ED-ISQM 1 – Question 12&12(a) M&R Improving Robustness, firms’ monitoring of SOQM

In your view, will the proposals for monitoring and remediation improve the robustness of firms’ monitoring and remediation? [Note: for the purposes of the Nvivo analysis, responses on this question were combined with part (a) below]

In particular:

(a) Will the proposals improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

(b) Do you agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

(c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies? [Note: for the purposes of the Nvivo analysis, responses on whether there was support for the definition of deficiencies were analyzed separately]

(d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies?
   In particular:
   i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?
   ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?

(e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

Q12&12(a) - Agree

1. Monitoring Group
   
   International Association of Insurance Supervisors
   
   Greater clarity as to the monitoring and remediation process with the firm now required to investigate the root causes of identified deficiencies so that appropriate action can be taken.

2. Regulators and Audit Oversight Authorities
   
   Financial Reporting Council United Kingdom
   
   We support the proposals for monitoring and remediation and believe they have the potential to improve the robustness of firms’ monitoring and remediation process. In particular, we support:
• The promotion of a more proactive, risk-based approach to monitoring activities that are focused on all aspects of the SOQM (including monitoring and remediation), and not just focused on responses that are implemented at the engagement level.

• The retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, along with the recognition of in-process engagement reviews.

• The distinction between findings and deficiencies, which recognises that not all findings necessarily indicate a deficiency.

• The investigation of the root cause of deficiencies so that appropriate action can be taken to address the deficiencies effectively.

• The communication requirements in paragraphs 52 to 54.

National Association of State Boards of Accountancy
Yes, we believe that the proposals could improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring. We would expect firms to explore the development of innovative monitoring techniques.

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board
The AUASB considers that the proposals will improve the robustness of firms’ monitoring and remediation, particularly through the introduction of the investigation of root causes of deficiencies. The AUASB considers that the identification of root causes should improve the design and evaluation of the remedial actions as well as the evaluation of the system of quality management as a whole. Additionally, the AUASB supports monitoring procedures that can be performed before an engagement report is issued. The AUASB understands that firms use other forms of monitoring/data analysis in addition to reviews of in-process or archived file reviews. For example, firms perform targeted activities (for example, impairment reviews). The AUASB considers that it is appropriate for the IAASB to recognise other forms of monitoring activities in the proposed standard to recognise the range of such activities.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)
Response: Yes, we believe so, since the proposals design the monitoring activities as a process that should continuously be executed, monitored through its activities and the performance of its services. We also believe that this standard puts the firms on a better position to execute better audits, reducing audit deficiencies.

Hong Kong Institute of Certified Public Accountants
We believe that the proposals would improve firms’ monitoring of the system of quality management as it is a continual and iterative process and is responsive to changes in the nature and circumstances of the firm and its engagements.

Japanese Institute of CPAs
(Our comment to (a))
We agree that the proposals will improve firms’ monitoring of the system of quality management as a whole. However, we believe that clarification is necessary relating to matters in our comments on (b), (c) and (e) below.

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

Response:

The monitoring and remediation proposal will certainly improve the robustness of firms' monitoring and remediation process.

Response:

We believe the proposals will improve firms’ monitoring of the system of quality management and it will promote a more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques.

**New Zealand Auditing and Assurance Standards Board**

Yes, the NZAuASB considers that expanding the monitoring requirements to cover all aspects of the system of quality management as a whole may promote a culture of continuing improvement, and therefore promote proactive and effective remediation activities. We have heard this is already happening in mid-sized to larger practices but formalising this as a new requirement is likely to encourage innovative techniques.

**4. Accounting Firms**

**CAS International**

Yes, we agree.

Response:

Yes, we agree.

**Crowe Global**

Response: The proposals for monitoring and remediation will improve the robustness of firms’ monitoring and remediation. The proposals reflect how monitoring and remediation practices have evolved since the issue of extant ISQC 1. What is proposed is flexible, and recognises that information to assist the monitoring process can come from a variety of sources. The broader scope, covering all aspects of the system, is right, and addresses a weakness in extant ISQC 1. The enhanced responsibilities of firm leadership are right and consistent with the broader objectives of ISQM 1.

Response: The proposals will improve firms’ monitoring of the system of quality management. The approach appears to be flexible, recognising that there are different ways to achieve the objectives of monitoring.

**Duncan and Topliss**

(a) Yes, we feel this is the case. The proposal moves firms towards the monitoring and remediation phase of quality management, being an ongoing process. This is opposed to previous activities that may well have
been a one-off effort. Firms must now actively review the policies and procedures in place and focus the specific monitoring activities to fit their business.

**ETY Global**
Yes. See 6) (b) above

**Grant Thornton International Limited**
We are of the view that the proposals will improve firms’ monitoring of the system of quality management as a whole and will promote more proactive and effective monitoring activities. Although a number of firms have already implemented proactive measures in their monitoring of quality, such as in-process engagement reviews, incorporating such considerations in the inspection requirement in the monitoring and remediation component of ED-ISQM 1 may promote a more widespread adoption of this practice. We are of the view that quality monitoring procedures that can be performed before an engagement report is issued are preferable to those that occur subsequent to the issuance of the report.

**Haysmacintyre LLP**
Responses: Yes. The emphasis on linking engagement quality to reward/progression will have a positive impact.

Yes

**Kreston International**
Response: Yes
Response: Yes

**Mazars USA LLP**
Response: Yes, we believe the proposals will promote proactive and effective monitoring activities. As intended by the proposed standard, firms will undertake a detailed and thoughtful exercise to redesign current monitoring practices for impact and relevance, including remediation processes. This response adds emphasis to our position that an effective date of a minimum of 24 months after PIOB approval would be necessary for the effective implementation of the Proposed Standards.

Response: Yes, the proposals for monitoring and remediation improve the robustness of the firms’ monitoring and remediation.

**Nexia International**
YES
YES

**Nexia Smith & Williamson**
Yes, we think that the proposals will improve monitoring and promote proactivity.
PriceWaterhouseCoopers
Real-time reviews, or "in flight" reviews, of engagements are, in our view, an effective response to drive quality and we welcome their recognition within the standard. Overall, the proposals should encourage a more proactive approach to monitoring. The extent of development will depend on the extent to which firms already have innovative monitoring techniques in place.

5. Public Sector Organizations

Auditor General South Africa
Yes, the proposals for monitoring and remediation will improve the robustness of the firms’ monitoring and remediation
Yes, the proposals will improve the firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques.

Australasian Council of Auditors General
Yes, ACAG believes that the proposals will improve the robustness of firms’ monitoring and remediation, particularly through the introduction of the investigation of root causes of deficiencies. The identification of root causes should improve the design and evaluation of the remedial actions as well as the evaluation of the system of quality management as a whole. The application guidance provides useful examples of innovative monitoring techniques.

International Organization of Supreme Audit Institutions
The proposals expand significant on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.

National Audit Office of Malta
Yes.

Office of the Auditor General New Zealand
Yes

Office of the Auditor General of Alberta
Response: As stated above, ED-ISQM 1 provides each firm a framework that promotes and places an emphasis on quality. The firm needs to adopt the framework and create a culture that encourages quality based on the leadership within the firm.

Office of the Auditor General of Canada
The proposals expand significantly on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.
Provincial Auditor Saskatchewan (1)
Yes, the proposals will improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities.

US Government Accountability Office
We believe that the proposals should strengthen the monitoring of quality management systems, ensuring that it is appropriate for the size and complexity of the individual firms and audit organizations.

6. Member Bodies and Other Professional Organizations
Belgian Institute of Registered Auditors IBR-IRE
We agree.

California Society of CPA’s
Yes, if they are not already doing so.

Comision Interamericana de Control de Calidad de la AIC
Response: Yes, they will.
Response: Yes, we are agree.

Comite Control de Calidad del ICPARD
Response: Yes, they will.
Response: Yes, they will.

Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)
Response: This bottom-up approach will lead to more innovation.
Response: Prima facie, yes.

Institute of CPAs of Uganda
ICPAU believes that the proposals for monitoring and remediation will greatly improve the firms’ systems of quality management. This is especially true because of the new proposals that require firms not only to identify risks to quality management in their systems but also perform root cause analysis to clearly understand how these risks have arisen. This makes the proposed remedial actions more plausible.

Institute of Independent Auditors of Brazil (IBRACON)
The requirements promote more proactive and effective monitoring activities, which provide the opportunity to make any adjustments needed to meet the quality objectives. Innovative monitoring techniques offer access to performance data and the ability to evaluate progress against objectives.

Malaysian Institute of CPAs
(a) Yes
New York State Society of CPAs

Response: See our response to Question 1) b., above. We believe that monitoring will be improved in a similar manner. Initially, the implementation will be most robust at those firms least in need of improvement, such as firms that perform audit engagements that are subject to regulatory oversight that includes a robust and effective review of their quality management system. Accordingly, firms generally are required to commit to improve and effectively implement professional standards, including quality control or quality management standards. With provisions that are scalable and risk based, the proposed standard should allow firms to the redeploy resources to more important aspects of quality management. In our view, paragraphs 44, 45 and A155 to A159 properly allow and encourage sufficient flexibility in a firm’s designing its own monitoring techniques.

Royal Institute of Chartered Surveyors

Yes. The current standard focused on the inspection of completed engagements, while ED-ISQM 1 focuses on proactive monitoring of all aspects of the system of quality management. Also, under ED-ISQM 1, firms can tailor its monitoring activities to allow an evaluation of the system of quality management.

South African Institute of Chartered Accountants

Since the SOQM, including the related monitoring and remediation is intended to be a continuous, iterative process that is proactive in responding to change, SAICA believe that the proposals will improve the robustness of the firms’ monitoring and remediation.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Monitoring may be enhanced with system that enable timely describe of lacking of quality management in regard quality objective and oversitting corrective actions, maintain register for risks and corrective action taken, have internal quality review assignment emphasizing whether risks previously identified are effectively appropriately responded to if managed on circumstances will enhance mentoring

Yes but answer in 8(d) in above mentioned answers may be considered also helpful for response that question

Training and Advisory Services and Chartered Accountants Academy

Yes

Yes

The requirements promote more proactive and effective monitoring activities and have increased the emphasis on tailoring the monitoring activities to provide enough basis for the firm to evaluate the system. This is because the new requirements have been designed to emphasize factors that the firm would consider in designing its monitoring activities, rather than prescribing all the monitoring activities that need to be performed as per paragraph 44 of ED-ISQM 1. This is scalable enough for any firm to design their own unique monitoring activities for their engagements, displaying innovativeness.
Q12&12(a) - Agree but with further comments

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

We are confident that the proposals for monitoring and remediation will improve the robustness of firms’ monitoring and remediation.

The proposals will improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques.

Coaching could be included as a monitoring and remediation technique.

We support the new quality management system assessment methodology detailed in the CPAB Audit Quality Insights Report: 2018 Annual Inspections Results and urge the IAASB to include this approach in ISQM 1:

“This new assessment approach requires firms to demonstrate the effectiveness of their quality management systems. It emphasizes the need to systemically embed audit quality processes (preventative and detective) into ongoing operations across the entire assurance portfolio so that audit deficiencies are identified and corrected in real time or, at a minimum, before the audit opinion is released. Monitoring and inspecting audit quality after the fact is not enough.”

3. National Auditing Standard Setters

AICPA

We support the proposals for monitoring the system as a whole. While it is unclear to us how the proposals will lead to the development of innovative monitoring techniques, we do not believe they will impede that development either.

We support the inclusion of the ability to inspect in-process engagements as monitoring procedures; this will be helpful primarily to larger firms. An explanation in paragraph A170 about how reviews of in-process engagements can meet the requirements of both ISA 220 and ISQM 1, by feeding the findings into the firm’s monitoring system, would be helpful.

Canadian Auditing and Assurance Standards Board

We believe the purpose of monitoring is clearer in the ED-ISQM 1 than in the extant standard. We also support the approach to remediation. However, we are not convinced that the proposed changes will encourage the development of innovative monitoring techniques. If this is the IAASB’s expectation, this could be addressed through non-authoritative guidance.

Some Canadian stakeholders, especially SMPs, expressed concerns about how they will be able to achieve the monitoring requirements, particularly identifying personnel to perform monitoring activities who are not already involved in the engagement. For a sole practitioner, the requirements are especially cumbersome. These stakeholders noted that external resources that can be hired to perform monitoring activities are limited and costly. They acknowledge that this is not a new issue, but emphasized the need for guidance on how they may be able to meet the requirements, given such limitations.
Royal Nederlandse Beroepsorganisatie van Accountants

We consider the proposals to be an improvement. Robustness could be further improved in the proposals by describing innovative monitoring techniques such as using dashboards. Another improvement would be to mention whistleblower procedures as part of other information sources. The last improvement would be to mention disciplinary actions in the remediation process.

4. Accounting Firms

Baker Tilly International

Response: Overall, we support the proposals for monitoring and remediation and believe that these will enhance the robustness of current arrangements. We do, however, have comments on some of the proposals.

Response: Whilst we agree that the proposals are likely to improve monitoring, and do include reference to innovative monitoring techniques, we are concerned with the practicality of the application of these requirements, particularly for SMPs. Innovative techniques are more likely to be driven in larger firms and we would encourage sharing of knowledge and experience of the application of such techniques to the extent that they may be applicable to smaller firms. Whilst we support the ongoing requirement for reviews of completed engagements (see comments elsewhere), we would note that the application of such techniques will be over and above the existing requirement to review completed engagements and therefore firms may be discouraged from applying these techniques if they are seen as an additional burden rather than replacing other activities.

BDO International

Yes, we believe that the proposals for monitoring and remediation will improve the robustness of the firm’s monitoring and remediation processes. The proposed standard provides more specificity than prior standards as to the design, implementation and ongoing maintenance of a continuous improvement framework which should result in a more proactive and effective monitoring program.

We believe that the proposals will improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, while at the same time, allowing scalability and flexibility. The examples provided in paragraph A156 are helpful in encouraging the development of innovative monitoring techniques. However, no standard can change mindsets and ultimately the behaviour of individuals who may themselves be resistant to change. This may be one of the more challenging parts of ED-ISQM 1, requiring a longer effective date period for pilots. The IAASB should continue to share implementation support which highlights innovative and proactive approaches.

Deloitte Touche Tohmatsu Limited

Response: DTTL is supportive of the IAASB’s focus on promoting more proactive and effective monitoring activities. However, with respect to specific proposals, we believe the Board could go further with respect to encouraging the development of innovative monitoring techniques. See responses to Questions 12(b) and 12(d) below.

Response: DTTL is supportive of the enhancements made to the monitoring and remediation component but believes that the proposals could go further in improving the robustness of firms’ monitoring and remediation processes. See responses to the further questions below.
EY Global Limited

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

Yes, we believe the proposals for monitoring and remediation of the entire system of quality management will improve the robustness of firms' overall monitoring compared to the requirement to monitor completed engagements included in extant ISQC 1. Monitoring the entire system of quality management through activities beyond engagement inspection will promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques; however, as described in our response to Q2, we also believe the proposal will create significant implementation challenges from the perspective of the time it will take to design and implement a redesigned monitoring and remediation process, which is one reason we would like to have the standards effective at least 24 months after approval by the PIOB.

KPMG IFRG Limited

Taken as a whole, we believe the proposals are explicit and promote different approaches to monitoring, including more continuous, proactive monitoring processes.

Our specific comments related to elements of the monitoring and remediation component are set out below.

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

Mazars

Response: While we consider the proposals will support an effective monitoring program, we are unable to formulate a view as to whether they would improve it, as this is dependent on the current practice in any given firm. To help encourage the development of monitoring process, implementation period should not be less than 24 months.

Response: Yes

MGI Worldwide

Response

A key area where firms are often confused regarding monitoring is where they do not believe that any internal monitoring is required because there is an external monitor. We welcome the guidance in A167 that states that “external inspections are not a substitute for the firm's internal monitoring activities”. Many SMPs will need guidance on how to design appropriate monitoring responses, both on the ongoing and periodic basis.
MNP LLP

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

The proposals will improve the firms’ monitoring of the system of quality management as a whole. In our view the standard is limited with respect to recommendations or guidance in support of the development of innovative monitoring techniques and we would welcome further guidance and practical examples.

Moore Stephens International

Response: This will depend in part on how quickly existing mandated resources for monitoring (which are used in many countries) are updated. It will also depend on whether additional mandated resources relating to remediation are introduced in those same countries (or others). It would probably be very helpful if IAASB provided more guidance in this area either to the PAOs that provide and mandate such resources or in the application material, stressing that as with all things the best monitoring and remediation is that which is appropriate for the nature and circumstances of the firm and its engagements. We do welcome the new material on remediation; we strongly believe a focus on this is overdue.

Response: See our answer above – our concerns are related to the situation where firms are required to use resources that may not allow for the proactivity and flexibility called for in the proposals. We do not see many smaller firms acting in the way suggested.

PKF International Limited

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

In our view the proposals for monitoring and remediation will generally improve the robustness of firms’ monitoring and remediation.

In our view, in order that the proposals are more likely to support an improvement in firms’ monitoring of the system of quality management as a whole, we recommend that this component of ED-ISQM 1 makes explicit reference to “system of quality management as a whole”. This may help to reduce the risk of firms misinterpreting this requirement as applying only to the monitoring of engagements, rather than being applicable to the monitoring of all components of the system of quality management.

Otherwise, in our view the proposals will promote more proactive and effective monitoring activities, including the development of innovative monitoring techniques.

PKF South Africa

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

In order that the proposals are more likely to support an improvement in firms’ monitoring of the system of quality management as a whole, we recommend that this component of ED-ISQM 1 makes explicit
reference to “system of quality management as a whole”. This may reduce the risk of some firms misinterpreting this requirement as being applicable only to the monitoring of engagements, rather than being applicable to monitoring all components of the system of quality management.

Other than this recommendation, in our view the proposals will promote more proactive and effective monitoring activities, including the development of innovative monitoring techniques.

In our view the proposals for monitoring and remediation will generally improve the robustness of firms’ monitoring and remediation.

**RSM International Limited**

Response: We support the proposals, in particular the inclusion of the ability to inspect in-process engagements as part of this Proposed Standard and we note that this could be described as innovative. However, we do not understand how the other aspects of monitoring will promote innovation. We also consider a comprehensive example is needed to support smaller firms in implementing effective monitoring procedures that would fulfil the requirements. Smaller firms commonly face challenges in committing the necessary resources to conduct on-going monitoring activities and persons assigned to such activities may lack the objectivity to make these processes meaningful.

Response: Yes, but please see responses below

**5. Public Sector Organizations**

**Swedish National Audit Office**

Yes.

In general yes, but the requirements could be simplified by moving some of the material to application material.

**6. Member Bodies and Other Professional Organizations**

**Australian Accounting Professional and Ethics Standards Board**

During stakeholder engagement, 87% supported the overall monitoring, remediation and evaluation process. However, as noted in response to question 2 above, 89% of stakeholders consider there to be challenges in implementing all aspects of the process. APESB recommends the IAASB develop guidance to assist firms, particularly for sole practitioners and SMPs, on how to implement the monitoring, remediation and evaluation process in practice.

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we believe the proposals will likely improve the system of quality management as a whole.

**CA Ireland**

We believe that the proposals, if properly implemented, should improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities. However, it is difficult to predict that the standard will result in the development of more innovative monitoring techniques especially for firms who do not use technology in the execution of their audit engagements.
Yes, we believe that the proposals for monitoring and remediation improve the robustness of firms’
monitoring and remediation.

**Center for Audit Quality**

As a whole, we believe the proposals will promote proactive and effective monitoring activities. However, the
proposal likely will create significant implementation challenges from the perspective of the time it could take
to design and implement a redesigned monitoring and remediation process, which is one reason we
strongly recommend an effective date for the Proposed Standards of at least 24 months after approval by
the PIOB.

**CPA Australia**

Response: We agree that the proposals will promote more proactive monitoring, such as requiring
“appropriate combination of ongoing and periodic monitoring” and requiring root cause analysis to respond
to deficiencies. However, we recommend that testing of operating effectiveness of the responses, that is,
the controls or policies and procedures designed and implemented to address the quality risks, be more
explicitly required by the standard.

Response: We agree that the requirements expect more robust monitoring and remediation and so should
result in improvements in this regard.

**Illinois CPA Society**

Response: Yes

Response: Yes. Many of our members and firms have been subject to PCAOB inspections. Comment forms
received by them and remediation by the firm have enhanced the quality of audits. However, smaller firms
may not have the resources to comply with monitoring and remediation.

**Institute of Chartered Accountants in England and Wales**

In general we are supportive of the proposals as long as scalability for firms performing less complex
engagements can be clearly demonstrated. The proposals are explicit, which should promote consistency
and ease and quality of monitoring. Unfortunately, while we support measures that encourage innovation,
these proposals, of themselves, are unlikely achieve this.

In many jurisdictions, firms are required, or have no choice but to use PAO or regulator-produced resources
for monitoring purposes. The revision of ISQM 1 will have little effect if the resources are not updated, and
IAASB should engage with PAOs and regulators in such jurisdictions to help ensure that updates are made
on a timely and holistic basis.

**Institute of Chartered Accountants of Pakistan**

The proposals for monitoring and remediation will improve the robustness of firms’ monitoring and
remediation. However, adhering to all these requirements will be burdensome for firms (particularly for sole
practitioners and SMPs). We suggest the IAASB develops guidance to assist firms on how to implement the
monitoring, remediation and evaluation process in practice.

In general the proposals will improve firms’ monitoring of the system of quality management as a whole.
However, we have significant concerns of scalability of the proposed standard.
Instituto de Censores Jurados de Cuentas de España

Actions proposed to design and implement monitoring activities look more effective according to what is provided in Para 44 to 46 and A156 to A158 because monitoring activities are widen than foreseen including not just the annual review, but an ongoing review of the responses that the system provides. This makes the system more flexible. Highlighting that there are different means to test the quality management system, not only the annual monitoring review or under proved selected criteria but depending on the risks and the responses implemented by the firm, would be desirable. Firms must have flexibility to analyse compliance

Nordic Federation of Public Accountants

The requirements and the associated application material in this part of the standard are very detailed. The scalability regarding monitoring activities is described in para. A158. However, this paragraph mainly describes under which conditions the firms could scale the responses and in what areas. It is not helpful when it comes to how scalability can be used.

Even though we acknowledge the importance of monitoring the process, we believe that the requirements are too detailed and that it will move focus from the overall objective of quality management to compliance to the requirements.

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

Wirtschaftsprüferkammer

We basically think that the proposals can improve firms’ monitoring of the system of quality management. However it remains debatable if the proposed requirements are necessary especially for sole practitioners. It is not evident where the requirements are scalable in order to create a workable approach.

Q12&12(a) – Disagree

N/A

Q12&12(a) - Unclear

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. For example, the requirements for the Monitoring and Remediation process stress the need for engagement inspections, but place less emphasis on other actions that can be taken to proactively address risks to audit quality. Further, firms should be explicitly required to demonstrate that their responses, whether preventative or detective in nature, are present and functioning.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

We believe the IAASB could further enhance the exposure draft in a few key areas, by:
• Adding greater specificity to how the quality management system framework is defined so that it can be tested for operating effectiveness; and

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.

3. National Auditing Standard Setters

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

We have a concern with the on-going monitoring activities since we consider that it is not practicable for small practitioners.

We also believe that the work effort to be performed by each firm is high and that a core process (with core KPIs) should be developed centrally (for example by regulators) and published.

We find the proposed system very detailed and consider that standardization has limitation.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australian and New Zealand and ACCA

We have concerns that the proposals will be difficult to implement by SMPs and particular sole practitioners.

European Federation of Accountants and Auditors for SMEs

We encourage greater effort to enhance scalability in this area.

Many SMPs, especially the very small, there are no formal system of monitoring, the issues are likely to be more of the one-off nature and thus, the impact on quality from the monitoring activity will also be limited.
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 Medium Practices Committee**

Paras 49 and 50 require remedial actions to be designed and implemented to address identified deficiencies. However, it is not clear how SMPs will deal with this, especially with one-off errors or deficiencies. Para A184 is implying that having weighed up certain factors, the firm always needs to take remedial action if a deficiency is sufficiently severe, whereas in reality, a simple mistake may be severe but cannot be addressed by remedial action. This leads to questions on how a firm should act in such cases. Specific supporting material may be helpful here.

