ED-ISQM 1 – Question 3: Application material general comments

Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

Q3 - Helpful

3. National Auditing Standard Setters

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

Even if we consider that the application material in ED-ISQM1 is helpful in supporting a consistent understanding of the requirements, we have specific comments. Please refer to comments on questions 4 and 14.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

We do believe that the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements.

4. Accounting Firms

CAS International

Yes. It is helpful.

Duncan and Topliss

R3: Yes, at this stage, the application material is thorough and numerous examples have been provided. To further this perhaps online training / webinars would be beneficial, with someone talking through the key factors for implementation?

A more detailed response can be given to this question once time is spent actually following the guidance and implementing the changes.

Haysmacintyre LLP

The application material is helpful and there are no obvious omissions or scope to reduce the material.

Kreston International

The application material should support a consistent understanding of the requirements.

6. Member Bodies and Other Professional Organizations

California Society of CPA’s

Yes.
Comision Interamericana de Control de Calidad de la AIC
Response: It has utility, but the guidance that we have suggested in the previous answers would contribute substantially to the understanding to generate the implementation, especially in the small ones.

Comite Control de Calidad del ICPARD
Response: It has its use, plus the guide that we have suggested in previous answers would contribute substantially to the understanding to generate the implementation especially in the small ones.

CPA Australia
Overall, we are supportive of the application material. Specific concerns are identified in our answers to specific questions.

Illinois CPA Society
Yes, we believe the application material in ED-ISQM 1 is helpful in supporting the requirements, however, the requirements are going to be harder for smaller firms to meet.

Institute of CPAs of Uganda
ICPAU believes that the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements subject to our comments in question 1.

9. Individuals and Others
Shady Fouad Ahmed Mehelba
Yes, I describe suggestion of improvements in other questions

Q3 - Helpful with suggestions

2. Regulators and Audit Oversight Authorities
Committee of European Auditing Oversight Bodies
11. We note that a significant volume of detail is provided in the application material to ISQM 1. Given that the requirements by themselves should provide clear direction for auditors, we suggest that the IAASB should carefully review whether some of the application material is of such importance to enable the understanding of the requirements that the content could provide additional clarity in the requirements section.

Financial Reporting Council United Kingdom
In response to Question 3, we suggested that a number of application material paragraphs could be relocated to an external guidance document when such material explains or illustrates further how a firm might fulfil a particular requirement, including the types of policies and procedures. In addition, we noted a few examples where the application material was repetitive or superfluous and could be deleted. We have summarised the examples in the table below.

Nature of Application Material
Why/What/Extension of important information
Application Material Paragraphs

A1; A2 first sentence; A3; A5-A10; A13; A15-A20; A25; A26 first sentence; A27-31; A33; A35; A40; A47 Lead in; A49 and A50 last sentence of each; A51; A54-A57; A60; A62-A66; A67 first and last sentence; A68 first sentence; A69 first sentence and last paragraph; A71 first sentence; A78 (but streamline); A81-A82; A85-A87; A89-90; A94-A97; A98; A100-A102; A106-A107; A108A111; A114-A116; A117 first sentence; A118; A120-A122; A123; Lead in of A124; A125; A129 and A130 and last part of A130; A131-A133; A135-A138; A139-A140; Lead in of A142; A143-A149; A152; A153; A154; A156-A157; A159-A160; A162-A164; A166-A174; A176-A191; A192; A194; A199-A202; A203-A204; A205; A207-A209; A211-A214

How/guidance/ examples of policies and procedures

A4; A22-A24; A26 bulleted list; A32-A34; A36; A38-A39; A41-A42; A45 Example; A46-A47; A48; A49; A50 first sentence; A52; A53; A58; A67 middle sentences; A68; A69 and A71 bulleted lists; A70; A72-A74; A76; A77; A79; A80; A84; A88; A91-A93; A97 Example; A99; A100 Example; A103-A104; A109 and A110 last sentences; A112; A117 last sentence; A119; A123 bulleted list; A124 bulleted lists; A128-A130; A127-A128; A131 Example; A134; Two examples in A138; A139 bulleted list; A141; A142 bulleted example; A150; A152 bulleted list and last sentence; A155; A158; A161; A165; A175; Bulleted list in A168 and A187; A193; A195; A197-A198; A205 bulleted list; A206; A210

Repetitive/ Superfluous

A2 second sentence; A4 first paragraph; A14; A21; A37 first two sentences; A59; A61 example; A83; A103 lead in; A113 repetition of A33; A196; A203 first sentence

We acknowledge the IAASB’s commitment to addressing scalability within ISQM1 and we are supportive of the examples and explanations included throughout the proposed standard to address scalability and aide implementation. We do, however, have some overarching concerns in relation to the length of the standard and encourage the IAASB to relocate the material that supports implementation, to guidance that exists outside the standard (‘external guidance’), such as a ‘First Time Implementation Guide’ noted in our response to question 2. In particular, a number of application material paragraphs could be relocated to external guidance when such material illustrates how a firm might fulfil a particular requirement, including examples of policies and procedures a firm might adopt in response to quality risks. Our suggestions in relation to specific paragraphs that can be relocated can be found in Appendix 5. We would also encourage the IAASB to relocate the prescribed responses to an Appendix in the standard.

