtschaftsprüfer

Answer: Yes.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

Yes, it is clear that the firm is expected to design and implement responses in addition to those required by the standard, in all circumstances.

Files\4. Accounting Firms

CAS International

Response:

Yes, it is clear that the firm is expected to design and implement responses in addition to those required by the standard, in all circumstances.

Deloitte Touche Tohmatsu Limited

Response: DTTL believes it is clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard. Paragraphs 10(c) and A59 are explicit in stating that the responses required by ED-ISQM 1 alone will not be sufficient to address all of the firm's assessed quality risks and, accordingly, the firm is required to design and implement additional responses.

Duncan and Topliss

(d) Yes, the standard clearly requires firms to design and implement responses to the assessed quality risks. Again, yes, it is clear that the firm should implement responses in addition to those required by the standard.

EY Global Limited

Yes, it is clear to us that the required responses included in ED-ISQM 1 are not sufficient to meet the objective of the standard and that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard.

KPMG IFRG Limited

We believe the ED is clear that the firm is expected to design and implement responses in addition to those required by the standard, however we note and as included in our overarching comments, the inconsistency in the level of granularity of the various prescribed responses between the components.

Kreston International

Response: This is clear.

MGI Worldwide

Response

It is clear but leaving judgment to the firms may mean inconsistency of approach unless the monitoring of compliance with ISQM 1 is undertaken robustly and communications at the outset are clear on the expectations.

MNP LLP

Yes, this is clear.

Moore Stephens International

Response: It is

Nexia International

YES

Nexia Smith & Williamson

Yes, we believe that this is clear.

Files\\5. Public Sector Organizations

Auditor General South Africa

It is clear throughout the ED-ISQM 1 that the firm is expected to design and implement responses in addition to those required by the standard.

Australasian Council of Auditors General

Yes, paragraph 30 sets out the requirement to design and implement responses in addition to those required by the standard.

National Audit Office of Malta

Yes.

Office of the Auditor General of Alberta

Response: Yes

Office of the Auditor General of Canada

As noted above, it is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard.

Provincial Auditor Saskatchewan (1)

Yes, it is clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard.

Swedish National Audit Office

Yes.

US Government Accountability Office

We believe that it is clear that in all circumstances the firm is expected to design and implement responses to assessed quality risks in addition to those that ED-ISQM 1 requires.

Files\6. Member Bodies and Other Professional Organizations

CA Ireland

Yes. Paragraph 10 sets out the risk assessment process, which includes “(c) Designing and implementing responses to address the assessed quality risks”. Guidance will be needed in this area.

California Society of CPA’s

Yes.

Comision Interamericana de Control de Calidad de la AIC

Yes, it is clear.

Comite Control de Calidad del ICPARD

Response: Yes, it is.

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

The other aspects addressed by the question are also sufficiently clear.

European Federation of Accountants and Auditors for SMEs

Yes, it is clear. Scalability would be enhanced if ED-ISQM 1 clarified that for many smaller firms, no additional objectives are likely to be needed.

EXPERTsuisse

Generally, it is clear that the audit firm is expected to design and implement responses in addition to those required by the standard.

Illinois CPA Society

Response: Yes.

Institute of CPAs of Uganda

ICPAU believes that there is clarity about the requirement for firms to design and implement responses in addition to those required by the standard in all circumstances.

Malaysian Institute of CPAs

(ii) Yes

Wirtschaftsprüferkammer

Yes, this is clear.

Files\9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

A firm is required to design and implement responses in addition to those required by the standard in all circumstances in response to the assessed quality risks. This consideration is clearly stated on paragraph 30 of ED-ISQM 1.

Nodes\ED-ISQM 1_Firm Level\06(d)(ii) Requirements to design & implement additional responses is clear\3. Q6(d)(ii) - Requirement is clear but conditional or with further commentary

Files\3. National Auditing Standard Setters

AICPA

In addition, paragraphs 24, 30, 33, 35, 37, 39, and 41 should be conformed to the following template:

In designing and implementing responses to To address the quality risks identified and assessed by the firm relating to the [component name] quality objectives, the firm shall design and implement responses that include, but are not limited to, the following responses:

Further explanation would be helpful, perhaps in paragraph 10c, of why required responses are not always included (for example, responses that are repetitive of the related objective were not included for conciseness). It would also be helpful to include in application material that paragraph 10c uses “will be needed” rather than “may be needed, because it is not possible to comprehensively address all of the responses needed by firms in the standard, given the varying nature and circumstances of firms and the engagements they perform.