The SMPC believes that examples would be helpful to demonstrate how an SMP can meet the requirements of the monitoring/remediation process, in the same way that examples were provided for the quality objective/assessed quality risks and responses. Such examples can start with a firm of a sole proprietor with non-professional staff and another firm of partnership with 2-5 partners. These examples could be premised on the assumption that these firms do not provide audit services to listed companies or that they have clients with significant public interest. We suggest that rather than including more examples within the already lengthy standard, such examples might be best included in other supporting material.

This remains a significant area of contention for many SMPs and especially sole practitioners. The need for a practical approach, that possibly demonstrates using a sliding scale is key but this does not come across well in the standard. Specific recognition of SMP circumstances is needed in this area to create a workable approach and to manage any regulatory and other key stakeholder’s expectations.

In a large firm environment, there may be systemic issues that can be uncovered by monitoring measures. However, for SMPs, especially from the very small scale where often there are no formal system of monitoring, the issues are likely to be more of the one-off nature and thus, the impact on quality from the monitoring activity will also be limited. At the very least, the IAASB should acknowledge this in the application material.

We are also not sure that the ED will encourage development of innovative monitoring techniques over time. If this is the Board’s expectation, we suggest it is articulated in the Basis of Conclusion once these standards are finalized.

**Q12(b) - Agree**

2. Regulators and Audit Oversight Authorities

**Financial Reporting Council United Kingdom**

We support the proposals for monitoring and remediation and believe they have the potential to improve the robustness of firms’ monitoring and remediation process. In particular, we support:

- The retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, along with the recognition of in-process engagement reviews.

**National Association of State Boards of Accountancy**

Yes, we agree with the conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis.
3. National Auditing Standard Setters

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

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis with enhancements to improve the flexibility of the requirements and the focus on the other types of reviews. However, we consider that this requirement may take some time to implement.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: We support to retain the requirement of inspection on complete engagements for each engagements partner on a cyclical basis, with specific, however clear, enhancements to improve flexibility of the requirements and allow efficient forms of reviews. However we support in-process and completed reviews since we believe the two systems are complementary.

Hong Kong Institute of Certified Public Accountants

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

We do agree that the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews, be retained in the proposed standard.

4. Accounting Firms

CAS International

Response:

Yes, we agree.

Duncan and Topliss

(b) Yes. It is seen as a key requirement that each engagement partner is reviewed on a regular basis, to ensure that standards are being maintained. Increased flexibility, not determining exactly what the length of the cycle must be and including other types of review in the scope of the reviews ensures that high level standards of quality would be maintained across different types of audit assignments.

Haysmacintyre LLP

Yes. Indeed, we have already adopted a more focused inspection regime within the existing ISQC1 framework alongside additional engagement performance reviews.

Kreston International

Response: Yes, this is appropriate.
Mazars
Response: Yes, we agree that monitoring should include inspections of completed engagements on a cyclical basis.

MNP LLP
Yes, we agree.

Moore Stephens International
Response: The review of completed files allows for the widest view possible to be taken of an engagement. This is useful. Therefore, we do agree although we recognise that retaining such a traditional approach may be seen as counter to innovation.

Nexia International
YES

Nexia Smith & Williamson
Yes, we agree.

RSM International Limited
Response: We agree with review on a cyclical basis and support firm flexibility in deciding the cycle.

5. Public Sector Organizations
Auditor General South Africa
Yes, we agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis.

Australasian Council of Auditors General
Yes.

International Organization of Supreme Audit Institutions
Yes, we agree with the retention of this requirement.

National Audit Office of Malta
Yes.

Office of the Auditor General of Canada
We agree with the retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis as an appropriate element of monitoring.

Provincial Auditor Saskatchewan (1)
Yes, we agree with the IAASB’s conclusion.
Proposed ISQM 1: NVivo MS Word Report – ED-ISQM 1_Question 12
IAASB Main Agenda (December 2019)

Swedish National Audit Office
Yes.

6. Member Bodies and Other Professional Organizations

California Society of CPA’s
Paragraph 45 - Yes

Comision Interamericana de Control de Calidad de la AIC
Response: Yes, we are agree.

Comite Control de Calidad del ICPARD
Response: Yes, we do.

IFAC Small and Medium Practices Committee
Generally, we are supportive of the flexibility accorded to a firm’s internal monitoring activities – e.g., in-progress or completed engagements (para 45) and the notion that the cycle’s length or triggers for inspections shall be tailored to the firm’s circumstances (see A169).

Illinois CPA Society
Response: Yes.

Institute of Chartered Accountants in England and Wales
It is important to retain the requirement for inspections of completed files. It provides an opportunity to take a holistic view, covering risk assessment, response, further audit procedures and completion, with a focus on the exercise of scepticism and the quality of judgements, as well as efficiency.

Institute of Chartered Accountants of Pakistan
Subject to the concern raised in question 3 (above) in respect of application material, we support retaining the requirement for inspection of completed engagements.

Institute of Independent Auditors of Brazil (IBRACON)
We support the recognition of in-progress engagements inspections as we agree that should be a continuous process, very important for the monitoring activities. Nevertheless, we consider important to retain the requirement for the inspection of completed engagements to have a better conclusion about the whole work performed.

Malaysian Institute of CPAs
(b) Yes

New York State Society of CPAs
Response: We agree that completed engagements for all engagement partners be included on a cyclical basis so long as it is made clear that it is not an annual requirement. We believe paragraphs 45.b. and
A169, and to some extent A170 regarding the type of review, provide needed flexibility in the application of this proposed requirement.

Royal Institute of Chartered Surveyors

Although we cannot comment on the effectiveness of the current requirement, we do believe retention of this requirement seems sensible.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Yes I agree

Training and Advisory Services and Chartered Accountants Academy

Yes

The retention of the requirement in extant ISQC 1 for the firm to inspect at least one completed engagement for each engagement partner on a cyclical basis is a good conclusion as per paragraph 45 of ED-ISQM 1. The enhancements to the requirement help curb inflexibility of the extent in this regard and improves scalability. The application material provides examples of factors that the firm may consider in determining the length of the cycle, which includes the extent to which the firm performs other monitoring activities (e.g., inspections of in-process engagements) and the nature and circumstances of the engagements. The application material also acknowledges that the cycle may vary across engagement partners, for example, the cycle may be more frequent for engagement partners who perform audits of financial statements of listed entities.

Q12(b) - Agree but with further comments

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

Application material could be included to address the issue of predictability of engagements selected for internal reviews. Predictability of inspections of engagements may result in a reduced effort to comply with the standard, if the engagement partner and team do not expect an internal review of that engagement.

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis.

The firm may establish different cyclical periods for the inspection of completed engagements of engagement partners, according to the categories of engagements they perform. For example, the firm may determine that the cyclical period for an engagement partner performing audits of financial statements may be three years, whereas the period may be longer for engagement partners performing compilation engagements. The cycle of the inspection may be based on time (i.e. every three years as illustrated) or another factor, for example, the number of engagements performed. We suggest that the maximum number of years of the cycle be included in the requirements, and that it should be three years for audits.
3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports the proposal to retain the requirement for the inspection of completed engagements on a cyclical basis. The AUASB is supportive of the guidance in paragraph A169 regarding the ability of firms to establish different cyclical periods, however to promote consistency in application and consistency in quality across firms and jurisdictions, further guidance and examples within this paragraph could be enhanced. For example, refer to nature or assessed risk of engagements (different approaches for “PIE” and “non PIE”) as a way to demonstrate flexibility in the cycle or how the results of in-process reviews may impact the cycle.

Again, the AUASB draws attention to the response to question 1(a) in redrafting ISQM 1 in the same manner as proposed redraft to ISA 315. An example of where this is required is in relation to monitoring and remediation: paragraph 45 (inspections may include in-process reviews) is not strictly a requirement. The idea of an in-process review is often more proactive and preventative than monitoring completed engagements, however, if this is not required, and may not replace the inspection of a completed engagement, the AUASB recommends that this should only be referenced in application material.

Japanese Institute of CPAs

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews. However, we believe paragraph A169 needs clarification. The first sentence of paragraph A169 states that “…for example, the firm may determine that the cyclical period for an engagement partner performing audits of financial statements is every three years...” The final sentence of paragraph A169 also states that “the cyclical period may also be affected by the nature, timing and extent of inspection of in-process engagements and the results thereof.” It is unclear whether such statements are intended to indicate that a three-year period may be extended by conducting the inspection of in-process engagements, or are intended to indicate that a period should be shorter than 3 years depending on the results of the inspection of in-process engagements.

In this respect, we believe that the requirements and application material use the following similar wordings, which result in the uncleanness of the guidance in paragraph A169:

- Ongoing monitoring activities (paragraph 44)
- The inspection of in-process engagements (paragraphs 45, A156 and A169)
- In-process review (paragraph A157)

For example, paragraph 45 explains that “engagement inspections may include the inspection of in-process or completed engagements” and paragraph 45(b) requires the inspection of the completed engagement for each engagement partner on a cyclical basis. On the other hand, the second bullet of paragraph A156, which is the application material of the requirement addressing ongoing and periodic monitoring activities (paragraph 44), states that one of the ongoing monitoring activities is “inspection of in-process engagements that are focused on specific aspects of completed work.” We believe that such statements may result in misunderstandings that “inspection of in-process engagements” is conducted for “completed engagements.”
New Zealand Auditing and Assurance Standards Board

Yes, the NZAuASB agrees there should be a requirement for the inspection of at least one completed engagement. However, there is a need for additional implementation material to assist SMPs to comply with this requirement.

Paragraph A167 states that external inspections are not a substitute for the firm’s internal monitoring activities but may inform those activities. In practice it will be a challenging to find appropriately experienced people to perform this review. While this is an existing requirement, it is one that many SMPs currently fail to meet. Practical solutions may be to allow for SMPs to perform inter-firm reviews (although as noted earlier there are liability and other factors which could deter firms from doing this), or alternatively to allow for a completed review by an external regulator or (in the public sector) by the office of the Auditor-General (or equivalent) to meet this requirement. Practical implementation to assist SMPs is likely to be well received.

We recommend that the statement in paragraph 45 that inspections may include in-process reviews should be moved to the application material, as this is not strictly a requirement. The idea of an in-process or “hot review” is something that is happening in practice in New Zealand, and our targeted outreach indicated that it works well and can enable timely corrective action to be taken. However, if this is not required, and may not replace the inspection of a completed engagement, we recommend this should only be referenced in application material.

NZAuASB suggestions for shortening the standard to enhance readability and understandability

Remove non "shall" statements from the requirements
Para 45 – Engagement inspections may include the inspection of in-process or completed engagements, this is better positioned in application material as it is not required.

4. Accounting Firms

Baker Tilly International

Response: Yes, we fully support the ongoing requirement to undertake inspections of completed engagements. However, as currently drafted ED-ISQM1.45 lacks clarity as it appears to give firms the option of inspecting “either” in-process or completed engagements in ED-ISQM1.45 but then goes on to refer (in ED-ISQM1.45b) to inspection of completed engagements.

We are strongly of the view that the requirement should explicitly state that completed engagements be subject to inspection and that firms may, in addition, undertake inspections of in-process engagements. The review of in-process engagements does not necessarily include inspection at all stages of the audit, in particular at the completion stage.

Furthermore, the requirement in ED-ISQM1.45b is for a cyclical review of completed engagements for each engagement partner, with application material referring to an example of three years. Whilst this is perfectly understandable for larger firms with numerous partners, it is not clear how the IAASB expects this requirement to apply in smaller firms with fewer partners (e.g. single partner firms). Given there is a requirement for an annual evaluation of the effectiveness of the SOQM in achieving the objectives of the standard, it is difficult to envisage how an annual evaluation could be performed if no completed engagements are reviewed in any given year which would appear to imply that, for a single partner firm, a review of completed engagements is required each year. The IAASB should clarify the application of this important requirement for smaller firms.
While we agree that at least one completed engagement for each engagement partner should be inspected on a cyclical basis, we believe that the inspection of engagements originally inspected while in-process should be able to be updated after engagement completion and counted toward the fulfillment of this requirement (i.e. as opposed to having to select an additional, previously uninspected completed engagement for a particular partner). This would encourage firms to perform more timely monitoring and increase the scalability / flexibility of the proposed standard.

Response: We broadly agree with the IAASB’s conclusion as the inspection of completed audit engagements generally ought to remain an important component of monitoring, as this is an opportunity to assess the practical application of standards and individual performance by engagement partners and their teams. However, the approach in the standard should be presented in a way that facilitates greater flexibility, the consideration of risk in determining the review cycle, and consideration of evidence from in-process reviews and monitoring by regulators. There may be circumstances where it is right to place greater reliance on the results of in-process reviews or focused reviews on specific areas such as the implementation of new standards.

We are of the view that it is appropriate to retain a requirement for inspection of completed engagements on a cyclical basis. Retaining such a cycle means that all engagement partners are subject to quality monitoring, which can only have a positive impact on future quality. However, we are of the view that further guidance needs to be provided as to how the quality and robustness of a firm’s monitoring process and activities affects the cycle for review of completed engagements. For example, a firm that performs in-process reviews may have a longer cycle for performing reviews of completed engagements than a firm that does not perform any in-process reviews. Our concern is, that as currently proposed, firms may implement too large a rotational cycle, without implementing other necessary monitoring procedures to support the extended cycle. We would also suggest that consideration be given to the inclusion of a FAQ that demonstrates how a firm can use its monitoring activities to vary its inspection cycle.

We also note that paragraph A169 proposes that the cyclical periods by which engagements are inspected be based on the type of the engagement, for example, audits and compilations. In our view the categorisation of engagements to which the cyclical inspection period is applied should be based on the assessed risk of the engagement rather than on the type of engagement being performed.

Response

We agree with this conclusion in paragraph 45 and with the flexibility for each firm to determine the cycle on which such reviews should be performed (A168-A170). This should be risk-focused, such that principals with quality failings should be reviewed more frequently, as should those with listed entities. As noted above though, there must also be a mechanism within the firm to deal with quality failings with the individual through their performance reviews and compensation as necessary.
PKF International Limited

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each partner on a cyclical basis.

We also agree with the enhancements in the standard to improve the flexibility of the requirement and the focus on other types of reviews. However, in our view the standard would benefit from additional guidance on in-process reviews, including guidance on how the firm should determine the appropriate mix of both in-process and completed engagement reviews.

PKF South Africa

We agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each partner on a cyclical basis.

We also agree with the enhancements in the standard to improve the flexibility of the requirement and the focus on other types of reviews. However, the standard would benefit from additional guidance on in-process reviews, including guidance on how the firm should determine the appropriate mix of both in-process and completed engagement reviews.

PriceWaterhouseCoopers

As noted above, we support the additional focus on other types of reviews. Over time, the practice of “real-time” or “in-flight” reviews will likely supersede the need for inspection of completed engagements. However, until such time as all firms have an established real-time monitoring process, we agree that it is appropriate to retain the requirement for the inspection of completed engagements on a cyclical basis. This is an area that we propose the Board keeps under review and potentially revisits as part of the post-implementation review.

With respect to paragraph 45, we suggest the language be clarified. In our experience, the primary purpose of inspections is to assess compliance by engagement teams with the relevant engagement standards e.g., ISAs, as well as firm policies and procedures. Describing the purpose of inspections as “to determine whether the responses that are required to be implemented at the engagement level have been implemented” may confuse or under-represent the nature and purpose of inspections.

Paragraph 45 Inspections (refer to our response to question 12(b)): We suggest amending the lead-in language to also address compliance with professional standards in addition to implementation of responses required at the engagement level.

5. Public Sector Organizations

Office of the Auditor General New Zealand

Yes. We consider the enhancements provide sufficient flexibility. However, we consider there is a need for additional implementation material to help SMPs comply with this requirement. We note paragraph A167 does not allow external inspections to be a substitute for a firm’s internal monitoring activities but may inform those activities. We understand that small firms experience challenges in finding a suitable person to perform these reviews.
Office of the Auditor General of Alberta

Response: We agree that completed engagements should be inspected on a cyclical basis, no less than once every three years. We encourage IAASB to increase the requirements when the inspection identifies a significant deficiency. The increased requirement should include “Take appropriate action, including completion of omitted procedures, to comply with relevant professional standards and applicable legal and regulatory requirements; and” a decreased cyclical basis of one year for the engagement leader or partner who was responsible for the engagement that was found to include the significant deficiency.

In addition, either ED-ISQM 1 or ED-ISQM 2 need to provide clear guidance when an inspection concludes a file has failed. If no further inspections of the partner or engagement leader are completed, the inspector is concluding the file is in isolation. What support would an inspector need to support this conclusion? Alternatively, how many additional files should be reviewed for the identified partner or engagement leader?

Furthermore, IAASB should improve ED-ISQM 1 by requiring cross sectional reviews, specifically when a new standard is issued. The review could be completed either when the file is in-progress or completed depending on what stage of the engagement the standard affects. For example, changes to IAS 315 could be reviewed prior to completion of the engagement and changes to IAS 700 would likely be reviewed once the file is complete.

6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

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.

Subject to the concern raised in question 3 above in respect of application material, APESB supports retaining the requirement for inspection of completed engagements.

CA Ireland

Yes, such reviews are required in order to ensure a continued focus on quality, compliance with and improvement of the firms’ systems and procedures. However, in the context of more in-process engagements, we believe that paragraph A169 establishes a ‘de facto’ requirement for a 3-year cycle for monitoring closed engagements. In the broader context of the enhanced monitoring requirements under the standard we believe it should be for firms to determine the appropriate frequency of monitoring completed engagements in light of the amount of in-process monitoring taking place.

CPA Australia

Response: We consider it appropriate to retain the requirement for cyclical inspections of completed engagements and note that small firms or sole practitioners may not have the resources to conduct ongoing monitoring, and so will need the flexibility to instead focus on completed engagements. Whilst we are supportive of allowing the firms to determine a suitable cycle for inspections, we suggest removing the 3-year cycle suggested in application material paragraph A 169.
Institute of CPAs of Uganda

Notwithstanding the above we take note of the Board’s proposals in relation with designing and performing monitoring activities particularly with the requirement under para 45 (b) which permits firms to determine a cycle when to conduct an engagement inspection. Whereas we find this provision to be compatible with a principle based approach to application of the standards, we would recommend that the explanatory material includes guidance that for engagements that are public interest, the inspection should be done at least annually.

ICPAU agrees with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner as this will help the partner to make an assessment of the appropriateness of the procedures performed at particular engagements and identify any deficiencies in the work performed that need to be addressed before the engagement is signed off.

Institute of Singapore Chartered Accountants

On inspection of completed engagements, we welcome the change in requirement on the frequency to a cyclical basis, which allows firms to have the flexibility to tailor the frequency. In this regard, it would be useful for firms to undertake a risk-based approach, considering factors such as the risk portfolio of the partner, whether the partner has been subjected to other forms of monitoring, risk events happening to partner etc when determining the frequency of inspections. In addition to inspections, monitoring of ongoing engagements is critical for prevention of quality failure.

South African Institute of Chartered Accountants

SAICA supports the retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis. We also note the improved flexibility of the requirement as included in paragraph A169 where it allows the firms to establish different cyclical periods for inspecting engagement partners according to the categories of engagements performed.

Paragraph 45 of ED-ISQM 1 indicates that engagement inspections may include the inspection of in-process engagements. Based in practical experience, members indicated that in-process reviews is an effective tool in managing audit quality in that it allows for real time monitoring and remediation of identified deficiencies.

There was however a concern noted in that ED-ISQM 1 is not clear as to when a firm is required to perform an inspection of engagements. Calls were heard for more concrete requirements around when this is applicable or not because there are instances where this is neither practical nor possible. A specific concern was noted for SMPs in the outlying areas and how they achieve the 3 year cycle, as suggested in paragraph A169 with the limited resources.

In continuing with the concerns noted in relation to SMPs, a question around what the objective is of engagement inspections and whether this is quality management at firm level or engagement level was raised. Since this is included in ED-ISQM 1, it is assumed to be a firm level response. To this end, the appropriateness of engagement inspections as a firm level monitoring tool for SMPs was questioned. In a larger firm, this monitoring tool may be effective in identifying common findings, which indicate a failure in the SOQM that can be remediated but the appropriateness of this for an SMP when they do not necessarily have this learning aspect was questioned.

Another view noted was not in support of the requirement included in paragraph 45(b) because including this very specific required response to perform inspections cyclically could lead to firms implementing an
inspection process based solely on a cyclical basis, e.g., three-years and this may not be appropriate based on the assessed quality risks for the firm. The view here was that the requirement should be more principles based, in allowing the firm to tailor the response based on the identified quality risks. It was further recommended that the application guidance included in paragraph A169 be rewritten to emphasise the fact that the inspection of completed engagements should be implemented in response to the identified quality risk, rather than just being response that is blindly implemented on a cyclical basis.

Wirtschaftspruferkammer

We believe that the conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis is basically sound. It should be admitted that remedial action can be taken before the engagement work is completed or a report is issued if uncompleted engagements are subject to an inspection.

However especially large audit firms tend to expand their monitoring activities to “in-process engagements” (in addition or as an alternative to ex-post monitoring activities of completed engagements). These firms have experienced the benefits of such means, especially that any identified weaknesses can be remedied immediately and before the engagement is completed or a report is released.

Against this background, we recommend to evaluate whether this approach could be an alternative way, if the other organizational requirements (e.g. competence and objectivity of the responsible person, time, etc.) are met, especially that the person performing the monitoring procedures will not be part of the engagement team (or substitutes the engagement quality control reviewer) and that the conclusions from these monitoring activities may be exploited in the context of the monitoring.

Q12(b) - Disagree

3. National Auditing Standard Setters

AICPA

We believe that this requirement should include the flexibility to inspect completed portions of in-process engagements, not only completed engagements, because we believe this principles-based approach could provide for modernization and continuous improvement. We are aware of firms that are using cloud-based, data-visualization tools to provide real-time insights into their in-process engagements and inspection monitoring activities. These new tools provide avenues for continuous improvement and more timely and robust risk assessment. It also allows for faster root-cause assessment and remediation.

4. Accounting Firms

BDO International

While the proposed standard is designed for flexibility and scalability, the retention of the cyclical inspection requirement of inspecting at least one completed engagement for each engagement partner deviates from the standard’s risk-based approach. We believe that engagements should be selected primarily using a risk-based approach to ensure that sufficient evidential matter is obtained to support effectiveness of the firm’s system of quality control. We do not feel that inspecting one completed engagement for each engagement partner necessarily provides representative evidence on compliance with quality objectives. However, if the requirement of one completed engagement for each engagement partner is retained, cyclical considerations should ensure that all partners are inspected within a reasonable timeframe to be determined by the firm’s risk assessment.
Further, the three-year example provided in A169 may have unintended consequences in that the extant ISQC 1 included a similar three-year example in A66 which became a de facto requirement rather than being applied based on the factors listed in A66. Firms and regulators of firms may adopt a similar approach if such an example remains within the proposed standard’s application guidance.

**Deloitte Touche Tohmatsu Limited**

**ED-ISQM 1 — Monitoring and remediation process**

In recognition of the risk-based nature of ED-ISQM 1, and with a focus on engaging in more proactive types of monitoring activities, DTTL recommends removal of the requirement for inspection of at least one completed engagement for each engagement partner on a cyclical basis. We believe retaining this requirement is contrary to the risk-based nature of the new quality management approach and discourages firms from investing in actions that would promote more effective, efficient, and innovative monitoring techniques, including increased investments in inspection of in-process engagements. (See Appendix II, Question 12(b))

Response: DTTL recognizes that the inspection of completed engagements is one of the firm’s monitoring activities. However, monitoring the completed portions of in-process engagements may often be a more proactive type of monitoring activity, the learnings from which may be more timely and different in nature and would add to the mix of information in a way that adherence to an archive inspection model would not. We believe retaining the requirement for the inspection of at least one completed engagement for each engagement partner on a cyclical basis is contrary to the risk-based nature of the new quality management approach and does not promote modernization of the standard, discouraging firms from investing in actions that would promote more preventative, effective, efficient, and innovative monitoring techniques. Accordingly, we suggest removing the requirement.