Irish Auditing and Accounting Supervisory Authority

We note that a significant volume of detail is provided in the application material to ISQM 1. Given that the requirements by themselves should provide clear direction for auditors, we suggest that the IAASB should carefully review whether some of the application material is of such importance to enable the understanding of the requirements that it should be included in the requirements section.

National Association of State Boards of Accountancy

Please see previous comments on the need for additional examples.

The additional examples and explanations should focus on the size and complexity of the engagements being performed as well as the size and complexity of the firm. The client base of the firm should be considered as part of the required documentation to demonstrate competency and experience in industries and fields.
3. National Auditing Standard Setters

**AICPA**

We found the application material helpful, particularly the examples. We believe more examples that focus specifically on the risk assessment process would be useful. However, it is important to strike the right balance between providing enough examples and application material to ensure consistency in the application of the proposed standard while diminishing the unintended consequences of stakeholders’ expectations that examples are de facto requirements.

We find the application material for engagement performance equally applicable to intellectual resources; this is an example of the interrelationship between components that could be provided in implementation guidance.

Suggestions for areas where additional explanations or non-authoritative examples and illustrative tools would be helpful are included in answers to the other questions.

**Canadian Auditing and Assurance Standards Board**

ED-ISQM 1 is already long. We do not support adding more material. We suggest that the IAASB reorganize ED-ISQM 1, similar to what has been proposed for ISA 315 (Revised), so that scalability elements are clearly signposted, without adding to the length of the standard. We also encourage the IAASB to provide non-authoritative guidance to demonstrate how requirements can be customized and implemented, depending on the nature and circumstances of the firm and the types of engagements it performs. Such guidance could include examples of quality risks that would be typical to firms of these sizes to assist in the risk assessment process.

We encourage the IAASB to review ED-ISQM 1 to identify requirements or application material that could be deleted or moved to non-authoritative guidance.

**Chinese Institute of Certified Public Accountants**

The application material is helpful in supporting understanding of the requirements by providing more specific explanation. However, we found some contents in the application materials may not need to be given lengthy explanation and repetition, such as paragraph A45 and examples in A82 of ISA 220. Meanwhile, there is not enough explanation for some factors critical to firm’s quality management and audit quality, such as profit sharing, performance evaluation, network service, inspection of in-process engagement, etc. For another example, some firms are still confused about how to effectively deal with differences of opinion. Guidance in this regard is too simple (paragraphs A93-A94 of ISA 220). We suggest that more practical guidance is needed.

Overall, we recommend that standards should be reasonably detailed. We believe it’s helpful if application materials could further focus on those critical issues that firms really need practical guidance on.

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

Yes. We believe that additional examples or explanations are helpful. The use of video and other means of technology would also be helpful.
Hong Kong Institute of Certified Public Accountants

We believe the application material in ED-ISQM 1 explains sufficiently what a requirement means or is intended to cover, which supports a consistent understanding of the requirements.

As highlighted in our comments to question 2 of ED-OEM, we consider that more practical guidance on how firms can develop the system of quality management would be helpful. For example, IAASB may consider developing a case study to facilitate the firms transiting to the new quality management system.

Kammer der Steuerberater und Wirtschaftsprüfer

The application material is very helpful and already very voluminous. Nevertheless, additional examples would be supportive, especially for smaller firms to help implementation. The additional material should be placed outside the standard otherwise, they could be treated as authoritative or as best practice.

Royal Nederlandse Beroepsorganisatie van Accountants

Concrete examples are useful. However, they could also be incorporated in an appendix or outside the standard (see also overall Q2).

We also recommend to remove the duplicative texts in the application material.

In general we recommend to apply the approach of draft revised ISA 315 where “what needs to be done” is separated from “why” and “how”.

4. Accounting Firms

Baker Tilly International

Whilst the application material is generally reasonable, we believe that greater value can be provided by the “Practical Examples” documents which the IAASB has proposed to introduce. We believe that these examples, subject to comments elsewhere in our response, will prove invaluable in providing practical assistance to firms implementing the new standards. It is particularly important that the “Practical Examples” address the needs of all types of firms; the current drafts address firms at the ends of the spectrum. We believe that examples of more “typical” firms, such as those smaller firms with one or a few partners but which provide a mix of audit and other assurance services to a range of sectors which are typical of many mid-tier networks, would be particularly helpful.