Paragraph A59 is very clear, but we believe that this needs to be explicitly stated in the requirements section.

Australian Auditing and Assurance Standards Board

The AUASB understands the IAASB’s view - expressed in paragraph 37 of the Explanatory Memorandum to ED-ISQM 1 - that the responses in the proposed standard are not comprehensive and as a result the firm is required to design and implement responses to address assessed quality risks in addition to the responses required by the standard. However, other than perhaps for the ‘Resources’ component of ISQM 1, the AUASB considers that the need for additional responses beyond those required by the standard may be limited and does not support the wording in paragraph 10(c) and A59. The AUASB recommends that the wording in paragraph 10(c) is changed as follows:

‘.....However, the responses required by this ISQM alone will may not be sufficient to....’

The AUASB recommends that the wording in paragraph A59 is changed as follows:

“However, the responses required by this ISQM alone will may not be sufficient to address all of the firm’s assessed quality risks, as explained in paragraph 10(c). Accordingly the firm is required may need to design and implement responses in addition to those required by this ASQM.”

Institut Der Wirtschaftsprüfer

Unfortunately, we believe it is clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard. However, as we note in our responses above, not all risks need to be responded to. Furthermore, we also believe that in some circumstances (particularly for simple SMPs), the responses required by the standard may suffice. For this reason, we do not believe it to be appropriate that in all cases firms are expected to design and implement responses in addition to those required by the standard.

New Zealand Auditing and Assurance Standards Board

Yes, the NZAuASB agrees it is clear in principle that the firm is expected to design and implement responses in addition to those required by the standard. The proposals are less clear as to what would happen if the firm did not identify risks to which there are required responses.

Saudi Organization for CPAs

Yes, I previously added language to paragraphs emphasizing some kind of disclaimer regard inclusivity and completeness of applying remedial actions, or inclusivity of Responses as I have some concerns that the matter considered not to be investigated unless determined situations with required responsive area, this will result in focusing on predetermination aspect using the adequate of response rather than to identify and to be alert for more risks. so I suggested to obviously define meaningful risk and include appendix of those factors most likely exist when these risks identified. Also The degree of improvements in this area may be enhanced, with clarifying such responsibilities of updating tool of monitoring such as risk registers on component and risk within entity's tolerable quality risk, firm and engagement responsibilities for strategic risks, such as having lower fees' clients in SMPs and performance of engagement with fewer staffing depend on strategy or change of strategy of the firm that probably will be affecting overall governance and leadership's responsibilities (i.e affect more components). this type of risk may be given more emphasizes (using different terminology of deficiencies such material weakness, differentiating characteristics for overall risks within firms from those related to individual engagements). And in order assist improvements to be achieved, setting responses with simulated general and specific category situations, as so far as practices suggest, will be good idea

Files\4. Accounting Firms

Baker Tilly Virchow Krause LLP

While we believe that it is clearly stated in paragraphs 10. and A59., we believe that it should also be stated in paragraph 30. which discusses the required risk assessment process.

BDO International

Part (d) We support the need to design and implement responses to quality risks. This requirement ensures that firms take responsibility to create tailored responses to the assessed quality risks that they face. We also agree that ED-ISQM 1 is clear that firms have to design and implement responses in addition to those required in the standard.

Risk assessment process

We would also note a concern with the wording in the final sentence in ED-ISQM 1 paragraph 10 (c) and would suggest the insertion of the word 'always'. Without this word there is an implicit implication that what has been set out in the ED-ISQM 1 will never be sufficient to address all of the firm's assessed risks.

'However, the responses required by this ISQM alone will not always be sufficient to address all of the firm's assessed quality risks for the quality objectives that are required to be established by this ISQM.'