If, however, the Board determines it is important to retain a requirement that includes the inspection of completed engagements, DTTL recommends the following revisions to paragraph 45:

**Paragraph 45**

The firm’s monitoring activities shall include the inspection of engagements to determine whether the responses that are required to be implemented at the engagement level have been implemented. Engagement inspections may include the inspection of in-process or completed engagements and may also include the inspection of in-process engagements. In determining the nature, timing and extent of the inspections of engagements, the firm shall take into account the relevant factors in paragraph 44:

1. Take into account the relevant factors in paragraph 44; and
2. Include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

The above revisions facilitate greater scalability and enhance the risk-based nature of the requirement by removing the focus on inspection of at least one completed engagement for each engagement partner.

Under either approach (i.e., retention, modification, or removal of the requirement), DTTL recommends the following revisions to paragraph A169:

**Paragraph A169**
The firm may establish different cyclical periods for inspecting engagement partners according to the categories of engagements they perform. For example, the firm may determine that a longer cyclical period may be more appropriate for an engagement partner performing audits of financial statements is every three years of non-public interest entities than, whereas a longer period may be appropriate for engagement partners performing audits of listed entities only compilation engagements. The cycle of the inspection may be based on the number or nature of the engagements performed by the engagement partner, time (i.e., every three years as illustrated) or another factor, such as the number of engagements performed. The cyclical period may also be affected by the nature, timing and extent of other monitoring activities undertaken by the firm at the engagement level, including inspection of in-process engagements and the results thereof.

The suggested revisions remove the specific focus on a three-year cycle, emphasizing factors the firm may consider in determining the length of a cycle (or considerations in determining whether inspection of a completed engagement for an engagement partner is needed) and acknowledging that a cyclical period may vary across engagement partners.

**EY Global Limited**

We disagree with the requirement in paragraph 45(b) to inspect completed engagements for each partner on a cyclical basis determined by the firm. As noted in our response to Q6(d), we fully support the approach for firms to design and implement responses based on the identified and assessed quality risks. We believe that including the very specific required response to perform inspections cyclically could lead to firms implementing an inspection process based solely on a cyclical cycle, e.g., three-years, when that may be inappropriate based on the assessed quality risks for the firm.

In addition to modifying the requirement in paragraph 45(b) to be more principles-based to allow for tailoring based on quality risks, we believe that paragraph A169 could be further enhanced by rewriting it as follows: The firm may establish criteria for inspecting engagement partners according to a variety of risk factors. The risk factors considered can be the category of engagements (e.g., audits of financial statements, compilations) or number of engagements performed. By updating paragraphs 45(b) and A169 as suggested, it increases the probability that the firm implements an appropriate response based on the firm’s assessed quality risks.

**Paragraph 45**

(ा) We recommend updating paragraph 45 as follows “The firm’s monitoring activities shall include the inspection of engagements to determine whether the responses that are required to be implemented at the engagement level have been implemented and to otherwise provide relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management.”

**KPMG IFRG Limited**

We acknowledge that the IAASB expressed the intention to promote the importance of in-process monitoring activities, e.g. paragraph 45(b) states that: “Engagement inspections may include the inspection of in-process or completed engagements”.

Monitoring completed elements of in-process engagements can often be more proactive and preventative than monitoring completed engagements. However, the continued focus on completed engagements in the ED may reduce the ability of audit firms to dedicate resources to more innovative, timely and meaningful
forms of monitoring and may inhibit efforts to design more innovative approaches to preventative, real-time, in-process monitoring. We believe the standard should support a risk based approach to monitoring of engagements to enable firms to focus effort and resources on monitoring of the remaining components of the SoQM. However, we do recognize the importance of inspections of completed engagements as other types of review do not allow for the overall "stand back" view of an engagement.

As mentioned in our overarching comments, paragraph A169 of the Application Guidance to the ED still includes reference to a 3-year cycle for monitoring completed engagements which, being explicit and granular, we believe may be interpreted as a "de facto" requirement. We believe monitoring over the whole SoQM under the new standard is likely to require significant resources, in addition to maintaining monitoring over completed engagements, as required by the current ED. In keeping with the risk-based concepts underpinning the ED, we would support a risk-based approach to monitoring, of both completed engagements and in-process engagements, rather than a requirement to review completed engagements over a prescribed period. We would support removing reference to the 3-year cycle as this may detract from the aims of the risk-based approach of the standard and recommend replacing with "on a basis determined by the firm". We would recommend IAASB to include guidance in the Application Guidance that may help audit firms to determine the appropriate cycle. Such an enhancement would improve the scalability of this requirement.

Monitoring of completed engagements

We acknowledge that the IAASB expressed the intention to enhance monitoring activities to address a broader base than completed engagements e.g. in-process monitoring is now part of the monitoring and remediation component. However, despite the increased emphasis on other monitoring (e.g. in-process monitoring) the requirements still require a cyclical review of "completed" engagements for each engagement partner, and the Application Guidance to the ED still includes a reference to a 3-year cycle for monitoring of completed engagements which we assess as explicit and granular guidance and, therefore, may be interpreted as a "de facto" requirement.

Enhancing other monitoring, including in-process monitoring activity, gives an opportunity to employ a risk-based approach to monitoring, one which embraces technological developments enabling better in-process monitoring, and reduces the need for the strict requirement for completed files monitoring on prescribed timeframe. In keeping with the risk-based concepts underpinning the ED, we would support the standard enabling a risk-based approach to monitoring of completed engagements and in-process engagements, rather than a requirement to review completed engagements and a prescribed period. We would also support removing reference to the 3-year cycle as this may detract from the aims of the risk-based approach of the standard and recommend replacing with "on a basis determined by the firm". Such an enhancement would improve the scalability of this requirement.

Mazars USA LLP

Response: We do not fully agree with IAASB’s conclusion to retain certain requirements for inspection of completed engagements. The prescriptive nature of Paragraph 45(b) and the related application guidance in paragraph A169 (cyclical, completed engagements and every three years), contradicts the risk-based and customized quality management approach in ED-ISQM 1. At a minimum, we recommend removing the reference to every three years and placing more emphasis on the use of in-process engagement monitoring in the Designing and Performing Monitoring Activities section of the proposed standard.
5. Public Sector Organizations

US Government Accountability Office

Monitoring activities for in-process engagements (para. 45(a)): ED-ISQM 1 permits engagement inspections to be performed for in-process engagements as well as completed engagements. We believe that in-process reviews are part of engagement performance. Unless a firm’s established quality management process, including completion of engagement quality reviews or the equivalent, is permitted to fully function to completion, monitoring procedures such as inspections cannot determine if a potential finding or deficiency would have been rectified through the quality management process. In addition, inspecting in-process engagements could blur the distinction between quality management within individual engagements and the quality objective related to the monitoring and remediation process. Thus, we believe that permitting inspections of in-process engagements will cause additional difficulties in applying the standard.

We believe that this requirement may be inconsistent with the intention to promote more proactive and effective monitoring activities discussed in question 12a. A requirement to ensure that each engagement partner has at least one completed engagement inspected on a cyclical basis may be inconsistent with the risk assessment that the firm performs. For instance, a firm may have started a new practice area that focuses on engagements with higher risk and greater inherent uncertainties. As monitoring resources are limited, a requirement to inspect at least one completed engagement for each engagement partner on a cyclical basis may divert resources that would otherwise have been devoted to monitoring engagements that posed higher quality risks. As such, we suggest that the IAASB delete this requirement.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality

Monitoring completed portions of in-process engagements often may be more proactive and preventive than monitoring completed engagements. Inspecting completed engagements is one of many tools available to firms to monitor the system of quality management. The requirement of paragraph 45(b), although in place today, is prescriptive and not sufficiently risk-based when compared to the objectives of a quality management approach. It may dissuade firms from evolving to enhanced real-time ways of monitoring. Therefore, we would support eliminating this requirement. If the Board determines it is important to keep this requirement, we strongly support retaining the proposed language “on a cyclical basis determined by the firm.” We believe the ability for the firm to determine the cyclicity improves the flexibility and scalability of this requirement. Paragraph 66(c) of the Explanatory Memorandum to ED-ISQM 1 explains well the Board’s thinking related to determining the length of the cycle. We recommend this language be included in the final standard to help practitioners understand the flexibility intended.

As it relates to ED-ISQM 1 Application and Other Explanatory Material paragraph A169, we recommend:

- The Board refer to the risk of the engagement performed and not necessarily the category of engagement performed when determining the basis for the cycle length. While there may be a correlation between risk and category, we believe focusing on risk is more appropriate. Therefore, we suggest deleting the references to the “audit” and “compilation” categories.

- We suggest deleting the reference in the application guidance to “every three years” for audits of financial statements as this could be viewed as more prescriptive than intended given its placement in the application guidance, which may detract from the flexibility the Board intends.
European Federation of Accountants and Auditors for SMEs

We support flexibility in the form and nature of a firm's internal monitoring activities. However, we question the retention of a requirement to include inspection of one completed engagement for each engagement partner as this seems overly prescriptive and unnecessary for many SMPs.

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

Response: It is regrettable that this requirement still exists. IAB-IEC doubts whether the enhancements will lead to an improved flexibility.

Self-Regulatory Organization of Auditors Association

Requirement for the inspection of completed engagements for each engagement partner on a cyclical basis may be overwhelming in small practices with one-three partners.

9. Individuals and Others

Vera Massarygina

Requirement for the inspection of completed engagements for each engagement partner on a cyclical basis may be of no sense in small practices with one-three partners.

Q12(b) - Unclear

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

23. The requirements regarding Monitoring and Remediation appear to focus mainly on the firms’ periodic inspection process and addressing errors that have been observed in that process.

24. We recommend providing more specific guidance on the extent of engagement inspections in paragraph 45. The proposed language is vague and is likely to lead to inconsistency in its application.

Irish Auditing and Accounting Supervisory Authority

The requirements regarding monitoring and remediation appear to focus mainly on the firms’ periodic inspection process and addressing errors that have been observed in that process.

We recommend providing more specific guidance on the extent of engagement inspections in paragraph 45. The proposed language is vague and is likely to lead to inconsistency in its application.

3. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

In part. We support the changes made that allows more flexibility in applying the requirement (e.g., recognizing that differing cycles may be appropriate depending on the nature of the engagements). We also believe that inspection of completed engagements is not the only way to monitor quality. We support including in-process reviews as an alternate activity that could address quality risks.
Royal Nederlandse Beroepsorganisatie van Accountants
We agree for larger firms. However, for smaller firms with only a few partners we are wondering whether
this means that inspection of files will take place annually as the evaluation of the system of quality
management needs to take place annually. This seems a large burden. We recommend to align the various
requirements and provide further clarification.

6. Member Bodies and Other Professional Organizations
Belgian Institute of Registered Auditors IBR-IRE
We are not convinced that the attention points developed under 65-67 of the Explanatory Memorandum are
properly introduced in the standard.

Chartered Accountants Australian and New Zealand and ACCA
We agree in principle, however, as per para 45 (b) in determining the nature, timing and extent of the
inspection of engagements a firm shall include the inspection of at least one completed engagement for
each engagement partner on a cyclical basis determined by the firm could be unnecessary for some firms
particularly SMPs. This is because in the case of completed engagements the remedial action comes only
after they are completed.

Instituto de Censores Jurados de Cuentas de España
Establishing a mix of monitoring activities as described in Paras 44 and 45 seems appropriate to make
monitoring flexible.

Q12(c) - Framework is clear

2. Regulators and Audit Oversight Authorities
Financial Reporting Council United Kingdom
We support the proposals for monitoring and remediation and believe they have the potential to improve the
robustness of firms’ monitoring and remediation process. In particular, we support:

• The distinction between findings and deficiencies, which recognises that not all findings necessarily
indicate a deficiency.

We support the definition of deficiencies and the framework for evaluating findings and identifying
deficiencies. We believe the proposals have the potential to deliver greater consistency in practice in the
identification and assessment of deficiencies.

National Association of State Boards of Accountancy
Yes, we believe that the framework for evaluation findings and identifying deficiencies is clear and we
support the definition of deficiencies.

3. National Auditing Standard Setters
Canadian Auditing and Assurance Standards Board
Yes. We believe the framework for evaluating findings and identifying deficiencies as set out in paragraphs
47, 48, A172-A177 and A182-A184 is clear.
Hong Kong Institute of Certified Public Accountants
We agree the framework for evaluating findings and identifying deficiencies is clear, in particular, not all findings are subject to additional actions, such as investigating the root cause of the finding or remediating the finding.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board
Response:
The provisions for evaluating findings and identifying deficiencies are clear in the standard.

4. Accounting Firms
CAS International
Response:
Yes, adequate for time being.

Duncan and Topliss
(c) Yes. The definitions are clear and appropriate and the framework, splitting the two types of ‘result’ is considered beneficial to gaining the required information from the monitoring process. The definition of a deficiency clearly covers the three main stages of the QM process covered by the standard.

Haysmacintyre LLP
Yes

Nexia International
YES

Nexia Smith & Williamson
Yes, we believe that the framework is clear and we support the definition of deficiencies.

5. Public Sector Organizations
Auditor General South Africa
Yes, the framework for evaluating findings and identifying deficiencies is clear and we do support the definition of deficiencies.

Australasian Council of Auditors General
Yes.

International Organization of Supreme Audit Institutions
The framework for evaluating findings and identifying deficiencies is clear from the requirements and application material.
National Audit Office of Malta
Yes.

Office of the Auditor General of Canada
The framework for evaluating findings and identifying deficiencies is clear from the requirements and application material. Whether or not a finding is ultimately considered a deficiency will depend on the application of judgment as illustrated in paragraph A175 and as such, the definition is acceptable.

Provincial Auditor Saskatchewan (1)
Yes, the framework for evaluating findings and identifying deficiencies is clear and we support the definition of deficiencies.

Swedish National Audit Office
In general, yes, with a few comments.

6. Member Bodies and Other Professional Organizations
Australian Accounting Professional and Ethics Standards Board
Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the definition of deficiencies and believe that the framework for evaluating findings and identifying deficiencies is clear.

California Society of CPA’s
Paragraph 47 – Yes.
Definition in Paragraph 19(a) – Yes.

Comision Interamericana de Control de Calidad de la AIC
Response: Yes, we are agree.

Comite Control de Calidad del ICPARD
Response: Yes, it is.

Illinois CPA Society
Response: Yes.

Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)
Response: In general, the framework looks adequate.

Institute of CPAs of Uganda
ICPAU believes that the framework for evaluating the findings and identifying deficiencies is clear.
Institute of Independent Auditors of Brazil (IBRACON)
Yes. We agree with the paragraphs 47 to 50, which set the path to evaluate findings, identify deficiencies, evaluate and respond to identified deficiencies.

Instituto de Censores Jurados de Cuentas de España
Yes. The assessment process described in Para 48 including:

- The root cause, and
- The severity and pervasiveness of deficiencies

is appropriate

Malaysian Institute of CPAs
(c) Yes

New York State Society of CPAs
Response: The proposed framework for evaluating findings and identifying deficiencies, as set forth in paragraphs 47 and A172 to A177, is clear. We support the proposed definition of deficiencies as set forth in paragraphs 19.(a) and A10.

Wirtschaftsprüferkammer
The framework for evaluating findings and identifying deficiencies seems clear; we support the definition of deficiencies.

9. Individuals and Others
Training and Advisory Services and Chartered Accountants Academy
Yes

Paragraph 47 of ED-ISQM 1 requires the firm to identify deficiencies through evaluating the findings arising from monitoring activities, results of external inspections, and other information. The identification of deficiencies may include deficiencies in the monitoring and remediation process. The framework for evaluating findings and identifying deficiencies is therefore clear. The stages involved in evaluating findings are clear and the actions to take are also clear.

Q12(c) - Framework is clear but with further commentary

3. National Auditing Standard Setters
Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)
Response: Yes, however additional guidance would be required to help the firms to implement this concept.

4. Accounting Firms
BDO International
We agree with the proposed framework for evaluating findings and identifying deficiencies and, on balance, we are supportive of the deficiency definition, although further implementation support on this area may be
of benefit to users. The proposed standard in combination with the explanatory memo and application
guidance provides adequate recognition that the nature and severity of findings vary and that firms should
allocate resources accordingly. While consideration of inadequate design or operating effectiveness of the
quality management system can highlight deficiencies, it is not clear if the firm’s system of quality
management should also explicitly take into account the identification and remediation of deficiencies in the
quality of engagements – more clarity on this linkage in application guidance may be helpful to users.

Crowe Global
Response: The framework for evaluating findings and identifying deficiencies is clear to an informed reader,
but many practitioners, such as those who have less experience of applying control frameworks, may
require practical guidance to assist them with implementing this aspect of the standard.

EY Global Limited
We agree that the framework, per the requirements in paragraphs 47 through 51, for evaluating findings and
identifying deficiencies is sufficiently clear and we support the definition of deficiencies. While the term
‘findings’ (plural) and the corresponding framework for evaluating findings (plural) is also clear, paragraphs
A175 and 176 use the term ‘finding’ (singular). Using the term ‘finding’ implies a singular matter that was
detected and is not in keeping with the description of ‘findings’ in A172. Our view is that ED-ISQM 1 should
consistently use the term ‘findings’, in the plural, throughout the standard, which allows firms flexibility in
grouping individual exceptions and not requiring evaluation of each ‘finding’ on a standalone basis.

We also recommend including the definition of ‘findings’ in the definitions section using the text from A172
and removing this text from the application material. It is our view that this will enhance the understanding of
the term.

Grant Thornton International Limited
ED-ISQM 1, in the firm’s risk assessment process component, provides guidance in assessing the risks
identified to meeting the quality objectives. This guidance includes taking into consideration the expected
frequency of the quality risk occurring; the rate at which the effect of the quality risk would take place, or the
amount of time that the firm has to respond to the quality risk; and the duration of time of the effect of the
quality risk after it has occurred. We are of the view that these factors could be adapted to provide guidance
on assessing findings specifically in relation to quality risks.

Mazars
Additional examples would be helpful in the following areas:

quality risks;

quality indicators;

how to evaluate deficiencies.

MGI Worldwide
Response
This is clear as is the definition of a deficiency taken together with the information in the Explanatory Memorandum. Guidance on deficiency identification and practical examples would be of help to SMPs here.

PKF International Limited

The framework for evaluating findings and identifying deficiencies is helpful and we believe that it is appropriate for its inclusion within ED-ISQM 1.

However, to promote consistency of interpretation, the proposed wording could be made clearer by including a definition of, plus supplementary application guidance on, the term “finding”. This term is a critical aspect of the monitoring process, and it is used frequently throughout ED-ISQM 1 but it is not defined.

PKF South Africa

The framework for evaluating findings and identifying deficiencies is helpful and we believe that it is appropriate for its inclusion within ED-ISQM 1.

However, to promote consistency of interpretation, the proposed wording could be made clearer by including a definition of, plus supplementary application guidance on, the term “finding”. This term is a critical aspect of the monitoring process, and it is used frequently throughout the ED-ISQM 1 but it is not defined.

5. Public Sector Organizations

US Government Accountability Office

We suggest that the IAASB consider adding “finding” to the definitions in paragraph 19 of the ED-ISQM 1 to help ensure a consistent understanding and application of both “finding” and “deficiency” in the quality management framework.

6. Member Bodies and Other Professional Organizations

Korean Institute of CPAs

We support the circumstances in which deficiency exists. The application material mentions what needs to be taken into account when determining whether negative findings are a deficiency or not, from the perspective of framework identifying deficiencies, but not mentions the illustrative examples of negative findings that are not deficiencies, thereby creating the need for the development of application materials dealing with such examples.

Q12(c) - Framework is not clear

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

While we acknowledge the need to evaluate findings and identify deficiencies, we do not fully support the framework for evaluating findings and identifying deficiencies, and we do not support the definition of deficiencies.

Regarding the framework for evaluating findings and identifying deficiencies:
Paragraph 68 of the explanatory memorandum to ED-ISQM 1 states that:

“The IAASB is of the view that findings that do not rise to the level of a deficiency do not need to be subject to additional actions, such as investigating the root cause of the finding or remediating the finding. As a result, the IAASB identified the need for a clear definition of a deficiency in ED-ISQM (see paragraph 19(a) of ED-ISQM 1) and a supporting framework that sets out the process for evaluating negative findings and identifying deficiencies (see paragraphs 47-48 of ED-ISQM 1). The illustration sets out the framework in ED-ISQM 1, and the application material in ED-ISQM 1 provides further guidance to support the firm in working through the framework.”

This explanation and intention have not, however, been clearly translated into requirements. This is partly due to the complexity of the definition of deficiency, and partly due to an unclear process for evaluating negative findings and identifying deficiencies. Several stakeholders stated that the difference between findings and deficiencies is not clear. Also, it is not clear why only some findings are then determined to be deficiencies and, further, which findings are determined to be deficiencies.

It is unclear how firms are to identify deficiencies if “negative findings” are not subject to root cause analyses. Negative findings might be indicative of deficiencies, and the root cause itself might be a deficiency. If no root cause analysis is performed on negative findings, the firm might miss important indications of systemic weaknesses.

In this regard, the diagrams on pages 23 and 24 of the explanatory memorandum would be very helpful to gain an understanding; and we therefore encourage the IAASB to include these in the standard.

Paragraph 47 states that “the firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities…”. We suggest that the word “prompt” or “timely” be included so that the requirement reads as “the firm shall establish policies or procedures addressing the prompt (or timely) evaluation of the findings arising from the monitoring activities…”

Regarding the definition of deficiencies:

The definition of deficiency has three parts to it that are separated by “or” (paragraphs 19(a)(i), 19(a)(ii) and 19(a)(iii)). This implies that the “level” of the deficiency, or the “seriousness” of the deficiency, is the same/equal for all three parts of the definition. This does not seem to be clear as, theoretically, failure to establish a quality objective is a higher risk than a failure to identify and assess a quality risk, which, in turn, is a higher risk than the failure to respond appropriately to a quality risk.

A further concern raised is the relationship of deficiencies to the definition of “findings” as described by audit regulators for inspections purposes.

3. National Auditing Standard Setters

AICPA

We support the definition of deficiencies. However, the distinction between findings and deficiencies is not clear. We believe that findings and deficiencies as used in ED-ISQM 1 are equivalent to deficiencies and significant deficiencies, respectively, as those terms are used in ISA 265, Communicating Deficiencies in Internal Control to Those Charged With Governance. Using the same terms with different meanings is confusing. The chart at paragraph 68, page 23, of the Explanatory Memorandum is clearer than paragraphs 47-48 of ED-ISQM 1 at showing how findings become deficiencies. However, even within the chart, it is not clear how it is determined whether a negative finding is a deficiency. Paragraph A175 of ED-ISQM 1 indicates that the nature, severity and pervasiveness of the finding are considerations in determining
whether the finding is a deficiency. The difference between the evaluation of findings to determine whether deficiencies exist required in paragraph 47 of ISQM 1, and the evaluation of the severity and persuasiveness of the identified deficiencies required in paragraph 48 is not clear. For example, are these two distinct steps or part of an iterative process?

We believe that paragraph 51 is an engagement-level requirement that belongs in engagement level standards, not in ED-ISQM 1. That notwithstanding, the use of “finding” and “deficiency” in paragraphs 51 and A185 is confusing. The last sentence in paragraph A185 implies that a finding that procedures were omitted or an inappropriate report was issued is considered to be a deficiency (whether in the engagement or the system of quality management, or both, is unclear). However, the use of the word “finding” in the headings and first sentence of paragraph 51 is confusing. Likewise, the use of findings in paragraph A185’s heading but the reference to a deficiency in the last sentence of that paragraph is not clear.