Baker Tilly Virchow Krause LLP

Please see our response to question 1.2) above.

We believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standards at firms of varying sizes would be most helpful to small- and medium-sized firms.

BDO International

Yes, on balance, and subject to our comments below, we found the application guidance to be helpful to support a consistent understanding of the requirements in ED-ISQM 1. The significant increase in the application guidance sections of ED-ISQM 1 versus extant ISQC 1 may of itself be indicative of an overly complex proposed set of requirements.

That being said, we do support:
• Alignment with the IT-related concepts included within the application material to ensure consistency with ED-315 (A124-A131);

• Inclusion of application material that provides more explanation about the characteristics of public interest entities (which we acknowledge has often been an area of difference across jurisdictions) (A101-A107); and

• Clarity about how a firm may go about determining the length of an inspection cycle, including when a different length of cycle may be appropriate within the same firm (A169-A169).

Other areas that may benefit from further exploration via implementation support, include:

• Monitoring techniques (in areas such as audit quality indicators and evaluation of professional skepticism) and how this might be achieved when operationalised in a sole practitioner or SMP context.

• Extending the list in paragraph A4 to include root cause analysis and also the determination of any remedial actions. Both areas are inherently based on the need to exercise professional judgement and by including them in this list it further highlights the importance of these concepts emphasised in other parts of ED-ISQM 1.

• Including examples of firms applying a QMF during a period of change to support paragraph 6 (such as firm mergers, firm acquisitions, provision of new assurance service lines, changes in key personnel).

• Including examples of some potential positive behaviour within paragraph A123.

• Providing clarity about what is meant in paragraph 67 (c) (i) about ‘evidence of the monitoring activities performed…’ and the extent of the required documentation.

• Including explicit reference to a firm’s technical specialists (such as accounting or auditing experts who may operate in firm’s technical departments) as part of paragraph 38 (f) and (g) and associated application guidance.

• Further clarification about the objectivity of those performing the monitoring (see paragraph 46 (b) and A171).

• Adding to the set of FAQs and converting this content into a more user-friendly format (such as short videos) that may have greater impact/accessibility for users.

Crowe Global
In general, the application material is sufficient and supports the understanding of the requirements. It is comprehensive and it would not be appropriate to extend it further. There will be areas where the understanding of the standard’s requirements can be practically explained further through implementation guidance.

Deloitte Touche Tohmatsu Limited
DTTL believes the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. Specific areas where additional examples or explanations would be helpful are included in responses to individual questions below. Further, we believe certain language and illustrations included in the Explanatory Memorandum to ED-ISQM 1 are beneficial in understanding the Board’s intent. Responses
to individual questions below also include recommendations with respect to inclusion of information from the explanatory memorandum into ED-ISQM 1 to support a consistent understanding of the requirements.

ETY Global

We find the application material helpful. Templates and illustrative examples on risk assessment component as well as Information and communication component.

EY Global Limited

We generally believe the application material is helpful in supporting a consistent understanding of the requirements. We would recommend that the IAASB re-evaluate the application guidance for certain requirements such as ‘Acceptance and Continuance of Client Relationships and Specific Engagements’ in paragraphs A76 through A90 and the application material related to technological resources in paragraphs A124 through A131 because it is our view that there is an opportunity to further reduce the length by removing content that we don’t believe is necessary to understand the requirements. For example, we believe paragraphs A128 and A129 could both be deleted as we don’t believe this content is needed. See our response to Q6(c) below for additional information on why we think A129 should be removed from the proposed standard. Also see the ‘Editorial and typographical suggestions’ section for editorial suggestions to specific paragraphs in the ‘Application and Other Explanatory Material’ section.

Grant Thornton International Limited

We are of the view that additional application material would be helpful in the following areas:

- Governance and leadership – paragraph 23(a) requires firms to establish quality objectives that address the aspects of the firm’s environment that support the design, implementation and operation of the other components of the system of quality management, including the firm’s culture, and specifically that the culture promotes a commitment to quality. Further guidance in this area would be helpful, specific to how a firm would both design such a culture and evidence that this culture is in place.

- Governance and leadership – paragraph 24(a)(i) requires the individual assigned ultimate responsibility and accountability for the firm’s system of quality management to have the appropriate experience and knowledge to fulfil the assigned responsibility. Further guidance on what is meant by “appropriate experience and knowledge” would be helpful. For example, does this mean that the individual should possess qualifications in audit, and as such an advisory or tax partner would unlikely be able to fulfil this role, or that the individual should have experience and knowledge in managing a business.