The standard makes clear in paragraphs 24, 25, 33, 35, 37, 41 and 43 of ED-ISQM 1 that the '...firm shall include the following...' however we disagree with the Explanatory Memorandum that this is presented 'explicitly' within the standard. When we compare how the IAASB has promoted the need to identify additional quality objectives (as part of an explicit requirement in paragraph 26) in our view, and notwithstanding FAQ 8 and the absence of example responses in the 'resources' component, the emphasis on identifying additional responses appears to be less clear. By effectively treating these two areas inconsistently it could send mixed messages to potential users. We do however note that the diagram used on page 15 of the explanatory memorandum does differentiate between 'response required by ISQM 1' and other 'responses' – which is another reason for the IAASB to embed this type of content in any future implementation support.

Crowe Global

Response: As with our response to 6(b)ii., practical implementation guidance is important for communicating this.

PKF International Limited

It is generally clear within ED-ISQM 1 that the firm is expected to design and implement responses in addition to those required by the standard in certain circumstances. However, in our view, this point should be reinforced by including an additional paragraph within each of the separate components of ED-ISQM 1 which repeats the expectation for the firm to design and implement responses in addition to those required by the standard in certain circumstances.

In addition, we have a concern that the use of the word "expected" within this section of the standard may lead to varying interpretations in practice.

In our view, there may be circumstances, particularly for SMPs, for which additional responses beyond those required by the standard, would not be necessary. For such firms, there is a risk that the phrase “is expected to” is interpreted to mean “shall”. Consequently, we believe that ED-ISQM 1 should use “may” rather than “is expected to”, where it refers to the firm establishing additional responses beyond those required by the standard. We believe this will also help to scale the application of the standards.

PKF South Africa

It is generally clear within ED-ISQM 1 that the firm is expected to design and implement responses in addition to those required by the standard in certain circumstances. However, this point should be reinforced by including an additional paragraph within each of the eight separate components of ED-ISQM 1 which repeats the expectation for the firm to design and implement responses in addition to those required by the standard in certain circumstances.

More importantly, we have a concern that the use of the word “expected” within this section of the standard may lead to different interpretations in practice. There may be circumstances, particularly for SMPs, for which additional responses beyond those required by the standard, would not be necessary. For such firms, there is a risk that the phrase “is expected to” is interpreted to mean “shall”. Consequently, we believe that ED-ISQM 1 should use “may” rather than “is expected to”, or provide further guidance on what “expected to” means. We believe this will also help to scale the application of the standards.

RSM International Limited

Response: Paragraph A59 is very clear, but we believe that this needs to be explicitly stated in the requirements section. We propose that paragraph 30 be revised as follows:

30. The firm shall design and implement responses to address the assessed quality risks, including but not limited to the specific responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks.”

In addition, paragraphs 24, 30, 33, 35, 37, 39, and 41 should be conformed to the following template:

In designing and implementing responses to To address the quality risks identified and assessed by the firm relating to the [component name] quality objectives, the firm shall design and implement responses that include, but are not limited to, the following responses:

Files\6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

APESB is of the view that although it is clear that firms are required to design and implement responses in addition to those required in the standard, there is a risk that as there are so many prescriptive responses, firms will not develop any of their own responses beyond these.

Center for Audit Quality

Paragraph 10 is clear which states, “However, the responses required by this ISQM alone will not be sufficient to address all the firm’s assessed quality risks for the quality objectives that are required to be established by this ISQM.” Paragraph A59 is also clear on this point. We believe it would be useful for paragraph 30 to state explicitly that additional responses are required for consistency and completeness. Suggested revisions that might make the requirement more clear are as follows:

The firm shall design and implement responses to address the assessed quality risks, including but not limited to the specific responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks.

Chartered Accountants Australian and New Zealand and ACCA

Yes, but more guidance is needed on how to document such a flexible and interrelated matrix of objectives/risks/responses where risks may map to one or multiple objectives and responses may map to one or multiple risks. Additionally, there needs to be clarity about what a firm is expected to do in situations where it completes its risk assessment procedure but legitimately does not identify any additional responses.

IFAC Small and Medium Practices Committee

Yes, the SMPC is of the view that the standard is clear in this respect, but awkward in practical application.

Institute of Singapore Chartered Accountants

While it is set out under paragraphs 10(a) and 26 that firms are expected to establish quality objectives that go beyond those required by the standard, it may be useful to give more prominence to this requirement by including it under each of the component sections. Similarly, the requirement set out under paragraph 10(c) to design and implement responses in addition to those required by the standard can be included under each of the component sections.

Royal Institute of Chartered Surveyors

Although there is a good amount of details provided in ED-ISQM 1 on this topic, a few illustrative examples could provide some useful information to the firms.