We believe it would be helpful to indicate that deficiencies arise from negative findings. We also believe that references to negative findings will put more emphasis on positive findings, by contrast. We propose the following revisions to paragraphs 51, A173, A175, and A185:

Negative Findings About a Particular Engagement

51. In circumstances when a negative finding that has been determined to be a deficiency relates to an in-process or completed engagement and there is an indication that procedures required were omitted during the performance of the engagement or the report issued may be inappropriate, the firm shall: …

A173. Positive findings, while not required to be subject to additional actions, may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements. They may also highlight opportunities for the firm to enhance the system of quality management.

A175. Factors that a firm may consider in determining whether a negative finding is a deficiency include:…

Negative Findings About a Particular Engagement (Ref: Para. 51)

A185. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:

• Consulting with appropriate individuals within the firm regarding the appropriate action.
• Discussing the matter with management of the entity or those charged with governance.
• Performing the omitted procedures.

The actions taken to correct the work performed for a specific engagement does not relieve the firm of the responsibility to investigate the root cause(s) of the identified deficiency related to the engagement.

Australian Auditing and Assurance Standards Board

The AUASB does not consider the distinction between a finding and a deficiency to be clear. The AUASB considers that illustrative examples of what would be a finding and what would be considered to be a deficiency would be helpful. Additionally, the AUASB notes that while deficiency is defined, there is no definition of a finding. The AUASB recommends that the definition of finding be incorporated into the proposed standard. This is particularly important given that firms will be required to respond in different ways. Stakeholders expressed concern that a root cause analysis may be required in order to determine whether a finding is a deficiency. The AUASB recommends that the language should be clearer to clarify
that a root cause analysis is not required to be performed for all findings; rather, firms’ policies or procedures should address when a root cause analysis is appropriate. In practice, firms may be performing root cause analysis on findings categorised as “high”, i.e. those findings for which there is a high risk of a material misstatement occurring.

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

We support the definition of deficiencies. However, we consider that the distinction between findings and deficiencies is insufficiently clear, although it is still likely that firms will see all findings as deficiencies, which is not the case. We consider that there may be different interpretations by the firms of the severity of deficiency.

We are concerned that it is an encouragement to publish transparency reports and that these reports include an evaluation of the firm’s system of quality management. We consider that homogeneity is essential for comparability purposes. This aim can be reached only with universal KPIs. Audit quality indicators are being developed by international or European regulators that should be universal.

Institut Der Wirtschaftsprufer

We do not agree with the definition of a deficiency because it fails to address a “materiality concept” in relation to departures from quality objectives and consequently would result in very departure from a quality objective being regarded as a deficiency. We suggest considering the concept of “significant deficiency”, which would be those deficiencies resulting from departures that would be significant to those responsible for the system of quality management.

Kammer der Steuerberater und Wirtschaftsprufer

Answer: The distinction between findings and deficiencies is insufficiently clear. Many firms will see all findings as deficiencies, which is not the case.

New Zealand Auditing and Assurance Standards Board

No, the NZAuASB considers the distinction between a finding and a deficiency could be clarified further. Illustrative examples of what would be a finding versus what would be considered to be a deficiency would be helpful. This is particularly important given that firms will be required to respond in different ways. To promote consistency in practice, the standard should include a clear expectation as to when a root cause analysis is expected.

It is unclear when a finding would not be a deficiency, especially in paragraph 51(b); i.e., when a finding related to an inappropriate report would not be considered a deficiency. It could also be made clearer that paragraph 51 applies to findings and not deficiencies.

Paragraph A180 states that the firm’s policies or procedures for the nature, timing and extent of the procedures to investigate root causes “… may include whether the deficiency …indicates a trend or systemic issue”. Practitioners noted during our outreach that the root cause analysis would need to be performed in order to determine whether the matter is systemic.

Practitioners were also concerned that a root cause analysis may be required in order to determine whether the issue is a deficiency. The NZAuASB sees merit in this point, and considers the language could be clearer here to clarify that a root cause analysis is not required to be performed for all findings; rather, firms’
policies or procedures should address when a root cause analysis is appropriate. In practice, firms may be performing root cause analysis on findings categorised as “high”, i.e. those findings for which there is a high risk of a material misstatement occurring. They may also choose to analyse “medium” findings.

4. Accounting Firms

Baker Tilly International

Response: We do not consider that there is sufficient clarity around the definitions of “findings” and “deficiencies which has the knock-on effect that it is difficult to clearly define the scope of root cause analysis. Allied to the lack of clarity over these definitions is the scope of the application of root cause analysis, i.e. to which deficiencies root causes analysis is to be applied. (see below)

Baker Tilly Virchow Krause LLP

We believe that the Board should include more guidance related to the evaluation of identified deficiencies, particularly as it relates to evaluating their severity.

Deloitte Touche Tohmatsu Limited

In addition, while the requirement to determine the severity and pervasiveness of the deficiency follows the requirement to investigate the root cause of the deficiency, DTTL agrees with paragraph 72 in the explanatory memorandum in that investigating the root cause of the deficiency and determining the severity and pervasiveness of the deficiency is likely to be iterative. Therefore, DTTL recommends acknowledging the iterative nature of such requirements in the application material to paragraph 48 of the standard.

Response: With respect to the definition of deficiency as well as the overall framework for evaluating findings and identifying deficiencies, DTTL provides the following recommendations:

We are supportive of the recognition within ED-ISQM 1 that identified deficiencies may vary in terms of their severity and pervasiveness and would recommend further reflecting this concept within the definition of deficiencies. For example, when evaluating the effectiveness of a company’s internal control over financial reporting, in accordance with the PCAOB standards, there is a hierarchy of deficiencies, including significant deficiencies and material weaknesses. Having this hierarchy of well-understood definitions contributes to the consistent evaluation of deficiencies.

In addition, as the standard requires further action when a finding is determined to be a deficiency, we would support expanding upon the guidance provided in paragraph A175 to include examples demonstrating application of the factors that firms may consider when determining whether a finding is a deficiency.

KPMG IFRG Limited

Deficiencies

We do not believe the ED is sufficiently clear concerning the definition of findings deficiencies, their interaction, and the consistency of the use of these terms. In addition, we understand that a definition of “significant deficiencies” was eliminated from a previous draft of the standard in order to reduce complexity. We believe it is important for the revised standard to include a clear definition of “deficiencies” and how to assess their impact on the overall evaluation of the effectiveness of the SoQM.

Given the lack of clarity, this could lead to inconsistencies in what audit firms identify as findings to further evaluate, how audit firms evaluate deficiencies and the impact on the overall assessment of the
effectiveness of the SoQM. Whilst we recognise this requires application of judgement, in order to drive consistency in the implementation, as included above, we believe that it is important the revised standard include definitions for both “findings” and “deficiencies”, and the criteria for consideration to evaluate the impact of those deficiencies in determining whether the SoQM provides reasonable assurance that the objectives of the standard have been achieved.

Furthermore, we propose the standard also includes a clear statement that: not all negative findings, from the performance of monitoring activities, constitute a deficiency in the SoQM that would require audit firms to perform root cause analysis, and the view of the IAASB in paragraph 68 of the explanatory memorandum that “findings that do not rise to the level of a deficiency do not need to be subject to additional actions, such as investigating the root cause of the finding or remediating the finding”.

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

We suggest the IAASB provides further clarity with regard to the definition of, and guidance on, identifying deficiencies and evaluating findings. In particular, we note the following:

It would be helpful to provide a definition of the term “findings”, as audit firms may not interpret findings in the same way given the various interpretations that already exist within different jurisdictions.

The ED contains no threshold of the extent to which findings constitute deficiencies. We propose the Board add to the ED the definition of the term finding included in A.172 of the ED.

We believe the wording of paragraph A.174 which states that a negative finding is not always indicative of a deficiency in the SoQM is an important statement and it should be in the standard.

The ED does not distinguish or establish any severity of deficiencies making it challenging to evaluate individual deficiencies and also to conclude, at least annually as required by the ED, on the overall SoQM. We recommend that the IAASB includes additional guidance on evaluating the severity and pervasiveness referred to in paragraph 55(a) and supporting Application Guidance paragraphs A.183-185.

We recommend that the standard provides guidance explaining factors to consider in understanding the difference between a deficiency and a significant deficiency.

Mazars USA LLP
Response: The definition of a deficiency within paragraph 19(a) is not clear and neither is the framework for evaluating findings and identifying deficiencies. Findings are not defined within the standard; consideration should be given to adding a definition within paragraph 19.

Overall clarification and guidance are needed for how firms will evaluate findings and deficiencies in the context of the effectiveness of their systems of quality management to enhance the intended outcome and avoid inconsistencies in application of the standard.

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

The overall framework for evaluating findings and deficiencies is clear however in practice it might be difficult to distinguish between a finding and deficiency. In addition, if the framework is to be applied to each finding resulting from all internal and external monitoring activities, then we are concerned that the overall process will potentially become too complex to manage as the volume of information would be too large and onerous and the firm may lose sight of the overall objective of quality management.

Moore Stephens International

Response: We support what we believe are the ideas and aims behind this. We feel that the whole area could be better articulated particularly as there are inconsistencies between definitions of deficiencies currently in use by various regulators and the relationship between findings and deficiencies is not always clear both in the real world and in the material presented in this ED.

PriceWaterhouseCoopers

We suggest further clarity is needed around the concept of “findings” and the expectations of the standard in addressing whether a finding constitutes a deficiency, as defined in the standard. Paragraph A172 describes a finding as “information accumulated” from monitoring activities. This is a broad concept that, without further clarification, could result in an unstructured and potentially infinite exercise. Our understanding in relation to “negative findings” is that the concept is focussed on findings that give rise to indicators of potential non-compliance or of a deficiency in the SoQM. We suggest this be clarified within paragraph A172. Similarly, we suggest “positive findings” (paragraph A173) be described in the context of best practices that demonstrated/supported a high quality engagement.

In determining whether a finding (as clarified above) gives rise to a deficiency, we agree that the policies, procedures and processes for undertaking this exercise need to be determined by the firm, based on the nature of the firm and how it operates.

Paragraph 47 Findings (refer to our response to question 12(c)): We suggest further clarity is needed around the concept of “findings” and the expectations of the standard in addressing whether a finding constitutes a deficiency, as defined in the standard.

RSM International Limited

Response: We support the definition of deficiencies but consider that the difference between negative findings and deficiencies in the standard is still confusing, for example, the use of findings and deficiencies in paragraphs 51 and A185. The last sentence in paragraph A185 implies the findings were considered a deficiency. Is this a deficiency in the engagement or in the system of quality management? The heading of paragraph 51 should be described “deficiencies” rather than “findings” as both (a) and (b) represent failings in quality.

5. Public Sector Organizations

Office of the Auditor General New Zealand

No. The definition does not explicitly refer to deficiencies assessed through engagement inspections. We consider it might be useful to include a definition for “finding(s)” so that it is clear it relates to the results of all types of monitoring and includes negative and positive findings before any assessment of significance/severity.
6. Member Bodies and Other Professional Organizations

Accountancy Europe

The distinction between findings and deficiencies is insufficiently clear, although it is still likely that firms will see all findings as deficiencies, which is not the case.

Belgian Institute of Registered Auditors IBR-IRE

Unless misunderstood, we do not identify clearly the relation between a deficiency and their impact on the overall objective of the standard (par. 18).

CA Ireland

We believe the standard should provide a framework for the determination of findings and deficiencies and assessing the severity of deficiencies.

We support the definition of deficiencies but the terms “significant” and “findings” are not defined.

The ITC (paragraph 63(d) refers to the requirements having been clarified to differentiate between findings and deficiencies.

Paragraph A172 gives further discussion on what findings might be, this should be brought into the standard to clarify what is meant by the term.

“Significant” needs to be clarified as it could refer to a client, an engagement, a firm or a network. We believe the standard would be enhanced if these matters are clarified in particular the difference between a deficiency and a significant deficiency.

Center for Audit Quality

It is unclear in the ED-ISQM 1 how to evaluate deficiencies in determining whether the system of quality management provides reasonable assurance that the objectives of the standard have been achieved. While we believe it is appropriate for firms to apply professional judgment in reaching an overall determination, additional guidance would promote consistency in application. For example, when evaluating the effectiveness of a company’s internal control over financial reporting, there is a framework for assessing the severity and impact of exceptions. There is defined terminology such as significant deficiency and material weakness that aids in the evaluation of exceptions.

We suggest the Board add the definition of the term “finding” included in A172 to ED-ISQM 1 paragraph 19.

Chartered Accountants Australian and New Zealand and ACCA

No, we received feedback is that this is unclear and confusing. The requirements as drafted lack clarity around the difference between a finding and a deficiency that requires a response.

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

CPA Australia

Paragraph 47 could clarify that not all findings will result in a deficiency. Further guidance is needed on the extent and nature of findings which would lead to a deficiency, as this is not clear.

Response: We are supportive of the evaluation of findings and identifying deficiencies.
EXPERTsuisse
We would like to point out that perhaps the differentiation between findings and deficiencies is not clear enough for every practitioner. Some firms might classify every finding as a deficiency, while this is not intended by the standard. We encourage the IAASB to better work out the criteria for the differentiation between a finding and a deficiency.

IFAC Small and Medium Practices Committee
The framework for evaluating findings and identifying deficiencies can be further enhanced since the relationship between findings and deficiency is not very clear to some readers. A finding is not defined, a deficiency is and while it seems clear that most deficiencies will be identified as a result of internal or external findings, the definition of deficiency does not refer to findings and it is not sufficiently clear what, if any, criteria practitioners should apply when evaluating findings for the purposes of determining whether they are in fact deficiencies. We suggest the Board should acknowledge that a significant level of judgement will be involved in this respect.

In order to further enhance the readability of the standard, the IAASB may want to include a list of examples under para 19. This can cover areas such as violation of independence requirements, lack of compliance with national CPD program, management of issuance of auditors’ reports and audit documentation wrap-up etc.

Institute of Chartered Accountants in England and Wales
While the framework seems clear - a deficiency requires root cause analysis, a finding may or may not - the relationship between the two is less clear. Regulators have working definitions of findings and deficiencies and they are not consistent. A finding is not defined by IAASB, whereas a deficiency is defined. Despite the fact that most deficiencies will be identified as a result of internal or external findings, the definition of deficiency does not refer to findings. It is not clear what, if any, criteria auditors should apply when evaluating findings for the purposes of determining whether they are in fact deficiencies. If IAASB does not intend to do this, it should emphasise that a significant level of judgement is involved.

Some auditors will assume that the two terms are synonymous. The use of the term ‘finding’ in paragraph 51 seems to indicate that they may be right. Did IAASB intend that paragraph to refer to deficiencies?

We have concerns about the suggestion in paragraph A185 that the standard requires omitted procedures to be performed in relation to the engagement inspected. This is not required by audit regulators and could cause significant problems. IAASB should reconsider what it is trying to achieve in this context, whether it is reasonable and how to articulate it clearly.

They are simply those that have been brought to our attention and do not represent a comprehensive analysis.

It might be helpful to include up-front a definition of a ‘finding’. Many firms will have an understanding of this term based on their interaction with regulators and this will not necessarily be the same as what is intended in the standard
Institute of Chartered Accountants of Pakistan

We agree that the policies, procedures and processes for deficiencies need to be determined by the firm, based on the nature of the firm and how it operates. However, further clarity is required on the term ‘findings’ and how findings transpire into deficiencies.

Institute of Singapore Chartered Accountants

We believe that further clarity is needed around the concept of “findings” and the expectations of the standard in addressing whether a finding constitutes a deficiency, as defined in the standard. Paragraph A172 describes a finding as “information accumulated” from monitoring activities. This is a very broad concept that without further clarity, could result in an unstructured and potentially infinite exercise. We believe that the intent is, from a “negative finding” perspective, to focus on findings that give rise to indicators of potential non-compliance or of a deficiency in the system of quality management. We suggest that this be clarified within paragraph A172. In determining whether a finding gives rise to a deficiency, we agree that the policies, procedures and processes for undertaking this exercise need to be determined by the firm, based on the nature of the firm and how it operates.

Nordic Federation of Public Accountants

We believe that the distinction between findings and deficiencies are not sufficiently clear and that it is quite likely that firms will consider all findings as deficiencies.

South African Institute of Chartered Accountants

Paragraph 47 of ED-ISQM 1 requires the firm to establish policies or procedures addressing the evaluation of findings to determine whether deficiencies exist. The application material then echoes the requirement for the firm to determine whether negative findings indicate that there are deficiencies in the SOQM.

Although paragraph A175 includes factors for a firm to consider in determining whether a finding is a deficiency, there is no clear framework for evaluating findings and identifying deficiencies.

During our outreach activities, calls were heard for a stronger framework that indicates how a firm evaluates negative findings and concludes on whether there is a deficiency in the SOQM.

Furthermore, guidance on whether a deficiency in one component impacts other components of the SOQM is also required. How the firm determines whether a deficiency is pervasive is also an area where calls for additional guidance were heard.

The interaction between an engagement level deficiency and a firm level deficiency; specifically how an engagement level deficiency impacts the firm level SOQM requires clarity.

The diagram included in paragraph 68 of the Explanatory Memorandum to ED-ISQM 1 provides useful insight into the intended process of evaluating findings and identifying deficiencies and we therefore recommend that this be included in the final standard.

Lastly, calls were heard for the inclusion of a definition of findings in the definitions section of the standard. The definition can be developed based on the application guidance included in paragraph A172 of ED-ISQM 1.

As explained above, in addition to the concerns noted on the definition of a deficiency, the process for a finding to become a deficiency is not clear. It is suggested that once the concerns relating to the definition of
a deficiency have been addressed, the process for a finding to become a deficiency be aligned to the definition.

**The Finnish Association of Authorised Public Accountants**

We agree with the new requirement for the firm to investigate the root cause of deficiencies, but the distinction between a finding and a deficiency is not clear. Many see all findings as deficiencies and a positive finding might not be treated as a finding in the first place.

**Q12(c) - Respondent views are unclear**

3. National Auditing Standard Setters

**Royal Nederlandse Beroepsorganisatie van Accountants**

We recommend to make the framework clear by incorporating the figure on page 23 of the explanatory memorandum in an appendix or supporting material. Other figures in the explanatory memorandum might also be useful to include there as well.

4. Accounting Firms

**Kreston International**

Response: The definition does not contain a concept of frequency or severity in respect of implementation this will make it difficult to filter findings and to identify situations where the conduct of root cause analysis is appropriate. Some of the application material in paragraphs A 174 and A 175 may need to be in the standard.

6. Member Bodies and Other Professional Organizations

**Institute of Chartered Accountants of Scotland (ICAS)**

We would also highlight that there is a lack of consistency between regulators and their respective assessments of what constitutes a significant deficiency. This varies between jurisdictions.

**Q12(c).1 (Definition of deficiencies) - Agree**

2. Regulators and Audit Oversight Authorities

**Financial Reporting Council United Kingdom**

We support the definition of deficiencies and the framework for evaluating findings and identifying deficiencies. We believe the proposals have the potential to deliver greater consistency in practice in the identification and assessment of deficiencies.

**National Association of State Boards of Accountancy**

Yes, we believe that the framework for evaluation findings and identifying deficiencies is clear and we support the definition of deficiencies.

3. National Auditing Standard Setters

**AICPA**

We support the definition of deficiencies.
Canadian Auditing and Assurance Standards Board
We support the definition of deficiencies. We note that the definition is consistent with that in proposed ISA 315 (Revised). The IAASB should ensure that any changes, made to the definition should be reflected in both ED-ISQM 1 and ISA 315 (Revised).

Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)
We support the definition of deficiencies.

Hong Kong Institute of Certified Public Accountants
In addition, we support the definition of deficiencies as stated in the paragraph 19(a).

Royal Nederlandse Beroepsorganisatie van Accountants
We support the definition of deficiencies. This definition is to be separated from the definition of deficiency in internal control.

4. Accounting Firms

BDO International
We agree with the proposed framework for evaluating findings and identifying deficiencies and, on balance, we are supportive of the deficiency definition, although further implementation support on this area may be of benefit to users.

CAS International
Response:
Yes, adequate for time being.

Duncan and Topliss
c) Yes. The definitions are clear and appropriate and the framework, splitting the two types of ‘result’ is considered beneficial to gaining the required information from the monitoring process. The definition of a deficiency clearly covers the three main stages of the QM process covered by the standard.

EY Global Limited
We agree that the framework, per the requirements in paragraphs 47 through 51, for evaluating findings and identifying deficiencies is sufficiently clear and we support the definition of deficiencies.

Haysmacintyre LLP
Yes

MGI Worldwide
This is clear as is the definition of a deficiency taken together with the information in the Explanatory Memorandum.
Nexia International
YES

Nexia Smith & Williamson
Yes, we believe that the framework is clear and we support the definition of deficiencies.

RSM International Limited
We support the definition of deficiencies but consider that the difference between negative findings and deficiencies in the standard is still confusing, for example, the use of findings and deficiencies in paragraphs 51 and A185.

5. Public Sector Organizations

Auditor General South Africa
Yes, the framework for evaluating findings and identifying deficiencies is clear and we do support the definition of deficiencies.

Australasian Council of Auditors General
Yes.

National Audit Office of Malta
Yes.

Office of the Auditor General of Alberta
Response: We agree with the definition of deficiency. It should be noted that the definition of deficiency allows for a range of deficiencies, similar to how assurance engagements have different levels of risk (low, moderate, high).

Office of the Auditor General of Canada
The framework for evaluating findings and identifying deficiencies is clear from the requirements and application material. Whether or not a finding is ultimately considered a deficiency will depend on the application of judgment as illustrated in paragraph A175 and as such, the definition is acceptable.

Provincial Auditor Saskatchewan (1)
Yes, the framework for evaluating findings and identifying deficiencies is clear and we support the definition of deficiencies.

6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board
Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the definition of deficiencies and believe that the framework for evaluating findings and identifying deficiencies is clear.
CA Ireland
We support the definition of deficiencies but the terms “significant” and “findings” are not defined.

California Society of CPA's
Definition in Paragraph 19(a) – Yes.

Comision Interamericana de Control de Calidad de la AIC
Response: Yes, we are agree.

Comite Control de Calidad del ICPARD
Response: Yes, it is.

Illinois CPA Society
Response: Yes.

Institute of CPAs of Uganda
ICPAU is also supportive of the definition of deficiencies as laid out in Para 19 (a) of ED-ISQM 1.

Malaysian Institute of CPAs
c) Yes

New York State Society of CPAs
Response: The proposed framework for evaluating findings and identifying deficiencies, as set forth in paragraphs 47 and A172 to A177, is clear. We support the proposed definition of deficiencies as set forth in paragraphs 19.(a) and A10.

Wirtschaftspruferkammer
The framework for evaluating findings and identifying deficiencies seems clear; we support the definition of deficiencies.

9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy
We also support the definition of deficiencies that was developed after considering ISA 265 and the COSO Integrated Framework descriptions of deficiencies.

Q12(c).1 (Definition of deficiencies) - Agree but with further comments

3. National Auditing Standard Setters

Japanese Institute of CPAs
We support defining deficiency in three categories: quality objectives, quality risks, and responses. However, since the latter part of paragraph 19(a)(ii) states that “… such that a response that addresses that risk has not been appropriately designed or implemented,” a deficiency relating to the design or
implementation of the response can be categorized as both paragraph 19(a)(ii) and (iii). Therefore, we believe that it is necessary to clarify the distinction between paragraph 19(a)(ii) and (iii).

4. Accounting Firms

Deloitte Touche Tohmatsu Limited

We are supportive of the recognition within ED-ISQM 1 that identified deficiencies may vary in terms of their severity and pervasiveness and would recommend further reflecting this concept within the definition of deficiencies. For example, when evaluating the effectiveness of a company’s internal control over financial reporting, in accordance with the PCAOB standards, there is a hierarchy of deficiencies, including significant deficiencies and material weaknesses. Having this hierarchy of well-understood definitions contributes to the consistent evaluation of deficiencies.

Grant Thornton International Limited

We note that the definition of a deficiency includes that a deficiency exists in the following circumstances:

“ii) a quality risk has not been appropriate identified or assessed, such that a response that addresses that risk has not been appropriately designed or implemented; or iii) a response to address an assessed quality risk is not properly designed, implemented or operating effectively.”