- Acceptance and continuance of client relationships and specific engagements – we note that ED-ISQM 1 includes requirements relating to the consideration of the integrity and ethical values of the client. It is unclear whether these requirements are suggesting that firms should only accept or continue client relationships with clients that have ethical values that are compatible with the firm. We are the view that different firms may have different and perfectly acceptable ethical standards that are compliant with the requirements in their respective jurisdictions. This may even occur within a network of firms due to the prevailing culture and environment in each firm’s jurisdiction. In our view it is acceptable, and possible to provide a good service to clients that have appropriate, but different ethical values to those of the firm. We would recommend that this is clarified through amendment of the requirement or the provision of additional application material.
• 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.

• Engagement performance – paragraph 37(e) requires firms to establish policies or procedures that require an EQ review for audits of financial statements of entities that the firm determines are of significant public interest. Although we acknowledge that the term “significant public interest” is used in ISA 700 and similarly related application material paragraph A102 of ED-ISQM 1, is linked to entities that have a large number and wide range of stakeholders and the nature and size of the business, we are of the view that this phrase could be open to different interpretation in different jurisdictions and by different firms. As such, we are of the view that further guidance, which provides more objective criteria by which to make this assessment would be helpful. In the context of ED-ISQM 1, it is not clear if this would result in an expectation that an EQ review is performed on all charities, because of the nature of the business, or just those that have a large number and wide range of stakeholders, and if the latter, how should "large number and wide range" be interpreted. Further, given all public sector engagements potentially involve a large number and wide range of stakeholders, it is unclear whether the expectation is that all such engagements would be subject to an EQ review. Our concern is that this could have the consequence of more engagements being subject to an EQ review than intended, and lead to more negative inspection findings based solely on differences in interpretation by firms and regulators as to the engagements that the firm should determine meet the criteria of significant public interest.

We are of the view that the following application material could be deleted:

• Paragraphs A49 and A59 of ED-ISQM 1 begin by identifying the paragraphs that contain the required objectives and the required responses. If, per our recommendation below, a single paragraph that specifically requires that a firm’s system of quality management to incorporate all the quality objectives and responses in ED-ISQM 1 and to establish additional quality objectives and responses necessary that are specific to the firm’s circumstances, is incorporated into the standard, we are of the view that these paragraphs could be deleted.

KPMG IFRG Limited

We find the application material to the ED to be well written and helpful. It provides guidance around the nature of the objectives and respective responses, which could be used by audit firms when implementing responses and scaling the relevant responses to the circumstance of the audit firm (e.g. ISQM 1.A32 clarifies that assignment of roles and responsibilities depends on the complexity of the firm and provides an example of various implementation depending on the size and complexity of the firm, i.e. a smaller firm may have only one managing partner as opposed to a larger firm with multiple levels of leadership).

We also note that some of the statements and graphics included in the Explanatory Memorandum section of ED are beneficial to understanding an interpreting the ED, such as the “house” image.

We have highlighted some examples throughout this response where additional materials may be helpful, including highlighting some of the content from the Explanatory Memorandum that we would recommend including in the standard.
Mazars USA LLP
We found the graphics and certain other information in the Explanatory Memo Section of ED-ISQM 1 quite helpful in understanding the proposed standard. We would support retention of some of these materials in the application or other materials issued for implementation support. Specifically, more examples of quality risks, quality indicators, and how to evaluate deficiencies and findings would be helpful.

MGI Worldwide
The application material is generally helpful in explaining the requirements and providing examples of what the requirements mean and how they may be addressed. Any help that can be provided to users of the standard will be useful and should be encouraged. We feel that the application material (or further guidance to be issued by IAASB) should use less technical language to be more approachable and understandable, especially for those whose English is not the first language.

MNP LLP
Yes, the application material is helpful. The standard would be difficult to implement without the application material as presented. As mentioned in 2) above, more practical examples of quality objectives, quality risks and how to practically apply the risk assessment process would be beneficial.

Moore Stephens International
The application material is largely helpful; the issues are the amount of application material which some may find excessive and the degree to which the material may be perceived as being effectively mandatory in certain quarters.

Nexia International
Smaller firms do need further guidance, with appropriate examples.

Nexia Smith & Williamson
We have already noted some instances above where further guidance or examples would be helpful.

By contrast, some of the examples given in ED-ISQM 1 appear to us to be so obvious as not to need stating:

- Paragraph A38 is perfectly understandable without the example.
- The expression “all personnel” in the final bullet of paragraph A119 is perfectly understandable without the following three lines of explanation.
- The final sentence of paragraph A189 would be more helpful if it talked about some of the factors that would help those assigned ultimate responsibility to draw conclusions, rather than simply stating the fact that the information presented to them needs to enable to draw a conclusion.