Nodes\\ED-ISQM 1_Firm Level\06(d)(ii) Requirements to design & implement additional responses is clear\4. Q6(d)(ii) - Requirement is not clear

Files\\2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

It is not clear that the firm is expected to design and implement responses in addition to those required by the standard. We suggest that paragraph 30 of ED-ISQM 1 be rephrased to:

“The firm shall design and implement the responses required by this ISQM to address the assessed quality risks. The firm shall also design and implement additional responses beyond those required in this ISQM, as responses to the additional quality risks specific to the firm that have been identified. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks.”

This clarifies that, firstly, the responses that are required by ISQM 1 are designed and implemented, and that over and above that, the firm-specific responses are designed and implemented.

We recommend that paragraphs 33, 35, 37, 39, 41 and 43 include the updated requirement set out in (ii).

We further recommend that the approach to design and implement additional firm-specific responses to address the assessed quality risks be clarified. This could possibly include a decision-making framework, or “factors to consider”, on how to design and implement responses to address the additional assessed quality risks, either as clarified requirements or additional application material.

Files\\3. National Auditing Standard Setters

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

We consider that it is not clear enough that in all circumstances the firm is expected to design and implement responses in addition to those required by the proposed standard. As a matter of fact:

Paragraph 30 is not clear enough and does not include such requirement;

There is an embedded requirement in paragraph A59 and indications are in Paragraph 10 c) but these paragraphs are non-authoritative. In particular, paragraph 10 is part of the introduction and does not specify “in all circumstances”.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: No. The ED prescribes that the firm shall design and implement responses to assessed risks, based on quality objectives. However, examples or additional guidance could be provided to describe situation when additional responses to additional risks would be needed.

Royal Nederlandse Beroepsorganisatie van Accountants

We wonder whether this is clear. In paragraph 30 it is stated that the firm shall design and implement responses to address the assessed quality risks, including the responses required by this ISQM. Implicitly this assumes that there are additional responses, but we think that this could be made more explicit.

Files\4. Accounting Firms

Baker Tilly International

Response: No, we do not believe this is clear. Nor do we support that the firm should necessarily be expected to design responses in addition to those required by the standard. In our view it would be more appropriate to require additional responses only in those circumstances where they are required rather than in all circumstances. It may be that, for small and medium practices in particular, additional responses are only required in limited circumstances.

The reference to this requirement in ED-ISQM1.30 states that firms are required to implement responses “including the required responses in this ED-ISQM”. Whilst this statement may appear clear enough on the face of it, it may be lost in the wider context of a large, complex standard.

Furthermore, in the individual components of the standard, the requirements state “in designing and implementing responses...the firm shall include the following responses” (e.g. ED-ISQM1.24 relating to Governance and Leadership). Firms may not recognize the importance of the word “include” in this context and some smaller, less sophisticated firms are likely to take this as a definitive list of responses.

Grant Thornton International Limited

We are of the view that the expectation that firms design and implement responses in addition to those required by the standard could be further emphasised. In fact, we note that paragraph 30 of ED-ISQM 1, actually emphasises the development of responses required by the standard and not responses in addition to those required by the standard. We would recommend that the statement included in paragraph 10(c) of the introduction to the proposed standard, that “the responses required by this ISQM 1 alone will not be sufficient to address all of the firm’s assessed quality risks for the quality objectives that are required to be established by this ISQM,” would be better incorporated into the requirement.

Mazars

Response: No, while this requirement is apparent, we cannot see it explicitly stated in the standard. It would be useful to include this consideration under each of the 8 components.

Mazars USA LLP

Response: While we understand this is implied and expected, we do not believe it is clear. Paragraph 30 should include the word “additional” and consideration should be given to other references in each component.

PriceWaterhouseCoopers

It is reasonably clear that a firm will need to design and implement additional responses beyond those prescribed by the standard. But, see our response to question 1(c) with respect to the risk of misunderstanding arising from the statement in paragraph 10(c).

Paragraph 10(c) Introduction (refer to our response to question 1(c)):

We recommend making explicit that the responses to risks specified in the standard will not be sufficient due to the fact that not all components have prescribed responses.