The difference between these two aspects of the definition is not entirely clear, given that they both refer to the design and implementation of a response to a quality risk. Whilst we believe that the former relates to an inadequate or lack of response because the related risk was not identified and the latter relates to an inadequate lack of response when the risk has been identified, we are of the view that further clarification of what would be a deficiency in a quality risk is warranted.

Q12(c).1 (Definition of deficiencies) - Disagree

1. Monitoring Group

International Forum of Independent Audit Regulators

The definition of a deficiency has improved over the period of developing the exposure draft and has become more fulsome. However, we are concerned that the definition may now be over-engineered and unnecessarily complex. Part of this may stem from attempting to embed the criteria for undertaking root cause analysis into the definition. This definition could lead to firms to fail to address known defects in the systems of quality management and encourage firms to set only high-level objectives to avoid addressing defects. We recommend simplifying the definition and addressing the criteria for root cause analysis separately.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

Regarding the definition of deficiencies:

The definition of deficiency has three parts to it that are separated by “or” (paragraphs 19(a)(i), 19(a)(ii) and 19(a)(iii)). This implies that the “level” of the deficiency, or the “seriousness” of the deficiency, is the same/equal for all three parts of the definition. This does not seem to be clear as, theoretically, failure to establish a quality objective is a higher risk than a failure to identify and assess a quality risk, which, in turn, is a higher risk than the failure to respond appropriately to a quality risk.
A further concern raised is the relationship of deficiencies to the definition of “findings” as described by audit regulators for inspections purposes.

While we acknowledge the need to evaluate findings and identify deficiencies, we do not fully support the framework for evaluating findings and identifying deficiencies, and we do not support the definition of deficiencies.

3. National Auditing Standard Setters

Institut Der Wirtschaftsprüfer

We do not agree with the definition of a deficiency because it fails to address a “materiality concept” in relation to departures from quality objectives and consequently would result in very departure from a quality objective being regarded as a deficiency. We suggest considering the concept of “significant deficiency”, which would be those deficiencies resulting from departures that would be significant to those responsible for the system of quality management.

4. Accounting Firms

Baker Tilly International

We do not consider that there is sufficient clarity around the definitions of “findings” and “deficiencies which has the knock-on effect that it is difficult to clearly define the scope of root cause analysis. Allied to the lack of clarity over these definitions is the scope of the application of root cause analysis, i.e. to which deficiencies root causes analysis is to be applied. (see below)

Mazars USA LLP

The definition of a deficiency within paragraph 19(a) is not clear and neither is the framework for evaluating findings and identifying deficiencies.

PriceWaterhouseCoopers

In our view, the definition of “deficiency” itself may also create some challenges in consistency of interpretation and application. In particular, part (ii) of the definition may prove challenging to apply in practice without further clarification. The fact that a quality risk may not have been appropriately identified or assessed will likely only be identifiable as a result of a missing or ineffective response being identified, and from which the firm’s root-cause process concluded was as a result of a missing/incorrectly assessed quality risk. In effect, part (ii) may be a root-cause of part (iii), but this is not clear.

We recommend the definition would be better articulated by explaining that a deficiency exists when a matter (finding) gives rise to a determination that:

- a response needed to address a quality risk is either missing, or is not properly designed, implemented or operating effectively. The omission or improper design of a response may be due to a quality risk being omitted or incorrectly assessed; or
- when a quality objective required to achieve the objective of the ISQM is not established.

Paragraph 19(a) Deficiency (refer to our response to question 12(c)): We propose a simplified version of the definition.
5. Public Sector Organizations

Office of the Auditor General New Zealand

No. The definition does not explicitly refer to deficiencies assessed through engagement inspections.

Swedish National Audit Office

In general, yes, with a few comments.

The definition of deficiency. The definition does not include lack of proper monitoring and follow up procedures, we believe that this also refer to a deficiency.

The application material (A. 174 – 177) on the correlation between negative findings and deficiency is a bit confusing and not totally consistent with the definition of deficiency. For example, the negative finding as stated in A175: a finding that indicates that personnel have not adhered to the firm’s policies or procedures may be indicative of a deficiency in the culture of the firm.

We are unsure which of the partial definitions in 19 this refers to?

6. Member Bodies and Other Professional Organizations

Center for Audit Quality

We do not believe the definition of deficiencies, included in ED-ISQM 1 paragraph 19(a), is clear. The proposed definition varies from those commonly used in other frameworks such as the American Institute of CPAs Standards for Performing and Reporting on Peer Reviews.7 Having common and well understood definitions could contribute to the consistent application of the standard.

CPA Australia

However, we do not support the definition of “deficiency” as it is very broad and may cause problems in practice. We suggest that deficiencies should be restricted to operating effectiveness of responses and clearly separated from the suitability of the design of the system of quality management. Any shortcomings in the design of the system of quality management, including omitted or unsuitable quality objectives, inadequacies in the risk assessment or design of responses, should be dealt with separately from deficiencies in the operation of the responses. For example, it would be preferable for the design of the system to be reviewed and, if necessary amended prior to implementation of the system, as well as at the start of each period, and the operating effectiveness of the responses monitored during or at the end of the period. We suggest the IAASB consider whether a separate term is needed for the outcomes of the evaluation of the system’s design, which would comprise the quality objectives, risk assessment and design of responses. Separating these aspects of monitoring would also reflect the different approach needed to assess design, compared to operation, of the system.

The current definition would result in deficiencies if an objective is not established even if it is addressed in the responses. Likewise, if a risk has not been identified but has been addressed in the responses, it will still amount to a deficiency. In addition, it is not clear what the meaning of “established” is, in relation to quality objectives. Does this mean identified or described?

Self-Regulatory Organization of Auditors Association

We don’t support the definition of deficiencies, as we believe it needs further clarification.
This confusion is further exacerbated by the concerns noted in relation to definition of deficiency. The current definition of deficiency includes three elements of the risk assessment process; namely quality objectives, quality risks and responses to quality risks but deficiencies in each of these elements are ranked in terms of same level of seriousness. To illustrate, a missing quality objective is serious because this may result in the SOQM not achieving the overall objective; yet missing a single response where they may even be mitigating responses is classified on the same level as a missing objective. We do not agree with this.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Paragraph 19(a) doesn’t reflect the different levels of magnitude or likelihood for deficiencies in the three circumstances mentioned therein. We believe that definition should be improved by indicating characteristics of each circumstance, examples, categories of risks to reduce level of judgement. For example:

The paragraph should indicate the different levels of magnitude or likelihood by adding definition for material weakness (that for example: may represent probable and significant risks) and which reflects highest degree of probability and magnitude for which examples of appropriate general response or specific response may be appropriate to be presented.

The definition of deficiencies should include at least those weaknesses that are reasonable possible or significant. This will alert firms for susceptibility to those risks that may be less than reasonable possible, but significant.

Previously I raise my concerns in that regard in question 1 , and I have some suggestion for that area

Vera Massarygina

I don’t support the definition of deficiencies, it is not correct.

Q12(c).1 (Definition of deficiencies) - Unclear

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

The definition of deficiency is derived from the system of quality management that a firm has designed and implemented; its quality objectives, quality risks, and responses are part of the definition. The criteria for undertaking root cause analysis are accordingly embedded into the definition of a deficiency. Firms may be inherently inclined to oversimplify their objectives, risks and responses to avoid undertaking root cause analyses for deficiencies that they view as isolated; this may inadvertently make it more challenging to systematically identify and address defects. We recommend simplifying the definition for deficiency and addressing the criteria for root cause analysis separately.

4. Accounting Firms

Crowe Global

Using a definition of “deficiency” that is consistent with other control frameworks makes sense, but the understanding and awareness of this term has to be considered.
Kreston International

The definition does not contain a concept of frequency or severity in respect of implementation this will make it difficult to filter findings and to identify situations where the conduct of root cause analysis is appropriate.

Mazars

Response: The standard provides considerations relating to deficiencies but it does not define a deficiency.

It would be useful to include a definition of a deficiency in the context of the standard – this being a negative finding arising from monitoring which suggests an unacceptable risk factor in relation to a quality objective. More clarification and guidance is also needed in terms of “evaluating” the deficiencies as this may lead to discrepancies in understanding between firms.

6. Member Bodies and Other Professional Organizations

IFAC Small and Medium Practices Committee

The framework for evaluating findings and identifying deficiencies can be further enhanced since the relationship between findings and deficiency is not very clear to some readers. A finding is not defined, a deficiency is and while it seems clear that most deficiencies will be identified as a result of internal or external findings, the definition of deficiency does not refer to findings and it is not sufficiently clear what, if any, criteria practitioners should apply when evaluating findings for the purposes of determining whether they are in fact deficiencies. We suggest the Board should acknowledge that a significant level of judgement will be involved in this respect.

In order to further enhance the readability of the standard, the IAASB may want to include a list of examples under para 19. This can cover areas such as violation of independence requirements, lack of compliance with national CPD program, management of issuance of auditors’ reports and audit documentation wrap-up etc.

Q12(d) - Agree

1. Monitoring Group

Basel Committee on Banking Supervision

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

Monitoring and remediation, requiring audit firms to establish policies to investigate and respond to the root causes of deficiencies (ED-ISQM1 paragraph 48).

International Association of Insurance Supervisors

In particular, the IAIS supports:

Greater clarity as to the monitoring and remediation process with the firm now required to investigate the root causes of identified deficiencies so that appropriate action can be taken.

International Forum of Independent Audit Regulators

We welcome the developments in relation to performing root cause analyses of identified deficiencies.
2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

We support the proposals for monitoring and remediation and believe they have the potential to improve the robustness of firms’ monitoring and remediation process. In particular, we support:

- The investigation of the root cause of deficiencies so that appropriate action can be taken to address the deficiencies effectively.

We strongly support the new requirement for the firm to investigate the root cause of deficiencies. We believe it is clear in ISQM1 that the nature, timing and extent of procedures to investigate the root cause is sufficiently scalable as it bases the extent of the root cause analysis on the nature of the deficiencies, including their perceived severity (i.e. it recognises that in some circumstances where the root cause is apparent a rigorous process is unnecessary).

Independent Regulatory Board for Auditors (South Africa)

We agree with the new requirement for the firm to investigate the root cause of deficiencies.

3. National Auditing Standard Setters

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes. We believe that this requirement will help the firms to understand why those events happened and take proactive actions, including allocation of resources, to avoid those events to happen again in the future.

Hong Kong Institute of Certified Public Accountants

We agree with the new requirement for the firm to investigate the root cause of deficiencies and considered it may:

- Facilitate the design and implementation of more effective actions to address identified deficiencies.
- Directly contribute to the improvement of quality at the engagement level through the participation of engagement teams in the root cause analysis process.
- Enable those assigned ultimate responsibility and accountability or operational responsibility for the system of quality management to proactively monitor actions taken to address identified deficiencies.
- Facilitate more effective communication to personnel by explaining the actual root cause(s) of identified deficiencies, rather than the deficiencies themselves.

Japanese Institute of CPAs

We agree with the new requirements for the firm to investigate the root cause of deficiencies.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

Yes, we do agree with the new requirement for the firm to investigate the root cause of the deficiencies.
4. Accounting Firms

CAS International
Response:
Yes, we do agree with the new requirement for the firm to investigate the root cause of the deficiencies.

Deloitte Touche Tohmatsu Limited
Response: DTTL agrees with the new requirement for the firm to investigate the root cause of deficiencies, so that action can be taken to effectively remediate such deficiencies.

EY Global Limited
We agree with the new requirement for the firm to investigate the root cause of deficiencies and believe the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.

Haymacintyre LLP
Yes

Mazars
Response: Yes

Mazars USA LLP
Response: Yes, investigating the root cause of deficiencies enables the firm to focus on an issue and remediate more effectively and efficiently.

Moore Stephens International
Response: Yes, although see above

Nexia International
YES

PKF International Limited
We agree with the new requirement for the firm to investigate the root cause of deficiencies.

PKF South Africa
We agree with the new requirement for the firm to investigate the root cause of deficiencies.

PriceWaterhouseCoopers
We agree it is important that the root-cause of identified deficiencies be established such that appropriate remedial actions specifically tailored to the underlying root-cause can be put in place. A thorough root cause analysis completed using robust methodology results in valuable insight into deficiencies that can then be used to refine a firm's SoQM.
5. Public Sector Organizations

Auditor General South Africa

Yes, we do agree with the new requirement for the firm to investigate the root cause of deficiencies. The fact that the ED-ISQM 1 states that the firm does not need to investigate root causes for all findings but for all deficiencies will enable firms to spend resources on what matters.

International Organization of Supreme Audit Institutions

Investigation of the root cause of deficiencies is an appropriate method to increase the likelihood that deficiencies are properly addressed. The principle of root-cause analysis allows is crucial before policies and procedures are tailored to manage deficiencies more effectively, as well curb the occurrence of recurring findings of poor quality.

Office of the Auditor General of Canada

The introduction of root cause analysis requirements is likely to present the benefits outlined in paragraph A179.

Swedish National Audit Office

Yes.

6. Member Bodies and Other Professional Organizations

California Society of CPA's

Paragraph 48(a) – Yes

Comision Interamericana de Control de Calidad de la AIC

Response: Yes, we are agree.

Comite Control de Calidad del ICPARD

Yes, we do.

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

Response: Yes, with consideration of paragraph A180.

Institute of Chartered Accountants of Scotland (ICAS)

We welcome the introduction of a requirement for root cause analysis to be performed but would propose that it should also have a greater focus on positive findings. However, we acknowledge that this will impose an additional burden for some firms and therefore greater implementation material around proportionality and scalability will be necessary.

Institute of CPAs of Uganda

ICPAU also agrees with the new requirement for the firm to investigate the root causes of deficiencies as this is the only way the firms will adopt lasting solutions to quality system deficiencies. Once a risk is dealt
with using root cause analysis, the causes of the risks are also addressed and as such, the firms will not be merely dealing with symptoms of risks affecting the quality but with the whole problem.

**Instituto de Censores Jurados de Cuentas de España**

Yes:

**New York State Society of CPAs**

Response: We agree with the proposed new requirement for a firm to investigate the root cause of deficiencies so long as it is clear that the scope of such investigation is left to the discretion of the firm’s management.

**South African Institute of Chartered Accountants**

SAICA is in agreement with the new requirement for the firm to investigate the root cause of deficiencies. The performance of root cause analysis is not a new concept from a South African point of view. In terms of local external monitoring activities, this was introduced by the IRBA as part of a formal remedial action process, whereby firms or practitioners that received unsatisfactory inspections are requested to submit a root cause analysis and an action plan, with a written undertaking that all deficiencies that were reported to them will be addressed. In the 2018 IRBA Public Inspections Report, it was reported that the introduction of the remedial action process have shown notable improvements by the firms in identifying the true root causes of findings. The ability for a firm to identify the true root cause of a deficiency, thereby allowing the firms to respond appropriately in our view will greatly contribute to achieving the objective of ED-ISQM 1.

**The Finnish Association of Authorised Public Accountants**

We agree with the new requirement for the firm to investigate the root cause of deficiencies, but the distinction between a finding and a deficiency is not clear. Many see all findings as deficiencies and a positive finding might not be treated as a finding in the first place.

**9. Individuals and Others**

**Shady Fouad Ahmed Mehelba**

Yeas but the extent of this process may be vary due to complexity, formalities and the type of engagement performed by firms

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

Yes

**Q12(d) - Agree but with further comments**

**2. Regulators and Audit Oversight Authorities**

**Committee of European Auditing Oversight Bodies**

We are also of the view that the standard should be clearer on who is responsible for action to identify root causes and respond to deficiencies as well as for oversight of thereof, including the requirements applying to them such as objectivity.
Irish Auditing and Accounting Supervisory Authority

We are also of the view that the standard should be clearer on who is responsible for action to identify root causes and respond to deficiencies as well as for oversight thereof, including the requirements applying to them such as objectivity.

3. National Auditing Standard Setters

AICPA

We support the requirement for root cause analysis. Because not all firms are currently performing root cause analysis, implementation support materials for firms of various sizes and natures will be essential in order for a root cause analysis to be meaningful and not an empty exercise. For example, implementation support can cover items such as how root cause analysis performed for engagement level deficiencies can be evaluated in relation to the overall system of quality management. It could also cover items such as best practices to seek out the true root cause rather than settling on an early answer. We also recognize that the ability to perform root cause analysis improves with experience, and experience comes with time.

To avoid the impression that a root cause analysis is necessary for every deficiency regardless of its severity, we suggest changing the order of the words in paragraphs 12(b) and 48 of ED-ISQM 1, as follows:

12 (b) “Evaluating the severity and pervasiveness of the identified deficiencies and investigating
Investigating the root cause(s) of the identified deficiencies and evaluating the severity and pervasiveness of the identified deficiencies”

48. The firm shall establish policies or procedures addressing:

(ba) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management as a whole; and. (Ref: Para. A183)

(ab) The investigation of the root cause(s) of the identified deficiencies, including that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity.; and (Ref: Para. A178–A182)

(b) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management as a whole. (Ref: Para. A183)

While we do not believe that guidance on how to perform a root cause analysis is appropriate within the standard, many firms will need to undergo training and use support materials in order to be able to perform a meaningful root cause analysis.

New Zealand Auditing and Assurance Standards Board

Yes, the NZAuASB agrees with the new requirement and considers this is making explicit what is (or should be) happening implicitly. Practitioners raised concern with us that there is already external guidance on performing a root cause analysis, prepared by others, that would appear to go beyond the requirements of the proposals. For this reason, we agree that it would be useful for the standard to explicitly address the root cause analysis. However, additional application material is needed to assist firms, especially SMPs and sole practitioners, to apply and evidence this analysis.
4. Accounting Firms

Baker Tilly International

Response: See comments above. Whilst there is flexibility in the application of root cause analysis we believe further clarity is required in relation to its application for findings arising from quality inspections of completed engagements.

Response: We agree with the introduction of the requirement to investigate root causes. We note that the standard requires firms to identify the root causes of deficiencies identified in the system of quality management. However, the standard is not clear how root cause analysis should be applied to the findings (or deficiencies) arising from quality inspections, either external or internal. We are of the view that the application of Root Cause Analysis is equally, if not more, important to those findings arising from quality inspections of completed engagements in driving further improvements in audit quality at the engagement level. We suggest therefore that the standard is revised further to clarify the application of root cause analysis to findings from quality inspections.

BDO International

We are supportive of the requirement to investigate root causes. We do not see this as a new requirement as it was inherent within the extant requirement of performing an ongoing consideration and evaluation of the firm's system of quality control; however, providing specific emphasis in the proposed standard provides more clarity for others who may not have previously interpreted the need to perform cause analyses. We are also in agreement that there should be flexibility in the approach to performing cause analyses as the nature and severity of findings and deficiencies should drive the nature and extent of root cause analyses performed. However, supplemental implementation guidance on best practices when performing root cause analysis - particularly the extent of any analysis, application to engagement findings and the importance of having an objective mindset when performing this analysis - would be helpful to practitioners, especially those who have not performed it in the past.

Crowe Global

Response: We agree with the new requirement for the firm to investigate the root cause of deficiencies. However, root cause analysis is a new concept for many professionals and the IAASB has to develop practical implementation guidance (including case studies) to assist firms with understanding and implementing the requirement. This is an area where “plain language” should set out that the requirement is about understanding the “underlying reasons”. The IAASB has to collaborate with oversight bodies, national standard setters and professional accountancy organisations to ensure that there is both a proper understanding of the concept and a consistent application of the concept.

Grant Thornton International Limited

We agree with the incorporation of a new requirement in ED-ISQM 1 to investigate the root cause of identified deficiencies and are of the view that the guidance allows for sufficient flexibility. As we have noted previously, this requirement is another example of the incorporation of practices that a number of firms have already developed. We further support the inclusion of guidance in ED-ISQM 1 paragraph A180 that explains that the procedures undertaken to understand the root cause of an identified deficiency may be simple, given the term “root cause analysis” is often associated with a complex and in-depth process. We are of the view, however, that further guidance may be useful for firms to help them to determine when they
have performed sufficient analyses of the cause of the deficiency. Such guidance could be staff guidance that is external to the standard.

We do note, however, that even where firms do perform effective root cause analyses, this is unlikely to drive 100% quality in a firm. Root cause analysis is good for identifying and addressing systemic quality issues across a firm, however, it will not eliminate those “one off” deficiencies that result from human error.

**KPMG IFRG Limited**

Furthermore, we propose the standard also includes a clear statement that: not all negative findings, from the performance of monitoring activities, constitute a deficiency in the SoQM that would require audit firms to perform root cause analysis, and the view of the IAASB in paragraph 68 of the explanatory memorandum that “findings that do not rise to the level of a deficiency do not need to be subject to additional actions, such as investigating the root cause of the finding or remediating the finding”.

We think a robust root cause analysis of deficiencies is critical, but agree that audit firms should be able to perform this in a manner that is responsive to the nature, extent and severity of findings, both individually and in aggregate. The ED strikes the right balance by requiring audit firms to set policies and procedures around root cause analysis, which gives sufficient flexibility as to the nature, timing and extent of the procedures to investigate the root cause and therefore we are supportive of this approach.

We are supportive of the statements within paragraphs A.174 and A.178 which clarify that not all negative findings are a deficiency in the SoQM, and therefore not all findings require performance of root cause analysis. We believe it would be helpful to also include this statement in the standard itself.

As noted in our overarching comments we do not believe the ED is sufficiently clear concerning the definition of “findings” and “deficiencies”, their interaction, and the consistency of the use of these terms, an example of this would be paragraph A.180. We also believe it would enhance consistency of interpretation if the standard included a clear specific statement in Paragraph 51 (and A.185) echoing the IAASB view in paragraph 68 of the Explanatory Memorandum that “findings that do not rise to the level of a deficiency do not need to be subject to additional actions, such as investigating the root cause of the finding or remediating the finding”.

**Kreston International**

Response: Root cause analysis can be beneficial. However, care is needed to ensure the level of root cause analysis required is not excessive when compared to the nature of findings.

**MGI Worldwide**

Response

We welcome the move to a root cause analysis of deficiencies to avoid “default” responses for many review findings (lack of training, lack of time) in paragraph 48. Guidance will be needed for firms to be able to undertake such a review effectively and the network would bring this into the scope of the network monitoring undertaken across all firms on a cyclical basis. The barriers are, as ever, time and understanding of what is required.

**RSM International Limited**

Response: We strongly support the requirement for root cause analysis. However, we believe implementation support will be required as this is not an area that all firms currently undertake and it could
lead to challenges in performing an effective analysis. We also think that more clarity should be added on whether all deficiencies require a root cause analysis. Paragraph 48(a) seems to indicate that a root cause analysis is required for all deficiencies but paragraphs 48(b) and A183 could imply that some deficiencies are not severe and pervasive and, as such, a root cause analysis may not be needed.

5. Public Sector Organizations

Office of the Auditor General New Zealand

As we referred to in our response to the question about the framework for evaluating findings and identifying deficiencies, we believe it would be helpful to have a clear definition of the differences between a finding and a deficiency at a firm level.

Yes. However, it would not be practical to investigate the root cause of every deficiency identified in monitoring activities at engagement level. In our view there needs to be flexibility to set criteria for investigating the root causes of significant deficiencies, or recurring or common deficiencies.

6. Member Bodies and Other Professional Organizations

Australian Accounting Professional and Ethics Standards Board

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the requirement to investigate the root cause of deficiencies. However, this process is likely to be foreign to many firms, particularly SMPs, and it may require additional guidance and education to enable firms to undertake this appropriately and efficiently.

Center for Audit Quality

We agree with the new requirement for the firm to investigate the root cause of deficiencies and believe the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible. It may be useful for the Board to clarify in the application material that findings do not require a root cause analysis, as noted in the Explanatory Memo to ED-ISQM 1, paragraph 71.

Chartered Accountants Australian and New Zealand and ACCA

Yes, we support this. Many firms have already introduced root cause analysis (RCA). The standard needs to allow for flexibility of approach to RCA and include guidance for SMPs and sole practitioners on how they perform and document RCA.