PKF International Limited
The application material is generally helpful in supporting a consistent understanding of the requirements.

However, as noted elsewhere within this response, there are certain sections of the standard, including within the application guidance, which we believe could be enhanced with additional guidance.
PKF South Africa

The application material is generally helpful in supporting a consistent understanding of the requirements. As noted elsewhere within this response, there are certain sections of the standard, including within the application guidance, which we believe could be enhanced with additional guidance.

PriceWaterhouseCoopers

We have provided substantive and editorial comments on the application material within appendix 4 of this letter.

RSM International Limited

As discussed above, whilst the existing application material is helpful, we do consider that a comprehensive example will be necessary to assist smaller firms to successfully implement ED-ISQM 1.

5. Public Sector Organizations

Auditor General South Africa

Yes, the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. The application material is voluminous but the referencing of the application material to the requirements of the standard provides an efficient manner to work through and find the appropriate 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

See responses to question 2, 6(c) and 11 regarding examples where additional guidance would be helpful.

ED-ISQM 1 is notably longer than the extant ISQC 1. There is an opportunity to incorporate the content from Appendix 1 into the application material to avoid duplication.

National Audit Office of Malta

Perhaps a section could be included in the standard on the preparation of the Quality Management Review Report that would be prepared as a result of the review of its quality management system.

Office of the Auditor General New Zealand

For the most part the application material in the proposed standard is helpful in understanding the requirements but could be shortened as a lot of the material does not add any additional information to assist with the application, and is repetitive in nature.

Office of the Auditor General of Alberta

The application materials are helpful to provide an understanding of requirements; however, they should be further improved by incorporating the graphics included in the Explanatory Memorandum. We specifically feel that “The Components of a System of Quality Management” (page 7) and “Objective of the Firm” flowcharts (found on multiple pages – 11, 12, 15, 24)) provide significant value.

The question explicitly asks about ‘consistency’ and we note that ED-ISQM 1 decreases consistency from the current standards because ED-ISQM 1 is more principals based versus requirement based. ED-ISQM 1
intentionally introduces scalability and increases the use of professional judgement, which both decrease consistency.

**Swedish National Audit Office**

In general, yes. Though we would suggest moving some of the material from the requirements to the application section. See our responses to specific questions.

**US Government Accountability Office**

We suggest that additional application material be added to help government audit organizations apply the standards, particularly to address scalability, as noted in our response to 1c above.

### 6. Member Bodies and Other Professional Organizations

**Accountancy Europe**

As noted above, to support a consistent understanding, firms need to fully understand what they need to do more to comply in comparison with what is required today. Given the fact that the application material is rather voluminous, we would be in favour of reducing it while still placing this useful guidance outside the standard. The IAASB should use its new category of examples document and Frequently Asked Questions. Nevertheless, it should be clear that these examples are not to be treated as authoritative or as best practice, and that there are just examples.

**Belgian Institute of Registered Auditors IBR-IRE**

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

Some A paragraphs go further than the purpose of helping to a "proper understanding" mentioned in par. 16: they give guidance on the implementation and therefore they could be misinterpreted by a regulator as "best practices" and be declared or applied as mandatory. We therefore also propose that the use of "may" should always be followed by a "for example" in the A-paragraphs to avoid confusion or possible misinterpretation (an explicit example can be found in par. A69).

As previously mentioned, we believe that the application material should be reduced. A lot of A paragraphs develop too extensively things that are obvious, without added value in comparison with the corresponding requirement. They should be rationalized to avoid repetitions (without added-value) and cross references.

**CA Ireland**

Yes, in general, the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. Given the length of the standard we are reluctant to require the application guidance to be expanded. However, additional guidance would be useful, for example, in relation to identifying and addressing quality risks.

Practical material such as Frequently Asked Questions and other illustrations of “best practice” will greatly aid the firms implementing this new standard. The “Draft Examples: How the Nature and Circumstances of the Firm and the Engagements it Performs Affect the Implementation of Proposed ISQM 1” are useful however, we would suggest that additional examples would be helpful.
Center for Audit Quality

Certain statements and graphics included in the Explanatory Memo section of ED-ISQM 1 are beneficial to assist in understanding the Board’s intent or clarifying how the requirements are expected to be implemented. We provide examples throughout our letter of information from the Explanatory Memo to ED-ISQM 1 that we recommend including in the final standard or application material.

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

In CNDCEC opinion, the application material included in ED-ISQM 1 provides useful explanations of the requirements of the standard as well as valuable guidance for their implementation.