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

Files\5. Public Sector Organizations

International Organization of Supreme Audit Institutions

It is not clear that the firm is expected to design and implement additional responses in all circumstances and that this is needed. Furthermore, the notion of going 'beyond' the standard does not seem within the spirit of the approach taken (ie, to respond to risks whatever they may be).

Files\6. Member Bodies and Other Professional Organizations

CPA Australia

Response: We consider that it could be made clearer that additional responses are required. 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. Furthermore, the lists of responses should not be mandatory as this suggests they are definitive and will not need additional responses. Mandatory responses make the standard seem prescriptive contrary to the principles-based intention, and does not reflect that the responses should be addressing assessed risks. In addition, we question whether for some firms the responses provided may be sufficient and will not need augmentation or for others the responses may not all be necessary. Consequently, flexibility for judgement is limited even though this standard intends to be principles-based. Instead, the responses could be provided as examples in application or an appendix rather than in the requirements. This would better reflect the need for firms to develop their own responses to address identified risks.

Institute of Chartered Accountants in England and Wales

It is not entirely clear to some that the firm is expected to consider the need for responses in addition to those required by the standard. It would be helpful if paragraph 10c explained that additional responses beyond those required by the standard will be needed simply because there are no prescribed responses in some cases. It would also be helpful if that paragraph explained that there may be cases in which the responses already required by the standard are sufficient.

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

Institute of Chartered Accountants of Pakistan

We believe that there would be limited circumstances in which the firm would be expected to design and implement responses in addition to those required by the standard.

Instituto de Censores Jurados de Cuentas de España

In addition to the responses required by the standard, designing and implementing further measures is not clear. That's why it seems that only larger firms, with a more complex organisation and activities, will implement such additional measures. This will be also because they are already applying them as a part of their policies and procedures established by their network.

Nordic Federation of Public Accountants

This is a logical consequence of this way of drafting, i.e. combining principles-based overall objectives with several requirements. The more detailed those requirements are, the closer you get trying to achieve an exhaustive list with the consequence that you end up with a completely rules-based standard. We are not supportive of this approach.

We also wonder if this means that there are no scalability options in this part of the process.

Para. A59 and A69 include some examples of additional responses regarding the ethical requirements, but the standard does not include similar examples with regard to the other quality objectives. Without any further guidance, this requirement is entirely based on professional judgment and lacks predictability. There is a significant risk that it will be up to the regulators and oversight bodies to decide which additional responses should be

designed and implemented – and also, that these expectations will be communicated first at an external quality control.

This additional requirement to “do more” is actually related to the overarching quality objective and if the associated requirements would instead have been examples of how to comply with those overarching quality objectives, this last requirement would not have been necessary and the whole structure would make more sense. Instead of having a requirement to “do more”, an alternative approach would be to use the content in the requirements as examples in the application material.

Self-Regulatory Organization of Auditors Association

Not clear on this

South African Institute of Chartered Accountants

There is a specific paragraph contained in ED-ISQM 1 that indicates that a firm is required to design and implement responses to address the assessed quality risks, including the responses required by ED-ISQM 1. Although SAICA believes that this requirement is clear, concerns have been noted that it is not clear that additional responses are required. To this end, we suggest that this requirement be clarified by using similar wording used in relation to the quality objectives; as follows:

The firm shall design and implement responses to address the assessed quality risks. The responses to quality risks shall include those required by this ISQM, as well as any additional responses beyond those required by this ISQM, when those responses are necessary to achieve the objective of this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessment given to the quality risks.

Nodes\\ED-ISQM 1_Firm Level\06(d)(ii) Requirements to design & implement additional responses is clear\5. Q6(d)(ii) - Unclear response

Files\\6. Member Bodies and Other Professional Organizations

Accountancy Europe

Yes, it is clear. It seems clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required, in certain circumstances only. It would improve scalability if the IAASB made it clear that, for many smaller firms, no additional objectives are likely to be needed.

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

Response: Yes, the standard is a minimum that should apply to all situations, to be universally applicable.

Institute of Independent Auditors of Brazil (IBRACON)

No, because the structure of the ED stating the quality objectives in the first paragraph of each component implies that a response will also exist for each one. Similarly to 6b(ii) above, it is not clear that additional responses are always expected.

Instituto Mexicano de Contadores Públicos

Theoretically and conceptually is possible to expect that may exist, however in practice it may be difficult find it or make it.