CPA Australia

We are concerned that root cause analysis is required for all deficiencies and is a factor (see paragraph A183) in evaluating the severity and pervasiveness of an identified deficiency, rather than the severity and pervasiveness of the deficiency determining whether root cause analysis is required to be conducted. Given that firms can still conduct root cause analysis on deficiencies which are not severe or pervasive or on positive findings if they choose, we think the requirement should be restricted to severe or pervasive deficiencies.

We suggest that the requirements do not actually require “the firm to investigate the root cause(s) of identified deficiencies” as stated in paragraph A178, but only requires policies and procedures for root cause analysis. Currently the requirements jump from establishing policies and procedures (see paragraph 48) to designing and implementing remedial action (see paragraph 49). Arguably, the requirements need to
include the actual conduct of root cause analysis. The requirements need to clarify whether root cause analysis should be conducted for all deficiencies or just severe or pervasive deficiencies and the objective of that analysis. For example, the objective may be to identify the underlying causes of severe or pervasive deficiencies to inform remedial action. Furthermore, we suggest that this root cause analysis should not be limited to audit deficiencies as inspection and quality review programs may identify deficiencies in assurance or related services.

**Illinois CPA Society**

Response: Yes, however, for smaller firms, a root cause analysis could be difficult and more guidance on how to do so would be useful.

**Institute of Chartered Accountants in England and Wales**

We support root cause analysis in principle. It works well for many firms and an emphasis on what works makes a significant and positive difference to attitudes. Firms with very few audits are, again, most likely to suffer disproportionate cost, and to fail to perform the analysis effectively. A simple example of how to deal with a deficiency in such a firm in an appropriate manner would be helpful.

**Institute of Chartered Accountants of Pakistan**

The root cause analysis is important to remove deficiencies, however, this concept and approach would be a practical challenge for SMPs. This would be owing to the reason that smaller firms do not have resources to carry out such an analysis. We note that this area requires further guidance and education to assist in proper understanding and implementation.

**Institute of Singapore Chartered Accountants**

While we agree that root cause analysis would promote more effective monitoring, smaller firms voiced concerns about not having sufficient expertise to conduct the analysis. Such concerns extend to firms considering the need to engage external consultants to perform the analysis, which can be very costly to their business.

**Wirtschaftsprüferkammer**

We basically think that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible based on the proposed standard.

Para A184 implies that the firm always needs to take remedial action if a deficiency is sufficiently severe. In reality, careless or clerical mistakes by individuals cannot be avoided. These mistakes may be severe but cannot always be addressed by remedial action. This leads to questions on how a firm should act in such cases.

The term “root cause” should be defined in Para 19.

**8. Academics**

**UNSW Audit Research Network**

We concur with the emphasis that the standard places on root cause analysis with reference to identified deficiencies.
We agree with the new requirement for firms to undertake a root cause analysis of deficiencies. Research in auditing has recently begun to investigate the merits of root cause analysis in exercising professional skepticism and identifying the core underlying cause of a problem (misstatement). Doxey, Pollard and DeZoort (2019) find that auditors instructed to analyze a misstatement using root cause analysis were more effective in identifying an underlying cause, suggesting that root cause analysis is an effective means by which to analyze identified deficiencies. We note, however, that this research also finds that providing structure to the root cause analysis (i.e., the five whys, fishbone method) increased its effectiveness. We recommend, therefore, that the explanatory material relating to paragraph 48(a) (i.e., paragraphs A178 to A182) highlight that a structured approach to root cause analysis may be more effective in identifying the underlying root causes of an identified deficiency.

Q12(d) - Disagree
3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

In its current form, without the clarity around findings verses deficiencies the AUASB does not support the incorporation of a new requirement to investigate the root cause of identified deficiencies and does not consider that the application material allows for sufficient flexibility. The AUASB supports a root cause analysis on “significant” deficiencies as detailed in the response to question 12(c).

Q12(d) - Unclear
6. Member Bodies and Other Professional Organizations

Nordic Federation of Public Accountants

Since addressing root causes is a requirement, we would like more guidance on how scalability could be used in this area.

Q12(d)(i) - Agree
2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

We strongly support the new requirement for the firm to investigate the root cause of deficiencies. We believe it is clear in ISQM1 that the nature, timing and extent of procedures to investigate the root cause is sufficiently scalable as it bases the extent of the root cause analysis on the nature of the deficiencies, including their perceived severity (i.e. it recognises that in some circumstances where the root cause is apparent a rigorous process is unnecessary).

National Association of State Boards of Accountancy

Yes, we believe that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.
3. National Auditing Standard Setters

AICPA

The only specificity in the proposed standard about the nature, timing and extent of the procedures to investigate the root cause is that they take into account the nature of the identified deficiencies and their possible severity. This is sufficiently and appropriately flexible.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: Yes.

Hong Kong Institute of Certified Public Accountants

We agree that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible as it takes into account the nature of the deficiencies and their possible severity.

4. Accounting Firms

Baker Tilly International

Response: See comments above. Whilst there is flexibility in the application of root cause analysis we believe further clarity is required in relation to its application for findings arising from quality inspections of completed engagements.

BDO International

We are also in agreement that there should be flexibility in the approach to performing cause analyses as the nature and severity of findings and deficiencies should drive the nature and extent of root cause analyses performed.

Crowe Global

Response: The approach is sufficiently flexible, but as noted above, support for practical implementation in a consistent way is important.

Deloitte Touche Tohmatsu Limited

Response: DTTL agrees with the IAASB’s view that the nature and extent of the firm’s procedures to determine the root cause of a deficiency may vary depending on the nature and possible severity of the deficiency. The requirement in paragraph 48(a) of ED-ISQM 1 is sufficiently flexible, as it directly acknowledges the nature, timing, and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity.

Duncan and Topliss

(d) i. Yes. RCA is becoming increasingly appropriate across numerous different areas of business, not just auditing. It is a useful tool to clearly ID what is at the root of an issue.

EY Global Limited

We agree with the new requirement for the firm to investigate the root cause of deficiencies and believe the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.
Haysmacintyre LLP
Yes

KPMG IFRG Limited
We think a robust root cause analysis of deficiencies is critical, but agree that audit firms should be able to perform this in a manner that is responsive to the nature, extent and severity of findings, both individually and in aggregate. The ED strikes the right balance by requiring audit firms to set policies and procedures around root cause analysis, which gives sufficient flexibility as to the nature, timing and extent of the procedures to investigate the root cause and therefore we are supportive of this approach.

Mazars
Response: Yes

Mazars USA LLP
Response: Yes, the procedures are sufficiently flexible.

Nexia International
YES

Nexia Smith & Williamson
Yes, we believe that these are sufficiently flexible.

PKF International Limited
We also agree with the requirements on the nature, timing and extent of procedures to investigate the root cause.

PKF South Africa
We also agree with the requirements on the nature, timing and extent of procedures to investigate the root cause.

PriceWaterhouseCoopers
The proposed requirements provide appropriate flexibility in how a firm develops its policies and procedures around root-cause analysis, in particular that the nature and extent of activities be responsive to the assessed severity of the identified deficiency. For example, firms may have more detailed processes for audits of listed entities as compared to agreed-upon-procedures engagements.

RSM International Limited
Response: Yes and we welcome this flexibility.
5. Public Sector Organizations

**Auditor General South Africa**

The nature, timing and extent of the procedures to investigate the root causes for deficiencies are sufficiently flexible in that the firm exercises professional judgement based on the evidence available, the nature of the deficiencies and their possible severity.

**Australasian Council of Auditors General**

Yes.

**International Organization of Supreme Audit Institutions**

Yes

**National Audit Office of Malta**

Yes.

**Office of the Auditor General New Zealand**

We believe that the requirement to establish policies or procedures addressing the investigation of root causes is sufficiently flexible to allow for this.

**Office of the Auditor General of Alberta**

Response: Yes

**Provincial Auditor Saskatchewan (1)**

Yes, the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible. Although, we expect to only investigate the root cause of negative findings.

**Swedish National Audit Office**

Yes. But the timing and extend would depend on the type of deficiency identified.

**US Government Accountability Office**

We believe that the nature, timing, and extent of the procedures for investigating the root causes of deficiencies are sufficiently flexible.

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 believe that the nature, timing and extent of the procedures to investigate root causes is sufficiently flexible.

**CA Ireland**

Yes. There is flexibility needed and scalability needs to be borne in mind.
California Society of CPA’s
Paragraphs A178-A182 – Yes.

Center for Audit Quality
We agree with the new requirement for the firm to investigate the root cause of deficiencies and believe the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.

Comision Interamericana de Control de Calidad de la AIC
Response: Yes, they are flexible enough.

Comite Control de Calidad del ICPARD
Response: Yes, it is.

Illinois CPA Society
Response: Yes, we believe the identification of the root cause(s) is an important requirement of a Quality Management System.

Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)
Response: The draft explicitly states that the procedures undertaken to understand the root causes of an identified deficiency may be simple. The draft avoids overly complex procedures.

Institute of Chartered Accountants of Pakistan
Subject to above noted concerns, the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.

Institute of CPAs of Uganda
ICPAU believes that the nature, timing and extent of the procedures to investigate the root cause of deficiencies in the systems of quality management is sufficiently flexible as the root cause analysis identified by the standard involves the use of professional judgement based on the evidence available.

Institute of Independent Auditors of Brazil (IBRACON)
Yes.

Instituto de Censores Jurados de Cuentas de España
Regarding negative results, factors suggested in Para A175 seem to be flexible to find the root cause of the identified deficiency.

Malaysian Institute of CPAs
(i) Yes
New York State Society of CPAs

Response: The proposed requirements set forth in paragraphs 48(a) and A178 to A182 provide significant and sufficient flexibility in how and to what extent a firm will be required to identify root causes.

South African Institute of Chartered Accountants

At face value, SAICA cannot see how the nature, timing and extent of the procedures to investigate the root cause are flexible. ED-ISQM 1 merely states that the firm shall establish policies and procedures addressing the investigation of the root causes of the identified deficiencies, including the nature, timing and extent of the procedures to be performed to perform such investigation.

In our view, the flexibility of the nature, timing and extent of the procedure to investigate the root cause analysis will be determined by the nature and circumstances of the firm, as well as the nature and severity of the deficiency identified. Based on this view, we are satisfied that the nature, timing and extent of the procedures to investigate the root cause are sufficiently flexible.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Consider simplifications for that methodology for SMPs to avoid undue cost, that resulted from nature of these firms which may face difficulties in segregation of duties of those in charge of quality management approach, taking into account that large part of this firms' risk assessment process, as practically suggested, will be based on less expectations and experience for determining root of the causes of identified risks, these firms may depend heavily on what obviously have been previously determined as risks, most of which existed but no response for it

So focusing on less causes roots by identifying which are relevant risk or relevant root cause, as far as I believe, will be more efficient and effective

While for those perform engagement to entities that have probability to affect public interest, more comprehensive approach that encompass more analysis for root causes of risks will be appropriate, this must include probability and significant linkage to root cause and based on priorities there might be precise determinable factor for the response and their time, nature and extent which is most necessary for components such as monitoring and leadership and governance compositions and reporting, I believe in such entities two way of effects and channel of communication may be exist to preserve its suitability for public interest

If time is not sufficient to gather resources for the previous aforementioned suggestions, we might use appendix guide linkage relevant cause root of risk with response time, nature and extent with determination whether it is key matter for response (timely response), type of required communications to clarify time and nature and extent

I believe yes

Training and Advisory Services and Chartered Accountants Academy

Yes

ED-ISQM 1 acknowledges that the nature, timing and extent of the firm’s process to determine the root cause of a deficiency would vary depending on the nature and possible severity of the deficiency. This clearly demonstrates the flexibility of the procedures to investigate the root cause of a deficiency.
Q12(d)(i) - Agree but with further comments

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

The nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.

However, the application material could clarify how much work needs to be done and what the extent of the root cause analysis is, in order to satisfy the requirement of the standard.

3. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Generally, we support the procedures to investigate the root cause. However, we note that sometimes it is difficult to isolate one root cause. We believe the application material should acknowledge this.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Response:

The current provision in paragraph 48(a) with further guidance in paragraphs A178 to A182 is clear and does appear sufficiently flexible. However, to echo our earlier responses, an example in the form of guidance to deal with the application of this, would be extremely helpful.

Royal Nederlandse Beroepsorganisatie van Accountants

We agree. The firms are required to perform a root cause analysis of deficiencies. The nature, timing and extent of the procedures however are dependent on the nature of the deficiencies and their possible severity (par. A180). This enables sufficient flexibility. Some complicating factors are also mentioned. Nevertheless, in practice it may remain difficult to perform an appropriate root cause analysis and find remedial actions. It should be established that there is an open culture where individuals and groups can learn from their failures/errors. Some more attention could be paid to this aspect. Further we refer to our remarks on Q2.

4. Accounting Firms

Baker Tilly Virchow Krause LLP

We believe that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible, however, we believe that including detailed examples in the proposed standard would greatly improve the quality and effectiveness investigations performed.

Grant Thornton International Limited

We agree with the incorporation of a new requirement in ED-ISQM 1 to investigate the root cause of identified deficiencies and are of the view that the guidance allows for sufficient flexibility. As we have noted previously, this requirement is another example of the incorporation of practices that a number of firms have already developed. We further support the inclusion of guidance in ED-ISQM 1 paragraph A180 that explains that the procedures undertaken to understand the root cause of an identified deficiency may be simple, given the term “root cause analysis” is often associated with a complex and in-depth process. We are of the view, however, that further guidance may be useful for firms to help them to determine when they
have performed sufficient analyses of the cause of the deficiency. Such guidance could be staff guidance that is external to the standard.

**Moore Stephens International**

Response: We believe that they are flexible, but we are concerned they may not be scalable.

### 6. Member Bodies and Other Professional Organizations

**IFAC Small and Medium Practices Committee**

We are of the view that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible based on the proposed standard. However, we do have two significant concerns with this new requirement for root cause analysis (para 48). This term is defined differently in different jurisdictions and may not be consistently understood across or even within the same jurisdiction. Therefore, it may not be clear what is intended or how it should be documented. Hence, an SMP with only a few deficiencies could spend a disproportionate amount of time performing and recording this analysis.

The other concern is that with some more developed jurisdictions such as the United Kingdom, the regulator has developed a prescriptive framework on what is expected of a root cause analysis. Without proper guidance or supporting application materials available in ISQM 1, there is a danger that authorities will start prescribing a framework that is too onerous for SMPs to effectively apply.

**Institute of Singapore Chartered Accountants**

In this respect, while the standard allows for scalability by not restricting the form that the analysis has to be performed, more guidance on the extent of the analysis and examples of how it can be conducted would be helpful to assist implementation in practice, as the term “root-cause analysis” is very broad.

**Korean Institute of CPAs**

Taking into account the nature of identified deficiencies and possible severity could give flexibility to the nature, timing and extent of the procedures to investigate the root cause. However, the IAASB should be mindful of the fact that large-sized firms are also facing difficulties in practice with establishing such policy, and consider the necessity of developing the root cause analysis framework, thereby supporting firms to implement it in an easy manner.

**The Finnish Association of Authorised Public Accountants**

More guidance on the scalability of the requirement to evaluate root causes should be given.

**Q12(d)(i) - Disagree**

### 3. National Auditing Standard Setters

**Australian Auditing and Assurance Standards Board**

In its current form, without the clarity around findings verses deficiencies the AUASB does not support the incorporation of a new requirement to investigate the root cause of identified deficiencies and does not consider that the application material allows for sufficient flexibility. The AUASB supports a root cause analysis on “significant” deficiencies as detailed in the response to question 12(c).
4. Accounting Firms

Kreston International
Response: Root cause is not defined in sufficient detail and this could lead to expectations that are excessive given the nature of the findings and the circumstances of the firm.

Q12(d)(i) - Unclear

4. Accounting Firms

CAS International
Response:
We appreciate more guidance can be provided.

MNP LLP
In our view there is limited guidance to the nature, timing and extent of the procedures to investigate the root causes however, we are not sure there is a need to address this further as this may be where individual firms’ customize their approach in a way that is most practical and beneficial.

Q12(d)(ii) - Agree

2. Regulators and Audit Oversight Authorities

National Association of State Boards of Accountancy
Yes, we believe the manner in which ED-ISQM 1 addresses positive findings is appropriate.

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board
The AUASB supports that there is no requirement to undertake root cause analysis of positive findings, however supports the encouragement, through application material paragraph A178, for firms to consider performing root cause analysis on positive findings where considered beneficial. The AUASB considers that positive findings have the potential to be applied more broadly across the firm and assist with improvements in audit quality. Positive findings also supports the development of the culture required by the governance and leadership component of ISQM 1.

Hong Kong Institute of Certified Public Accountants
In addition, we agree that ED-ISQM 1 should not require firms to determine the root cause of positive findings because the priority is for firms to remediate deficiencies.

4. Accounting Firms

Duncan and Topliss
As noted, it would be very difficult to clearly define what a positive outcome is and therefore although many firms may choose to use RCA to look at positive outcomes it would be very difficult to establish specific criteria where RCA was required for positive outcomes.
EY Global Limited

Yes, we agree with the IAASB’s approach to describe the benefits of investigating the root cause of positive findings in the application guidance rather than to require firms to determine the root cause of positive findings because it provides firms with the flexibility to identify the number and types of positive findings to explore further.

Haysmacintyre LLP

Yes. Recognising the potential for positive findings may assist in quality reviews being more balanced and enhancing engagement with the process by members of engagement teams.

KPMG IFRG Limited

We are supportive of root cause analysis including consideration of positive findings as an input to the process and believe it is appropriate to emphasise the benefits of including positive findings as an input when performing root cause analysis. We also believe that it is important to allow audit firms to develop a root cause analysis approach that is responsive to the nature, extent and severity of findings, both individually and in aggregate.

Kreston International

Response: Yes

Mazars

Response: Yes, while we acknowledge the benefit of undertaking root cause analysis on positive findings, where resource is limited it is important that the focus is on negative findings so the current approach is considered appropriate.

Mazars USA LLP

Response: We appreciate the intent of addressing the root cause of positive findings, but we would prefer the recommendation to be only in the application guidance. This placement would allow for greater flexibility and lead to prioritizing the root cause analysis for negative findings.

MGI Worldwide

Response

Although considering positive findings is valuable for the efficiency and effectiveness of the firm (as noted in paragraphs A173 and A178), requiring these to be included in the root cause analysis would be overly-burdensome for our members. A firm should be commended for reviewing such findings, but it should not be a requirement.

Nexia International

Yes for both – there is a need to learn what drove either.

PKF International Limited

Additionally, we agree that the manner in which ED-ISQM 1 addresses positive findings is appropriate.
PKF South Africa
Additionally, we agree that the manner in which ED-ISQM 1 addresses positive findings is appropriate.

RSM International Limited
Response: Yes and we welcome the recognition of positive findings and the benefits to the wider firm as noted in paragraph A174.

5. Public Sector Organizations
Auditor General South Africa
The manner in which ED-ISQM 1 addresses positive findings is appropriate in that, it is not a requirement for firms to determine root causes for positive findings because the priority is for firms to remediate deficiencies. The ED-ISQM 1 however does discuss the benefits of investigating the root causes of positive findings to encourage the firms include that as part of their investigation, as this may help the firm to identify the root causes or identified deficiencies that existed in other engagements.

Australasian Council of Auditors General
ACAG agrees with the IAASB view outlined in the Explanatory Memorandum that performing a root cause analysis of positive findings should not be a requirement. The application material is useful in providing guidance on when performing a root cause analysis on positive findings may provide benefits to a firm or assist in determining the root cause of deficiencies through use of comparison. The use of root cause analysis on positive findings should be a matter of professional judgement.

International Organization of Supreme Audit Institutions
Yes

National Audit Office of Malta
Yes.

Office of the Auditor General of Alberta
Response: Yes

Provincial Auditor Saskatchewan (1)
Yes, the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible. Although, we expect to only investigate the root cause of negative findings.

Swedish National Audit Office
Yes.

US Government Accountability Office
We believe that addressing positive findings, including identifying the root causes of positive findings, in the application guidance is appropriate.
6. Member Bodies and Other Professional Organizations

**Australian Accounting Professional and Ethics Standards Board**

APESB is of the view that ED-ISQM 1 appropriately addresses positive findings.

**CA Ireland**

Yes – there should be a mechanism for good practice on an engagement to be highlighted as they provide valuable insights which should be expanded to further engagements.

**California Society of CPA’s**

Paragraph A178 – Yes.

**Comision Interamericana de Control de Calidad de la AIC**

Response: Yes, it is appropriate

**Comite Control de Calidad del ICPARD**

Response: Yes, it is

**CPA Australia**

Yes, we agree with the approach to positive findings in that root cause analysis is not required but the information value of positive findings is highlighted.

**Illinois CPA Society**

Response: Yes, evaluating and addressing the root cause of positive findings should be performed. Evaluating positive findings could identify audit quality indicators.

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

Response: As a whole, the response would be affirmative.

**Institute of Chartered Accountants of Pakistan**

We note that positive findings are appropriately addressed in the proposed standard.

**Malaysian Institute of CPAs**

ii) Yes

**New York State Society of CPAs**

Response: It is appropriate that the final standard does not require determining the root causes of positive findings. If there were such a requirement, we believe that it would have the potential of diverting resources from efforts that are more worthwhile in meeting the quality management objectives. We support the discussion in paragraphs A173 and A178 reminding firms that they should consider in each case whether addressing the root causes of positive findings would be useful.
9. Individuals and Others
Shady Fouad Ahmed Mehelba
Yes, considering my replies in same areas in previous questions

Training and Advisory Services and Chartered Accountants Academy
Yes

We agree with the view that ED-ISQM 1 should not require firms to determine the root cause of positive findings because the priority is for firms to remediate deficiencies, such that the objective of the standard is achieved. In practice also firms do not determine the root cause of positive findings as this might be a waste of resources, rather than focusing on the negative findings. The application material of ED-ISQM 1 however discusses the benefits of investigating the root cause of positive findings to encourage firms to include this as part of their policies or procedures addressing the evaluation of the findings on paragraph A178 of ED-ISQM 1.

Q12(d)(ii) - Agree but with further comments

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)
We agree that the way ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, is appropriate.

Requirements to consider positive findings and to embed these in the system of quality management could be included in the governance and leadership component requirements.

We urge the IAASB to consider another term instead of “findings”, as “findings” carries a negative connotation. Terminology could include “practices that have a positive impact on the system of quality management” or similar.

Additionally, paragraph 47 includes a reference to external inspections, and in turn this is referenced to paragraph A173, which provides guidance on positive findings. It may be concluded that external inspections could be expected to report positive findings to firms. We recommend that it be clarified that regulators should not be required to report on positive findings, and usually do not report on positive findings, and may face legal obstacles in reporting such findings.

3. National Auditing Standard Setters

AICPA
Yes. We agree that firms may find it useful to address the root cause of positive findings to get reassurance that they are sustainable. The IAASB may wish, as part of post-implementation review, to see what further actions, if any, most firms do regarding positive findings.

Canadian Auditing and Assurance Standards Board
We agree that the firm should only be required to investigate the root cause of identified deficiencies. We support including application material in paragraph A173 related to positive findings. Since the goal of monitoring is improvement, positive findings are useful to the firm as they indicate practices that are working well and therefore may be applied elsewhere in the firm.

However, we note that it can be difficult for a firm to determine what a positive finding is. Typically, a finding is something that did not work, rather than something that did work. We agree that if the firm finds something that is working well, the firm should consider implementing it elsewhere. But it is not clear how a firm would look for positive findings.

**Japanese Institute of CPAs**

With regard to positive findings, although we do not oppose if the standard seeks to explicitly address them in the requirement or provide more guidance in the application material, we do not think such additional enhancement is necessary.

The second sentence in paragraph 12 states that “the findings arising from the monitoring may also highlight positive practices that the firm uses to enhance its system of quality management.” We suggest deleting it, as it is a mere statement of fact and therefore is not necessary.

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

Response:

We do agree with this and would support IAASB too if addressing positive finding be made a requirement rather than an option.