As stated in the previous answer, it would be useful to further examine the comparison of the new system with the quality control system already implemented in small and medium practices based on the ISQC 1 currently in force.

European Federation of Accountants and Auditors for SMEs

We suggest the IAASB consider providing examples that demonstrate how very small SMPs that do not audit listed companies or PIEs can meet the requirements of the monitoring and remediation process.

IFAC Small and Medicum Practices Committee

We suggest that rather than including more examples within the already lengthy standard, such examples might be best included in other supporting material.

The SMPC is also cognizant that it may be difficult for a firm to assess whether additional examples or other application material would be helpful at this stage. The firm will need to decipher the whole standard [as well as ISA 220 (Revised)] and implement the requirements throughout the firm or as per the client assignment to determine if further examples and guidance could be useful. Hence, the IAASB should be prepared to respond quickly to implementation issues once the standard is effective. This can be done through the issuance of staff publication or other shorter, more succinct materials. The EM includes various diagrams to explain the approach to particular issues, which are arguably easier to understand than the text of the ED. We believe that a similar approach should be adopted in the production of any future application support materials.

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

The development of practical examples is preferred to theoretical guidance. The distinguishing of different scenarios (small firms, larger firms; compilation engagements, review engagements, audit of financial statements of SMEs, audit of financial statements of public or listed entities, multiple engagements, …) is also helpful.

Institute of Chartered Accountants of Pakistan

The application material would be helpful in supporting a consistent understanding of the requirements. However, in its present form the application material seems to be too lengthy to encourage readers to go through the entire application material. We suggest IASB to reconsider the content, length and interaction of the application guidance to further refine the guidance.
Institute of Chartered Accountants of Scotland (ICAS)

As previously mentioned, the standard is currently longer than extant ISQC1, therefore, we would not be in favour of increasing the application material currently included within the standard.

When we refer to a need for greater clarity in some areas, we would not propose further detail to be included within the standard itself. Rather, we would support content that sits outside the standard. For example, the production of a list of frequently asked questions or a series of practical implementation tools and resources may be a helpful alternative source of reference and would help to support consistent application and understanding of the requirements.

Institute of Independent Auditors of Brazil (IBRACON)

In general, the application material is always helpful. However, in this ED, there are some areas that can be reduced and simplified, such as A76 through A90 and A124 through A131.

Instituto de Censores Jurados de Cuentas de España

Yes, in general, the application material is more descriptive, and the proposals are much more aligned to the reality of the firms that they used to be in ISQC1. However, the proposed application material section is excessively long. There is a substantial difference between the number of paragraphs in ISQM1 and ISQC1 (214 and 75 respectively). In this regard, a simplified version addressed to SMPs or examples or additional guidelines to help putting in place this new Quality Management System, would be desirable.

Regarding those areas that need more examples or further explanations:

• There are no specific considerations addressed to PIE auditors. This would help make the standard more scalable and would help its implementation.

• 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.

Malaysian Institute of CPAs

Yes.

New York State Society of CPAs

Response: We recommend including certain graphics and other information in the Explanatory Memo Section in the final standard, as well as more examples on such areas as evaluating deficiencies, quality measurements, and quality risks to consider, as they would be beneficial in aiding an understanding of the rules.

Nordic Federation of Public Accountants

It is fundamental for the implementation to understand the structure of the standard with regard to scalability. We therefore encourage the IAASB to put extra focus on clarifying how the scalability options in para. 21 are intended to be used. Any additional examples in the standard should focus on how scalability could be used rather than on examples of situations that for obvious reasons are not applicable.

Overall, we believe that the clarity of the standard would benefit by reducing its length. For example, we suggest that the application material should only include descriptions and examples of how to comply with...
the requirements. Explanations regarding the rationale behind having the requirements should be moved to another document, for example Basis of Conclusions.

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

Self-Regulatory Organization of Auditors Association

Yes, but not only application material should be reduced but the text of the entire standard includes redundant statements, for example para.9-16, 20, 21 etc.

South African Institute of Chartered Accountants

In relation to the length of ED-ISQM 1, it is SAICA’s view that the standard is not too long and that the additional application material is welcomed in providing further implementation guidance.

The application material in ED-ISQM 1 is helpful in supporting consistent understanding of the requirements.

In engaging our members on the QM-EDs, a discussion around whether the paragraphs entitled Considerations Specific to Smaller Entities should be re-introduced. It is our understanding that that the IAASB Task Force intends drafting appendixes for each of the eight components. In light of the move by the IAASB Task Force to draft such appendixes, the general consensus was that the re-introduction of these paragraphs is not necessary if the appendixes contain guidance on how each of these elements will be practically implemented in the different circumstances that arise as a result of different firm dynamics.