**4. Accounting Firms**

**Baker Tilly International**

Response: Whilst we understand that the focus of root cause analysis is on “negative” findings, we do feel there are significant benefits to identifying the root cause of positive findings arising from inspections of audit quality inspections. The assessment of positive outcomes from inspections is especially important in promulgating good practice and, whilst it may be of limited benefit to the evaluation of the system of quality management, in clarifying the application of root cause analysis to quality inspections (see above), we believe that the IAASB could introduce greater clarity of the benefits of analysis of positive findings in this context.

**CAS International**

Response:

We do agree with this and would support IAASB too if addressing positive finding be made a requirement rather than an option.

**Crowe Global**

Response: We welcome the recognition of “positive findings” in ISQM 1. However, as root cause analysis can have negative perceptions, communication and education is important to show the positive aspects of the practice. Case studies would be a good way to illustrate the use of root cause analysis to address positive findings.
Deloitte Touche Tohmatsu Limited

Response: Paragraph A172 of ED-ISQM 1 indicates that findings may be positive or negative in nature. Accordingly, in recognition of the value of evaluating positive findings, DTTL recommends that the Board further highlight positive findings in relation to the requirement in paragraph 47 of ED-ISQM 1, which states, “The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process.”

As noted in paragraph A173, we agree that positive findings may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements. We also agree that positive findings may highlight opportunities for a firm to enhance its system of quality management. Accordingly, we believe the application material to paragraph 47 could be enhanced by recognizing that evaluation of positive findings may be useful as they may help the firm in the identification and evaluation of, as well as response to, deficiencies that exist in other engagements or within the system of quality management.

With respect to a root cause analysis, we are supportive of the requirement to investigate the root cause of identified deficiencies and agree with the Board’s approach to outline the benefits of identifying the root cause of positive findings in the application material rather than requiring firms to investigate their root cause.

Grant Thornton International Limited

We are supportive of the manner in which positive findings are incorporated into ED-ISQM 1, including in regard to addressing the root cause of positive findings. We note that communication of positive findings may act as a motivational tool to employees and that it also supports the development of the culture required by the governance and leadership component of ED-ISQM 1. Therefore, processes to identify the root cause of positive findings may have a positive effect on improving quality across the firm. Performing a root cause analysis of positive findings may be more beneficial for larger firms, given their size and geographical dispersion. However, we are of the view that the impact on quality for smaller firms may not be proportional to the cost of implementing such a process. Therefore, we agree that a requirement to perform a root cause analysis on positive findings would not be appropriate, but support the encouragement, through incorporation of application material, for firms to consider performing such an analysis where it would be an appropriate response to a quality risk.

Further, we would recommend that a term other than “findings” be used given the negative association with the term. Suggestions for alternative terms could include “positive outcomes” or “positive results.”

MNP LLP

In our view the practice of identifying positive findings and their associated root causes is an important one. However, given the nature of quality management and the focus on deficiencies and generally negative findings and the robustness by which this is to take place, we believe this will be very limited in actual practice. It is unlikely that firms will have the time and resources to get this accomplished.

Nexia Smith & Williamson

Whilst we understand the need to focus on responding to negative findings, we think that more emphasis should be placed on the identification, understanding and communication of positive findings. It is of course
right that negative findings should be dealt with appropriately; however, quality monitoring and regulation that is framed almost wholly in negative terms drives a compliance mentality that is anathema to the exercise of professional judgement and scepticism. It also decreases the attractiveness of the audit profession if people are constantly told what they are doing wrong and nothing about what they are doing right.

We think it would be helpful if paragraph A177 was expanded to place more emphasis (without necessarily being prescriptive) on understanding and rewarding what’s going right as well as wrong.

**PriceWaterhouseCoopers**

We support, subject to our suggestion in response to part (c), the inclusion of references to positive findings, including the application material describing the potential benefits of considering root-cause analysis of such findings. Where an example demonstrating best practice is identified as part of a firm’s monitoring procedures, it is beneficial to understand how this best practice was achieved, and how the SoQM can be further enhanced in order to drive such practices as being “business as usual” within the firm. This thought could be described in paragraph A178.

Similarly, we suggest “positive findings” (paragraph A173) be described in the context of best practices that demonstrated/supported a high quality engagement.

**6. Member Bodies and Other Professional Organizations**

**Center for Audit Quality**

We agree with the IAASB’s approach to describe the benefits of investigating the root cause of positive findings in the application guidance rather than to require firms to determine the root cause of positive findings. This approach provides firms with the flexibility to identify the number and types of positive findings to explore further.

We recommend the Board emphasize positive findings in the proposed requirements of ED-ISQM 1 paragraph 47, which states, “The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process.”

As the Board noted in A173, we agree that positive findings “may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements.” We believe the proposed standard would be strengthened if the term “positive” findings is included in paragraph 47 and not only included in the application guidance.

**South African Institute of Chartered Accountants**

In relation to positive findings, we are in support of the manner in which positive findings are addressed. The term finding has a negative connotation to it. We therefore suggest that the term positive practices, as referred to in paragraph 12 of ED-ISQM 1 be used throughout the standard and not positive finding, as has currently been done.

**Q12(d)(ii) - Disagree**

**1. Monitoring Group**

**International Forum of Independent Audit Regulators**
We welcome the developments in relation to performing root cause analyses of identified deficiencies. However, root cause analysis (or a similar process to address positive findings) should also emphasize consideration of good practice i.e., to determine factors contributing to high quality audits, and not just be limited to being a response to evaluating identified deficiencies. This is important to capture work which is performed to a high level of quality, but more importantly to demonstrably change the culture to an improvement focus rather than that of avoiding failure.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

23. The requirements regarding Monitoring and Remediation appear to focus mainly on the firms’ periodic inspection process and addressing errors that have been observed in that process. We note that the Application Material also provides that monitoring of positive quality occurrences should take place so as to learn which root causes contributed to higher quality. We are of the opinion that the requirements should strike a better balance between remediation of negative quality occurrences and learning from positive quality occurrences. We are also of the view that the standard should be clearer on who is responsible for action to identify root causes and respond to deficiencies as well as for oversight of thereof, including the requirements applying to them such as objectivity.

Given the importance of also considering positive quality instances, we feel that there should be a requirement for firms to evaluate positive quality instances as well (currently only suggested in paragraph A173).

Irish Auditing and Accounting Supervisory Authority

The requirements regarding monitoring and remediation appear to focus mainly on the firms’ periodic inspection process and addressing errors that have been observed in that process. We note that the application material also provides that monitoring of positive quality occurrences should take place so as to learn which root causes contributed to higher quality. We are of the opinion that the requirements should strike a better balance between remediation of negative quality occurrences and learning from positive quality occurrences. We are also of the view that the standard should be clearer on who is responsible for action to identify root causes and respond to deficiencies as well as for oversight of thereof, including the requirements applying to them such as objectivity.

Given the importance of considering positive quality instances, we feel that there should be a requirement for firms to evaluate positive quality instances (currently this is only suggested in paragraph A173).

3. National Auditing Standard Setters

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

Response: We do not support addressing the root cause of positive findings.

Institut Der Wirtschaftsprufer

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.
Royal Nederlandse Beroepsorganisatie van Accountants

No, we feel that positive findings could be more highlighted in the standard. They are mentioned in paragraphs A173 and A178, but it is only said that this could be useful. We recommend to stress more the importance thereof. Good examples/best practices can help the firm to make overall improvements.

4. Accounting Firms

BDO International

As noted in part (c) above, we believe that more emphasis should be placed on evaluating positive findings as these events provide valuable insights on activities that should be replicated.

Furthermore, while we agree with the proposed framework, we do believe that further emphasis should be placed on positive findings rather than as an optional consideration in paragraph A178.

6. Member Bodies and Other Professional Organizations

IFAC Small and Medium Practices Committee

We noted, in two instances, where positive root cause analysis has been introduced in the standard (paras 12 and A178) as a possible response. While we agreed that these should not be a requirement, we also question the appropriateness of including this type of material in the standard at all. Potentially, it could lead to expectations by regulators that firms will eventually need to comply with such practice, which goes beyond the option as provided in the standard.

Institute of Chartered Accountants of Scotland (ICAS)

We welcome the introduction of a requirement for root cause analysis to be performed but would propose that it should also have a greater focus on positive findings. However, we acknowledge that this will impose an additional burden for some firms and therefore greater implementation material around proportionality and scalability will be necessary.

Institute of CPAs of Uganda

ICPAU believes that ED-ISQM 1 should emphasize that positive findings can reveal opportunities for improvement and further enhancement of systems of quality management of firms. ICPAU therefore believes that the manner in which ED-ISQM 1 addressed positive findings is not appropriate. Since it is not a requirement, firms may not investigate positive findings and thus may lose out on opportunities for improvement or enhancement of systems of quality management.

Instituto de Censores Jurados de Cuentas de España

Regarding positive results and their impact on the root cause analysis, in our opinion it is not developed enough, especially in relation to the advantages of this analysis.

Nordic Federation of Public Accountants

We suggest that the part of para. A178 that deals with investigating root causes that are not required by the standard be deleted. The requirements are more than enough as it is and having these kinds of encouragements in the application material that go beyond the requirements might open up for unintended “good practice”.

Agenda Item 7-C.4
Page 83 of 109
The Finnish Association of Authorised Public Accountants

The application material should not include any guidance on situations that are not included in the standard. We refer to the A178 that deals with investigating root cause of positive findings.

8. Academics

UNSW Audit Research Network

We do not, however, agree with the asymmetric focus on deficiencies at the expense of positive findings. While recognizing that paragraph A173 acknowledges that positive findings may be useful and that paragraph A178 acknowledges the benefits of investigating the root cause of positive findings, we feel that investigating the root cause of significant positive findings should be required, not only to maintain quality, but also in the public interest, so as to advance quality management and facilitate continuous improvement. Indeed, we believe that this component should be referred to as 'Monitoring and Continuous Improvement' so as to highlight the reason for remediation and the consideration of positive findings. Such an approach may also benefit other objectives. For example, recognizing positive findings may contribute to a rewarding and fulfilling environment. Research of network members (Peecher, Solomon and Trotman 2013) suggests that there is merit in focusing quality management not only on the achievement of a minimum threshold such that deficiencies are avoided, but encouraging (and recognizing and communicating) quality responses that exceed the minimum threshold. We suggest that careful consideration be given to requiring root cause analysis of significant positive findings. In the same way that it is not a requirement to undertake root cause analysis on all negative findings, the standard could limit the requirement to undertake root cause analysis to significant positive findings. This would realize benefits while at the same time limiting firms’ compliance burden (see also our comments under Question 12).

As noted above, and below in response to Question 12(d)ii, we feel that the new requirement to investigate root causes should be extended to significant positive findings. We feel that the focus on positive (and negative) findings will encourage greater acceptance and engagement with the monitoring process within the firm and among engagement teams, thereby promoting and facilitating proactive and effective monitoring activities.

We do feel, however, that the emphasis given to positive findings, relative to that given to negative findings, means that an opportunity to improve quality and facilitate continuous improvement in the public interest is lost. As part of the monitoring and remediation process (which we suggest above should be rephrased as Monitoring and Continuous Improvement), firms are required to identify and investigate the root cause of deficiencies. The investigation of positive findings is not a requirement, although the benefits of doing so are acknowledged in paragraphs A173 and A178. Research of network members (Peecher, Solomon and Trotman 2013), based on a review of the psychology and economic literatures, suggests that there is merit in focusing quality management, not only on the achievement of a minimum threshold such that there are no deficiencies, but also encouraging (and recognizing and communicating) quality responses that exceed the minimum threshold (see also Aobdia 2018).

We do not, therefore, support the current proposals making the root cause analysis of positive findings optional. The investigation of positive findings may help remedy negative findings, drive continuous improvement, and compliment an environment in which quality is recognized rather than only identifying and punishing a lack of quality (and in doing so, improves the environment within which auditors work – thereby helping firms to attract, recruit and motivate personnel). We do not believe, however, that all positive findings need to be analyzed. Like negative findings, the positive findings for which root cause analysis is required
could be limited to significant positive findings. Such an approach would allow firms to realize benefits while minimizing the increased compliance burden.

**Q12(d)(ii) - Unclear**

4. **Accounting Firms**

**Moore Stephens International**

Response: We believe that Root Cause Analysis is a powerful tool that can usefully be used beyond the investigation of what went really wrong. Proactivity requires an appreciation of what goals are being aimed for, and RCA of – for want of a better phrase – audit ‘success’ can be a useful tool in identifying that which firms should be aspiring towards.

5. **Public Sector Organizations**

**Office of the Auditor General New Zealand**

In this sense we agree that it would be helpful to identify why things went well, as this also contributes to improving quality.

6. **Member Bodies and Other Professional Organizations**

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

No. We believe that in the A-paragraphs the distinction between positive findings and deficiencies should be clarified (for example, par. A178 addresses deficiencies but includes positive findings).

**Institute of Independent Auditors of Brazil (IBRACON)**

We believe that positive findings are a result of a good system of quality management and thus it would not be needed to address their root cause. Moreover, it could mislead the firms’ attention to identify and remediate deficiencies.

**Q12(e) - No challenge**

2. **Regulators and Audit Oversight Authorities**

**Financial Reporting Council United Kingdom**

We do not believe that an (at least) annual evaluation should give rise to any significant challenges. We are of the view that the new requirement reinforces the responsibility and accountability of leadership for the SOQM.

**National Association of State Boards of Accountancy**

e) We have not identified any foreseeable challenges that may arise in fulfilling the requirement for the individual assigned responsibility and accountability for the system of quality management to evaluate at least annually the system of quality management.
3. National Auditing Standard Setters

AICPA
We support this requirement. Guidance addressing what would necessitate a “more frequent” evaluation would be helpful.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)
Response: We believe that at least an annual requirement for the individual assigned ultimate responsibility and accountability for the system of quality management is reasonable.

Hong Kong Institute of Certified Public Accountants
We have not received comments objecting to an individual assigned for the ultimate responsibility and accountability for the system of quality management to evaluate the achievement of objectives at least annually.

However, we would suggest IAASB to set out the frequency and timing for periodic “performance evaluations” of the individual(s) assigned with ultimate responsibility and accountability for the system of quality management in paragraph 24(b) to conform with the annual evaluation requirement of quality management system in paragraph 56.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board
Response:
We see no challenges in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved.

4. Accounting Firms

CAS International
Response:
We see no challenges in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved.

Haysmacintyre LLP
None other than the challenges already noted above relating to the implementation of the new framework proposed by ED-ISQM1

PriceWaterhouseCoopers
We do not believe this requirement will cause significant challenges.

6. Member Bodies and Other Professional Organizations

Illinois CPA Society
Response: No, many firms perform this function, to some degree, currently.
Institute of CPAs of Uganda

ICPAU doesn’t believe that there are any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management especially if the monitoring of the systems is done more frequently.

Institute of Independent Auditors of Brazil (IBRACON)

We understand that an implemented system of quality management, which includes monitoring activities, must be able to give results when needed, irrespective of the stage of these activities. A year is a reasonable time to be expected by the individual assigned ultimate responsibility and accountability for the system of quality management to perform the evaluation.

Institute of Singapore Chartered Accountants

On the requirement for an annual evaluation of the quality management system, we are of the view that an evaluation at least on an annual basis is reasonable and allows for scalability depending on firm situation.

9. Individuals and Others

Vera Massarygina

No, but in SMPs there may be no such an individual.

Q12(e) - Challenges

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

The following possible challenges may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved:

- Paragraph 55 states that “the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved...” This is effectively a self-assessment and therefore creates a self-review threat. The individual would not be objective when making this assessment.

Furthermore, is it appropriate to obtain reasonable assurance, which is a high level of assurance similar to an external audit opinion, through self-assessment?

It should be noted that, in our experience, the reasonable assurance requirement in the extant ISQC 1 was generally not met by leadership. We are not certain that the new standard will ensure better compliance, other than introducing a self-assessment.

- Evidence of the objectivity of the individual is difficult to document. We recommend that a requirement that the objectivity of the individual be assessed be included, and that this assessment be included in the documentation requirements, together with the individual’s conclusion on his or her objectivity.
Proposed ISQM 1: NVivo MS Word Report – ED-ISQM 1_Question 12
IAASB Main Agenda (December 2019)

- Evaluating reasonable assurance regarding the system of quality management may be confused with obtaining and expressing reasonable assurance, as per the auditing and assurance standards. Although the term “reasonable assurance” has been carried forward from extant ISQC 1, we urge the IAASB to reconsider its use in a quality management standard.
- Alternatively, we recommend that a framework for assessing reasonable assurance be provided. This may assist in determining when the threshold of reasonable assurance has been reached.
- It is unlikely that an individual will document that he or she has concluded that reasonable assurance has not been provided, and that the objectives of the system have therefore not been achieved. How would it be determined that, although reasonable assurance was not obtained by the individual, he or she failed to document this conclusion and his/her subsequent actions? It would be unlikely that the individual would admit to reasonable assurance not having been provided. Also, if the individual acknowledges that reasonable assurance has not been provided, how would this be communicated externally, for example, in a transparency report?
- Paragraph 56 states that “the evaluation in paragraph 55 shall be undertaken at least annually, or more frequently when the identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved”. We recommend that the evidence of the evaluation be at a point in time, e.g. beginning of the year, and should be documented in such a manner for implementation to be effectively assessed by external inspectors. Firms should not use the argument of an ongoing system as this will complicate external inspections of their system of quality management.

Paragraph A190 states that “prompt and appropriate action when the evaluation indicates that the system does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved may include: …

Obtaining legal advice.”

It is not clear how obtaining legal advice would be relevant in this situation.

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB considers there are challenges to fulfilling the requirement particularly for sole practitioners. In such situations, requiring individual(s) to evaluate the system of quality management for which they are ultimately responsible may not enhance quality, unless this evaluation can be supported by information gathered by other individuals. This may be more practicable for larger firms but may not be effective for SMPs where the individual(s) evaluating the system of quality management is(are) also involved in the engagements that are performed. Additionally, this requirement may also be difficult to achieve for certain network firms where there may not necessarily be one individual tasked with ultimate responsibility and accountability for the system.

Canadian Auditing and Assurance Standards Board

This will be a challenge for smaller firms. In a sole practitioner environment, there is only one individual who will have to assume all roles and responsibilities and have ultimate responsibility and accountability for the system of quality management. This may also happen in the case of an SMP. If such individuals are to evaluate themselves, it will not likely be objective.
We suggest that the IAASB consider whether certain monitoring activities could be determined based on risk. For example, monitoring activities may not be needed on a frequent basis if:

- the firm performs only related services, or a limited number of review engagements; or
- the firm has a homogeneous, low risk client base.

If quality risk is low because of the nature and circumstances of the firm and its engagements, annual evaluation may not be necessary.

**Chinese Institute of Certified Public Accountants**

ED-ISQM 1 requires that evaluation of the quality management system shall be undertaken at least annually. However, there is not sufficient guidance. How far should firms go? Is it required to be done like self-assessment of internal control? Is it allowed to evaluate the system based on monitoring results rather than undertaking a separate formal process? Suggest further explanation.

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

We consider that the IAASB should clarify that the annual evaluation of the system of quality management is not an exhaustive evaluation of the system of quality management, but rather an annual evaluation established on the basis of a multi-annual evaluation plan focused on key controls and remediation plan. We strongly recommend the IAASB to clarify this point in the proposed standard and the corresponding work effort.

**Japanese Institute of CPAs**

It is not sufficiently clear how to apply annual evaluation as required by paragraph 56. We suggest that the application material clarify that a personnel with ultimate responsibility and accountability for the system of quality management should evaluate the achievement of the objective of the system of quality management at least annually based on ongoing monitoring and remediation processes and information communicated relating to those processes, but it does not mean that such personnel is required to evaluate all aspects of the system of quality management at a particular date.

**Kammer der Steuerberater und Wirtschaftsprüfer**

Evaluating annually whether the system is working is unnecessary for small firms in simple circumstances. We suggest mentioning that a three-year evaluation of the system of quality management could be sufficient for small firms.

**New Zealand Auditing and Assurance Standards Board**

The NZAuASB considers there are challenges to fulfilling the requirement. Requiring the individual(s) to evaluate the system of quality management for which they are ultimately responsible may not achieve much to enhance quality, unless this evaluation can be supported by information gathered from other individuals. This may be more practicable for larger firms but may not be as effective for SMPs where the individual(s) evaluating the system of quality management are also involved in the engagements that are performed.
Royal Nederlandse Beroepsorganisatie van Accountants

Our experience in the Netherlands has learned us that it might not be clear when the objective is achieved. Is that when the process works and deficiencies are identified? Or is that only when the system has no deficiencies? The principle reason for evaluating the system, is the fact that a system will have deficiencies and needs changes due to changed circumstances. However, it takes time to solve deficiencies.

In our discussions we have learned that the concept of reasonable assurance that a quality management system achieves the objectives in paragraph 18 is not well established.

In the first place there are questions whether reasonable assurance in the standard relates to the process or to the status quo at a certain moment in time. You could argue that it is possible to have reasonable assurance about the effectiveness of the process. There is effective monitoring which identifies deficiencies and these deficiencies are resolved within a reasonable time period, but where the deficiencies might not have been resolved at the moment the system is evaluated. But we have also heard arguments that the reasonable assurance is about the effectiveness of the system to achieve the objectives at a certain moment in time. (See Q5).

Secondly it is not fully clear what the acceptable level of non-compliance is to be able to state that reasonable assurance has been achieved.

Therefore it will be challenging for the individual assigned ultimate responsibility for the system of quality management to evaluate whether the system provides reasonable assurance that the objectives of the system have been achieved.

It may be difficult to determine when a quality management system provides “Reasonable assurance” as mentioned in the objective of ISQM 1. We wonder whether there are two possible ways to define reasonable assurance. Is the objective in ISQM1 meant to be primarily process oriented, which recognizes that due to errors in the risk assessment process and new circumstances deficiencies might occur that need to be recognized by the monitoring system and should be solved within a reasonable period of time? Or is the process primarily outcome oriented and are deficiencies only acceptable when they have limited impact (acceptable low level)? We recommend to further clarify this.

Furthermore deficiencies cannot always be solved directly. Therefore the firm should be given a certain period of time to solve identified deficiencies. The standard should be clear what in general is seen as an acceptable period to solve deficiencies.

4. Accounting Firms

Baker Tilly International

ED-ISQM1.42c requires the individual assigned ultimate responsibility for the SOQM to evaluate whether the system provides reasonable assurance that objectives will be achieved. We cannot see how the individual assigned ultimate responsibility can evaluate reasonable assurance without having a detailed understanding of the standard (see comments elsewhere regarding ED-ISQM1.20).

Response: Please see comments elsewhere where we have expressed a concern that the individual with ultimate responsibility is required to evaluate the SOQM but is not required to have an in-depth understanding of the standard. We cannot envisage how these two requirements are compatible.
Further, we envisage considerable difficulty for smaller firms in complying with the requirement to undertake an annual evaluation of the entire system of quality management each year without greater guidance and illustrative practical examples to assist them in this process.

Baker Tilly Virchow Krause LLP

We believe that the Board should include more guidance related to the evaluation of identified deficiencies, particularly as it relates to evaluating their severity. In addition, we believe that more guidance is needed related to how to evaluate the effect of deficiencies on whether the system of quality management provides reasonable assurance that the objectives of the proposed standard have been achieved.

BDO International

The requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved will be challenging. There will need to be a lot of data accumulated, analysed and reported up to this individual. The inter-relationships between components in the system of quality management are complex and the results of monitoring may not always identify deficiencies that exist. However, any attempt to gather this information and respond to it can only help to improve quality, so we are supportive of this requirement.

Crowe Global

Response: It is right that the individual assigned ultimate responsibility and accountability for the system of quality management should perform a periodic evaluation. There are challenges as in some environments the application of ISQC 1 has been treated as a “compliance” activity, firms' leadership have not necessarily engaged closely with this “compliance” activity and the proposals therefore represent a significant change which may not be fully understood. Communication and engagement by the IAASB and collaboration with national oversight, standard setters and professional accountancy organisations is essential to achieve the change in approach to leadership responsibility in some environments.