The Finnish Association of Authorised Public Accountants

As pointed out in the previous answers, guidance and tools should be provided to help with the scalability and the transformation from the existing systems to the revised one.

Wirtschaftspruferkammer

We would recommend relocating parts of the bulky application material outside the standard (e.g. Frequently Asked Questions-Document). On the one hand, this would reduce the volume of standards and, on the other hand, enable the IAASB to respond promptly and on a daily basis whenever there is a need for clarification. Moreover it should be emphasised that these examples are not authoritative or regarded as a best practice.

8. Academics

UNSW Audit Research Network

We believe that the application material is useful, but only to the extent that it elaborates on and provides context for the requirements. We are less supportive of application material that provides illustrations of how
the principle may be reflected in practice. By providing these illustrations, not only is the longevity of the
standard threatened as new and superior illustrations are identified through, for example, practitioner
experience and research, the illustrations threaten principles based standard setting in that they may be
seen as being requirements and encourage a checklist mentality in which the illustrations are applied
without question (even if they are inappropriate), potentially at the expense of other, more appropriate,
responses.

Where illustrations are considered necessary, we raise for the IAASB’s consideration, the option of
guidance, associated with, but issued separate from the standard, as a means of providing the illustrations
of actions fulfilling the requirements of the standard. With such an approach, the illustrations may be
updated as necessary, to reflect advancements in achieving quality without having to re-open the standard.
This would also allow targeted guidance across the different regions, cultures and engagement/firm size for
which the standard must be applied, and reduce the length of the standard.

We also note that while our responses to other questions suggest further elaboration on the application and
other explanatory material, sometimes with suggestions to add further illustrations, we believe our
suggestions and recommendations would be equally effective if they were applied to guidance outside of
the standard.

**9. Individuals and Others**

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

Yes

The application material is helpful in supporting a consistent understanding of the requirements but there is
need to develop further guidance that demonstrates the application of the standard to different sizes or
complexities of firms.

**Vera Massarygina**

Yes, but not only application material should be reduced but all the text includes redundant statements, for
example para.9-16, 20, 21 etc.

**Q3 - Not helpful**

**3. National Auditing Standard Setters**

**Australian Auditing and Assurance Standards Board**

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

The AUASB has not included in this response a comprehensive review of all the application material
paragraphs in the proposed standard, as the AUASB considers that proposed ISQM 1 should be redrafted
in a similar drafting convention being proposed to redraft ISA 315. As noted previously in our response to
Question 1(a), the AUASB considers that the large volume of application material, appendices and guidance
in the proposed standard needs to be reconsidered in order to improve the scalability of the proposed standard.

The AUASB makes the following additional comments in relation to the application and other material included in the proposed ISQM 1:

- Whilst the introductory paragraphs assist with understanding the risk assessment process and helpfully explain a number of important concepts in the standard, the AUASB considers their inclusion is further evidence of ISQM 1's complexity. We would caution that extensive introductory paragraphs shouldn't be required for all IAASB standards. The AUASB recommends that the introduction or 'executive summary' of the standard could be positioned outside of the standard in the form of a “first time application” guide.
- The AUASB considers the appendix is educative in nature and while it provides useful information, could be positioned outside of the standard in the form of a “first time application” guide.
- There are several application material paragraphs that are duplicative of requirements or establish requirements, for example A49 and A59.
- There are several application material paragraphs that are duplicate of content elsewhere, for example A36 is duplicative of A32; A178 is duplicative of A174.
- There are several application material paragraphs that are too onerous in nature or too granular in detail, for example A130 in relation to technology; and A67–A74 in relation to ethics where the IAASB have attempted to summarise the IESBA Code in a few paragraphs, whilst practitioners need to comply with the full Code.

Institut Der Wirtschaftsprufer

We believe that the draft is, in general, overly complex and the application material is very extensive. We would rather that the IAASB write clearer requirements (including writing the requirements in conditional form) than seeking to explain when requirements are not relevant in the application material.

We note two instances where the introduction or the application material refers to possibilities that are not governed by the standard: Paragraph A152 (encouragement for firms to report externally regarding their network affiliations) and paragraphs 12 and A178 (analyzing the root causes for positive inspection results). We agree these matters should not be a requirement but question the appropriateness of including this type of application material in IAASB standards.

Japanese Institute of CPAs

We believe that the application material in ED-ISQM 1 is not sufficiently helpful in supporting a consistent understanding of the requirements. As we stated in our comment to question 2, we suggest rewriting the Introduction section and related application material and Appendix 1 based on the description in the Explanatory Memorandum, in order to clarify the overview of the standard. In addition, we are concerned that the application material is very long and complex. As a result, it is difficult to gain an overall understanding of ED-ISQM 1, which makes it difficult for each firm to determine which requirements and application material are relevant. We suggest that the IAASB reconsider whether the following guidance is really necessary, as we believe they are not useful.

The third sentence of A12, A21, A31, A32, the last sentence of A34, A35, A36, A39, A41, A57, A94, A97, A116, A121, A122, A137, A154, the first sentence of A172, the last paragraph of A180, A187 (excluding the last paragraph), and A188
New Zealand Auditing and Assurance Standards Board

The NZAuASB notes that the requirement paragraphs mix requirements and information in the nature of application material. In addition, the NZAuASB considers the proposed application material itself could be condensed significantly by applying a “less is more” approach, ensuring that the inclusion of any application material serves the purpose of clarifying or assisting practitioners to apply the requirements.

The NZAuASB recommends that any proposed application material that has been included with the aim of justifying the approach of, or in effect repeating, a requirement should be removed. This would reduce the length of the standard; reinforce the stated aim of making the quality management approach principles-based; and improve its scalability. In overall terms, it would enhance the readability and understandability of the standard as a whole.

As mentioned above, we consider that additional application material that develops a “thinking list” of standard quality risks, that firms may consider for their circumstances would be especially useful.

As noted earlier, more specific suggestions as to where the standard could be shortened are attached by way of an appendix to this submission.

6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

APESB is of the view that the application material is too voluminous, repeats requirements, includes non-application material and is at times inconsistent with the drafting conventions from the ISA Clarity Project, including removal of ambiguities, readability and understandability. For example:

- Paragraph A21 repeats the requirements of Paragraph 55, the start of paragraph A37 repeats the requirements in paragraph 24(a)(iii) and several other instances of repetition. APESB recommends the IAASB review the application material to remove repetition of requirements to reduce the overall volume of the standard.

- Paragraph 45 requires firms to undertake inspections of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm, whereas paragraph A169 refers to a three-year period for engagement partners performing audits and maybe longer periods for compilation reports. This may create expectations (albeit possibly too low) as to what should be done, including from a regulator’s perspective.

- Paragraphs A40 to A43 provide very descriptive ways for firms to undertake performance evaluations required by paragraph 24(b). This (and other examples) does not represent true application material and could be extracted into a guide on how to apply ED-ISQM 1. APESB recommends the IAASB review the application material to remove non-application material to reduce the overall volume of the standard.

Application

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

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

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

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Recommendation 5: APESB strongly recommends the IAASB improve readability and scalability of the application and other explanatory material by removing duplication of requirements and extracting other explanatory material into a basis of conclusions or a guide to implementing the proposed standards, as appropriate. We recommend that drafting conventions adopted during the IAASB’s Clarity Project during 2009/10 be revisited and strictly followed to streamline these ISQM proposals.

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

Chartered Accountants Australian and New Zealand and ACCA

There are areas of repetition in the application guidance. The application guidance needs to focus on how to apply the requirements, and should not repeat or explain the requirements. The requirements should be written to be clear and understandable.

As we have stated in previous submissions, we believe that the preferred approach to drafting the ISAs should be to draft the standard for SMPs and then add additional requirements that are needed to deal with the issues faced by more complex firms and networks. This would enable SMPs to easily understand what is required rather than trying to understand what requirements and guidance are not applicable. Currently standards are being drafted for global firms dealing with complex entities which increases the work burden on SMPs considerably and requires the production of additional guidance to assist the SMPs in interpreting and implementing the standards. The IAASB has recognised that this is an issue with the release of the discussion paper on Less Complex Entities and, if we wish to continue to have global auditing standards with a high adoption rate, there needs to be a change to the drafting philosophy of ISAs.
Institute of Chartered Accountants in England and Wales

The application material is long and, in places, not an easy read, even for native English speakers. While the existing standard undoubtedly needs modernising, the absolute length of the proposed standard is an issue, and not just for smaller firms. Length is a particular issue when iteration and linkages are important (as in ISA 315), because length leads to linearity of approach.

The number of paragraphs has nearly doubled in total. We therefore welcome any proposals or plans for the use of innovative media to house material in the form of non-authoritative examples, FAQs or other material targeted at different types of firm or engagement.

Q3 - Unclear

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

Please refer to the responses to questions 1, 2, 6 and 9-13.

5. Public Sector Organizations

Provincial Auditor Saskatchewan (1)

See our comment for question 2 above.

6. Member Bodies and Other Professional Organizations

Royal Institute of Chartered Surveyors

Initially, we believe an ‘application material’ section is not needed in the new standard. However, as firms implement the new standard, there may be a need for a development of an ‘application material’ section over due course to illustrate or explain certain requirements in the new standard.