Deloitte Touche Tohmatsu Limited

As previously indicated in the response to Question 7, DTTL is supportive of the revisions made to ED-ISQM 1 to enhance the role of firm leadership as it relates to the system of quality management, including the new requirement for individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides the firm with reasonable assurance that the objectives of the system have been achieved. With respect to challenges, DTTL agrees with the challenge highlighted in paragraph A189 that, in a larger firm, individuals assigned ultimate responsibility and accountability for the system of quality management may not have direct involvement in the monitoring and remediation process. As such, the individual(s) assigned operational responsibility for various aspects of the system of quality management may need to collate, summarize, and present the information that supports the evaluation of the system of quality management in a manner that enables the individual(s) assigned ultimate responsibility and accountability for the system of quality management to form an appropriate conclusion.

Further, with respect to the evaluation itself, we believe it would be helpful to clarify whether the measurement date is on an “as of” or “period ended” basis. To provide reasonable assurance that the objective stated in paragraph 18(a) and (b) have been achieved, it would seem appropriate for the
evaluation to be performed on a “period ended” basis. However, paragraph 75 in the explanatory memorandum indicates that the evaluation involves a determination of whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken. Clarity with respect to the measurement date is strongly recommended, as it has the potential to significantly impact how a firm evaluates its system of quality management.

Finally, we believe additional guidance associated with the severity or pervasiveness of deficiencies that would require an interim evaluation would promote consistent application of such judgments.

Duncan and Topliss

(e) This will be a significant undertaking on an annual basis and dependent upon the size of the entity may be difficult to ensure that every required aspect is covered. This annual process will require collaboration with others and careful planning.

EY Global Limited

In addition to the recommendation provided in response to Q7 that the changes to the criteria for the person that has ultimate responsibility are modified and in response to Q2 that we have sufficient time to make organization changes that are needed to support the assignment of ultimate responsibility, we believe further clarity is needed on the evaluation itself. Paragraph 75 of the explanatory memorandum states that “The IAASB envisages that the evaluation would involve a determination of whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken.” The concept that the evaluation is as of a point in time is not included anywhere in the draft standard and should be considered as a frequently asked question in order to provide firms with a better understanding of what the IAASB intended with regards to the annual evaluation.

In addition, jurisdictions may need to clarify the expected timing of the annual evaluation in correlation to inspection periods. This may also have an impact on the timing of providing the monitoring results of network requirements and services to member firms.

Grant Thornton International Limited

We would also like to highlight the requirement for an annual evaluation of the system of quality management. As explained in our response to question 12, we are of the view that such an evaluation is redundant in a properly developed system of quality management, as such a system should promote continuous improvement.

We are of the view that this requirement may be difficult for larger firms to implement, particularly large international firms. According to paragraph A189 of ED-ISQM 1, to make the determination of whether the firms’ system of quality management provides reasonable assurance that the stated objectives have been achieved, the individual assigned ultimate responsibility and accountability for the system of quality management is required to review at least a description of the monitoring activities performed; the identified deficiencies, including the severity and pervasiveness of such deficiencies; and the remedial actions to address the identified deficiencies. In larger firms, the volume of such information may be extensive, and we are of the view that, if this requirement is to be retained, further guidance is needed on how one person in a firm is able to make this conclusion.

We further question whether such a requirement is needed where a system of quality management is adopted. As proposed, the system of quality management promotes continuous improvement of a firms’
system of quality management, with the results of monitoring of all the components being continuously fed into the objective setting, the evaluation of risks and development and implementation of responses. The new requirements are focused on the monitoring of the entire system of quality management and will help firms understand if they are meeting the objective of the standard and of the system of quality management and whether the system is continually improving. As such, an annual evaluation at a specific point in time should not be necessary and is contrary to the concept of continuous improvement.

KPMG IFRG Limited

Documentation of system of quality management

The ED does not explicitly reference a requirement to “test” operating effectiveness of the SoQM’s controls (performance or documentation). We believe that in order to conclude that the SoQM provides reasonable assurance that the objectives of the standard have been achieved, some element of testing the operating effectiveness of the controls within the SoQM would need to take place. Testing can take many forms and, as such, we recommend that the standard clarify the requirements related to testing of operating effectiveness and provide some examples of the forms those tests could take. Without a clear statement, the ED is open to misinterpretation and inconsistent implementation by audit firms.

Given the lack of clarity, this could lead to inconsistencies in what audit firms identify as findings to further evaluate, how audit firms evaluate deficiencies and the impact on the overall assessment of the effectiveness of the SoQM. Whilst we recognise this requires application of judgement, in order to drive consistency in the implementation, as included above, we believe that it is important the revised standard include definitions for both “findings” and “deficiencies”, and the criteria for consideration to evaluate the impact of those deficiencies in determining whether the SoQM provides reasonable assurance that the objectives of the standard have been achieved.

We are supportive of an evaluation of the SoQM, though recognise that monitoring of the SoQM will be a continuous, year-around cycle. As such, matters related to the evaluation of the overall SoQM, referred to in paragraph 56, warranting clarification in the Application Guidance are as follows:

- Inclusion in the ED of the term “at least annually” could be interpreted as actually meaning that a more frequent evaluation is the expectation. We are unclear whether the expectation of the ED is for audit firms to undertake this evaluation more frequently.
- It is unclear whether the date of the annual evaluation of the overall SoQM is “as of” a certain date versus over a period of time, such as “for the year ended” date.
- As noted in our answer to question 12.c) above, we recommend the standard clarifies the role of remediation plans in the overall evaluation of the SoQM. In particular, clarification would be welcome on the extent to which a robust remediation plan in place would be considered sufficient to conclude positively on whether the SoQM provides reasonable assurance that the objectives of the Standard have been achieved.

We believe the ED is not clear on the impact of deficiencies on the overall assessment of the effectiveness of the SoQM. Whilst we recognise this requires application of judgement, in order to drive consistency in the implementation, we believe that it is important that the ED include a clear definition of deficiencies, and the criteria for consideration to evaluate the impact of those deficiencies in determining whether the SoQM provides reasonable assurance that the objectives of the standard have been achieved. Paragraph 75 of the Explanatory Memorandum references “circumstances when there is an indication that the system is not effective”. Further examples or indicators of when a firm’s SoQM is not effective would be helpful. We
suggest that the IAASB explores whether, in the event of deficiencies, a robust, well documented remediation plan addressing the deficiencies, put in place before the date of the assessment, would be considered sufficient to conclude the SoQM provides reasonable assurance that the objectives of the standard are achieved, even where the remediation plan may not have fully remediated issues by the date of the assessment.

**Kreston International**

Response: This will be a resource challenge and firms will need to ensure this addressed appropriately.

**Mazars**

Response: Yes, the standard should advise whether the “annual” evaluation can be based on a rolling testing program (and that only remediation of severe and pervasive deficiencies, together with significant/key controls should be based annually), in accordance with the risk-based approach fostered by the standard.

**Mazars USA LLP**

Overall clarification and guidance are needed for how firms will evaluate findings and deficiencies in the context of the effectiveness of their systems of quality management to enhance the intended outcome and avoid inconsistencies in application of the standard.

Response: Yes, there are challenges that could be addressed by more guidance addressing the triggers for more frequent evaluations.

**MGI Worldwide**

Response

In SMPs there is not likely to be the time or objective personnel to be able to complete this evaluation appropriately (to comply with paragraph 55). This may mean that the SMP uses a service organisation to provide this evaluation, at additional cost but greater reliability (especially for the other network members if the results were to be communicated).

**MNP LLP**

We acknowledge that it would be good practice to have this requirement, but in our view it is too early to determine what challenges may exist. It may also not be feasible to be able to provide reasonable assurance in the first year following implementation as it may take more than one year to implement the full requirements of the standard.

**Moore Stephens International**

Response: In theory this should be entirely achievable for even the smallest firms but in practice smaller firms may struggle, and some suitably scaled examples would probably be helpful.

**Nexia International**

YES
Nexia Smith & Williamson

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

In our view, the key challenge that may arise in fulfilling this requirement, is regarding the term “reasonable assurance”. In our view, this term is not adequately defined in ED-ISQM 1 and there is a risk that it may be subject to varying interpretation. Consequently, to promote a more consistent interpretation, we recommend the definition of the term “reasonable assurance” should be expanded to provide a more comprehensive explanation of its meaning.

Additionally, we believe the following excerpt from paragraph 18 of the Explanatory Memorandum to ED-ISQM 1 would be useful if included in the main body of the proposed standard:

“In this context, reasonable assurance is not intended to be obtained through independent assurance that the system is effective (i.e., in the case of an assurance engagement). Instead, reasonable assurance is obtained through the operation of the system as a whole.”

This would provide additional guidance to the firm on the nature of the process that it should undertake in order to gain reasonable assurance.

PKF South Africa

The key challenge that may arise in fulfilling this requirement, is regarding the term “reasonable assurance”. This term is not adequately defined in ED-ISQM 1 and there is a risk that it may be subject to varying interpretation.

Consequently, we recommend that further clarification be included within the standard to provide a better definition of “reasonable assurance”.

Additionally, we believe the following excerpt from paragraph 18 of the Explanatory Memorandum to ED-ISQM 1 would be useful if included in the main body of the proposed standard:

“In this context, reasonable assurance is not intended to be obtained through independent assurance that the system is effective (i.e., in the case of an assurance engagement). Instead, reasonable assurance is obtained through the operation of the system as a whole.”

Par. 67(c)(v) requires that the firm document “The basis for the evaluation of whether the system of quality management provides reasonable assurance that the objectives … have been achieved”, while there is no further guidance either in the body of the proposed standard or in the application material. Additional guidance on the nature of the process that a firm should undertake in order to gain reasonable assurance is required.

RSM International Limited

Response: If the firm implements a system of quality management in compliance with ED-ISQM 1, then the biggest challenge will be designing a reporting mechanism to gather data on a timely basis for the individual responsible to be able to make the required evaluation. As described in A189, this is one area in which larger firms may find the process more difficult than smaller firms due to their more decentralized nature.
5. Public Sector Organizations

Auditor General South Africa

There are instances in some firms where the CEO/managing partner may not be a professional auditor registered with the accounting/auditing profession body, this could create a situation where the CEO or equivalent does not meet the requirement of the ED-ISQM on the skills required.

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.

No challenges identified.

A further implementation challenge will arise in the annual assessment of the system of quality management regarding capturing, measuring and assessing these responses.

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

International Organization of Supreme Audit Institutions

Yes. More clarification should be given to the meaning of “reasonable assurance that the objectives of the system have been achieved” for practical purposes. Also, on their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.

National Audit Office of Malta

One of the challenges would be to allocate adequate resources for such individual to perform an annual evaluation of the system of quality management. The scope of work performed by an audit firm may be very wide and it might be difficult to assess quality management in all major audit engagements in one year.

Another challenge would be to appoint a suitable individual with the necessary competences, experience and ethical conduct to carry out this task.

The review may also be initially resisted by staff – adequate training is to be provided to highlight the benefits of a high quality audit management system.

Office of the Auditor General New Zealand

However, it is not clear what is sufficient and appropriate evidence to support the firm’s governance to attest that it has reasonable assurance on compliance with the proposed standard. As a result, we suggest improvements being made to explain what reasonable assurance means for a system of quality management.
In addition to our overall comments above, which refer to two specific implementation issues, we think it would be useful to consider what parts of a system of quality management could be monitored less frequently (per ED ISQM1 paragraph 56 the requirement is at least annually) when significant quality risks have not been identified. See question 3 below for a request for clarification about this.

In respect of the frequency of monitoring, we think paragraph 44 provides the firm the scope to determine the nature, timing and extent of monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. However, it is not clear if this requirement provides scope for monitoring of responses to be done on a cyclical basis of more than a year. Currently paragraph 56 specifies that the evaluation of the system of quality management is required to be undertaken at least annually. Therefore, it is not clear if this requires monitoring of all quality objectives or on a cyclical basis.

Please refer to our comments about clarifying the frequency of the monitoring to support the reasonable assurance assessment.

As noted earlier, we think there needs to be clarity on what is sufficient and appropriate evidence to support a conclusion that the system of quality management provides reasonable assurance.

Office of the Auditor General of Alberta

Response: We have not identified any significant challenges in evaluating the system of quality management on an annual basis. We note this may be difficult in firms where they have engagements that cover periods greater than one year or with engagements that occur on a cyclical basis greater than one year (e.g. once every three years). As noted above, ED-ISQM 1 does not clearly account for value for money or performance audits. These audits frequently span more than one year and it would be difficult for the individual assigned accountability for the system of quality management to reasonable assess if the objectives of the system have been achieved.

Furthermore, it should be clarified what is meant by “reasonable assurance.” “Reasonable assurance” typically implies an audit. Is the IAASB expecting the firm to complete an annual internal audit or ISA 3000 audit of the system of quality management?

Provincial Auditor Saskatchewan (1)

Yes, we see the requirement to evaluate the system of quality management on an annual basis as a potential challenge. Annual evaluations may be onerous where systems are found to be effective year-after-year (i.e., provides little value). Evaluations performed every 2-3 years may be sufficient for many firms.

Swedish National Audit Office

Yes, it could be a time issue but this would depend on the overall quality system and the size of the firm.

US Government Accountability Office

We agree with the requirement. However, we believe that there may be challenges to fulfilling it. In order for individuals who are assigned ultimate responsibility and accountability for a quality management system to fulfill their responsibilities appropriately, they must be able to rely on that system to provide accurate and reliable information. As reflected in our response to the first question in the explanatory memorandum, it may take more than 18 months for the audit organization’s quality management system to generate accurate and reliable information, especially if there are substantial changes to the system as a result of
implementing ISQM 1. We believe that these challenges should subside as a new quality management system is evaluated and refined.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

Formally evaluating annually whether the system is working is unnecessary for small firms in simple circumstances. We suggest mentioning that a three-year evaluation of the system of quality management could be sufficient for small firms.

Australian Accounting Professional and Ethics Standards Board

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to annually evaluate its effectiveness. However, due to the complexities of the standard highlighted throughout this submission, determining this may create challenges in practice including a requirement to understand all aspects of the standard which will be onerous, particularly for sole practitioners and SMPs.

CA Ireland

By its nature there will be lots of challenges for the individual with ultimate responsibility to conclude on this, for example, if a number of deficiencies have been identified and root cause analysis is required or further assessment is needed to ascertain how pervasive the issues are then this process may not be completed before the annual assessment must be made. There will also need to be a lot of data accumulated, analysed and reported up to this individual.

There should be a risk-based approach adopted. The same professional judgement that is required elsewhere should be applied.

It would not be appropriate for example for a small firm to have to cover all aspects annually, a cyclical review so that all areas are covered over a (say) three year period would be more appropriate.

California Society of CPA’s

No, other than having the time to do it. Once again this should not be an issue in a large enough firm, but in smaller firms may find this is another scalability issue.

Regarding the latter, an evaluation of a system designed to provide reasonable assurance indicates a self-evaluation requiring audit level testing procedures. Although paragraph 18 notes that reasonable assurance “is obtained through the operation of the system as a whole”, additional clarity is necessary to understand the nature and extent of procedures that must be conducted when evaluating the system of quality management is effective at providing reasonable assurance, particularly when deficiencies are identified (i.e., inspection findings, regulatory findings, legal judgments where liability has been established, etc.).

In this regard, additional clarity could be provided regarding the specific evaluation process for evaluating the effectiveness of system of quality management, as contemplated in paragraph 42c and the documented basis for a firm’s evaluation of whether the system of quality management satisfies the reasonable assurance objectives stated in paragraph 18(a) and (b)), when faced with multiple un-remediated deficiencies. This includes situations of multiple deficiencies associated with external inspections.
Proposed ISQM 1: NVivo MS Word Report – ED-ISQM 1_Question 12
IAASB Main Agenda (December 2019)

(regulator/peer review) where the firm is in the process of conducting a root cause analysis and remediating its policies and procedures and other responsive changes through pending implementation of controls.

**Center for Audit Quality**

application. For example, when evaluating the effectiveness of a company’s internal control over financial reporting, there is a framework for assessing the severity and impact of exceptions. There is defined terminology such as significant deficiency and material weakness that aids in the evaluation of exceptions.

It is unclear in the ED-ISQM 1 how to evaluate deficiencies in determining whether the system of quality management provides reasonable assurance that the objectives of the standard have been achieved. While we believe it is appropriate for firms to apply professional judgment in reaching an overall determination, additional guidance would promote consistency in

We encourage the Board to provide more guidance related to what might trigger a need to complete an evaluation more frequently than annually. Further, we suggest clarifying in the application material that the Board contemplated the annual evaluation to be “at the point in time the evaluation is undertaken” as noted in the Explanatory Memo to ED-ISQM 1, paragraph 75. In other words, the annual evaluation is expected to be “as of” a specified date and not for a specific period ended. Lastly, as noted above in our response to Question 12(c), it is unclear how to evaluate deficiencies

in determining whether the system of quality management provides reasonable assurance that the objectives of the standard have been achieved. While we believe it is appropriate for firms to apply professional judgment in reaching an overall determination, additional guidance such as a principles-based evaluation framework could promote consistency in application.

**Chartered Accountants Australian and New Zealand and ACCA**

Yes, however, challenging in practice, particularly in the case of SMPs and sole practitioners. For example, firms with limited number of partners may struggle to decide who the individual with the assigned ultimate responsibility and accountability for the system of quality management would be.

**Comision Interamericana de Control de Calidad de la AIC**

Response: Yes, there are challenges and one of the most important, is the time that must be set to render an annual report, and follow up on the part of the partners of the firm, and make the relevant decisions, to improve the management of quality, if there were significant deficiencies.

**Comite Control de Calidad del ICPARD**

Response: Yes, there are challenges and one of the most important is the time that must be set to submit an annual report, and be followed up by the partners of the firm, and make the relevant decisions, to improve quality management, if there are significant deficiencies.

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

CNDCEC believes that the obligation to evaluate the system of quality management every year would be too burdensome for small and medium sized practices, while an evaluation every three years would be sufficient.
CPA Australia

Response: We consider that this requirement may be unreasonably onerous for small to medium practitioners and may need to have different frequencies for differently-sized firms.

European Federation of Accountants and Auditors for SMEs

The requirement for a specific individual assigned ultimate responsibility and accountability for the system of QM to understand the entire standard and how they are being implemented through the firm’s methodology can be particularly onerous especially for a sole practitioner of very small SMP.

An annual evaluation as to whether the system is working is unnecessary for many SMPs. A once every three-year evaluation of the system of quality management may suffice.

EXPERTsuisse

In our opinion, for smaller and probably also for mid-tier firms a three-year evaluation of the system of quality management should be enough and this could be mentioned in ED-ISQM 1 – as it is the case in present ISQC 1.A66 - so that the practitioners have a practical guideline in this regard.

IFAC Small and Medium Practices Committee

The requirement for a specific individual assigned ultimate responsibility and accountability for the system of QM to understand the entire standard and how they are being implemented through the firm’s methodology cannot be under-estimated. It can be onerous especially for an SMP practitioner as he or she will have to understand everything, assess what is not applicable and potentially need to document his/ her justification.

A better approach, using some sliding scale example (from a sole practitioner up to a firm of 2-5 partners) may be helpful to demonstrate how the standard is expected to operate in a real life environment.

The Board could also reflect on whether an annual evaluation is necessary for all firms. If the risk to quality is low because of the nature and circumstances of the firm and its engagements, is the annual evaluation really needed? It’s a high hurdle for smaller practices – just to document such an annual process.

Some SMPs are also asking for more guidance on what will constitute “reasonable assurance” in the face of deficiency findings.

Para 74 of the EM has taken the position that ISQM 1 implicitly creates a need for the firm to collate all of the information about the system of QM within the firm and for the leadership to evaluate this information in forming an overall view about the “reasonableness” of the system. The bigger question for SMPs will be the documentation of their many informal processes in order to reach such reasonable conclusion without being challenged.

The Board may also want to reflect on whether the level of specificity on the evaluation of the QM system and the potential course of action to be taken in the event where a reasonable assurance assessment cannot be achieved (see paras 55-57) could result in some SMPs following a checklist approach (with a compliance mindset) rather than working towards a better QM system, befitting their nature and circumstances.

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

Response: The feasibility of this may be questioned from the point of view of the sole practitioner.
Institute of Chartered Accountants in England and Wales

Exercises such as these include the annual compliance review required in the UK. However, this is a good example of another area which cries out for examples of how the requirements might work for a smaller firm. Such reviews can in practice be a pointless and/or ineffective burden if there are few, if any, serious issues to be addressed and they are addressed effectively on a piecemeal basis, which is sometimes the case.

Institute of Chartered Accountants of Pakistan

We support the annual evaluation of the system. The implementation and annual evaluation would be a challenge for sole practitioners and SMPs. There would be number of challenges such as availability of appropriate resources, time and cost that may arise in fulfilling the requirements of the proposed standard and its evaluation.

Korean Institute of CPAs

The requirement on evaluating a QMS at least annually along with the implementation of the monitoring and remediation process could add heavy pile of burdens in practice, and raise a question whether benefits of the requirement would outweigh costs arising from it.

Unlike other risk process frameworks, including COSO, ED-ISQM 1 includes deficiencies in relation with quality objectives and risk assessment. To evaluate the QMS and provide reasonable assurance that the objectives of the system have been achieved, common understanding and awareness of the evaluation of quality objectives are required.

As mentioned in our response on the above question 6, the lack of common understanding and awareness of requirements on quality objectives and responses could create unnecessary audit quality review risks, thereby leading to undermining social credibility over firms.

Malaysian Institute of CPAs

The challenges are:

(i) Availability of competent man power within the firm to ensure an independent quality review function is implemented especially in the case of SMP’s.

(ii) In the case of a small firm, the difficulty of sourcing external quality and monitoring reviewers when there are limitation on the availability of such resources.

New York State Society of CPAs

Response: The only significant challenge that we perceive is that as is stated in paragraphs 52 and A189, the individual(s) with ultimate responsibility (IUR) will be relying (perhaps too heavily) on the individual(s) with operational responsibility (IOR) for the information with which to make the required assessment. The risk is that the IOR would provide the IUR with information framed in a biased fashion either to make the IOR look good, or less frequently to overstate problems to push for more resources. This is a residual problem of the issue that was addressed in paragraph 48 of the Explanatory Memorandum.

We suggest that in paragraph A189, or an additional paragraph to be placed directly after A189, that language such as the following be added:

“Firms should consider whether the system of quality management should include a requirement that the individual(s) with ultimate responsibility and accountability for the system of quality management be assisted
in this review by (an) individual(s) with similar qualifications as, but to the extent practical, operationally independent from, the individual(s) charged with operational responsibility and accountability for the system of quality management."

**Nordic Federation of Public Accountants**

We believe it will be an overwhelming task to expect one individual, especially in an SMP, to fulfill this requirement. We would also encourage the Board to reconsider whether an annual evaluation is necessary for all firms.

**Self-Regulatory Organization of Auditors Association**

We believe that for SMPs it may be challenging as there may be no such an individual.

**South African Institute of Chartered Accountants**

A question was raised in relation to deficiencies identified at engagement level and whether this is an indication of the firm’s SOQM failing. Practically, it is commonly understood that the firm should evaluate whether a deficiency at engagement level is representative of a deficiency at firm level but this is not clear from the standards. To this end, we suggest that the IAASB clarify this in ED-220.

Paragraph 75 of the Explanatory Memorandum to ED-ISQM 1 makes reference to the firm having to perform the evaluation at a point in time. This concept is however not included anywhere else in ED-ISQM 1. It is recommended that the IAASB clarify the expected timing of the annual evaluation.

“The IAASB envisages that the evaluation would involve a determination of whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken.” This concept of the evaluation is as of a point in time is not included anywhere in the draft standard and should be considered as a frequently asked question in order to provide firms with a better understanding of what the IAASB intended with regards to the annual evaluation.

**The Finnish Association of Authorised Public Accountants**

Evaluating annually whether the system is working is usually unnecessary for the SMPs in simple circumstances. We suggest the evaluation to be done every third year. More frequent evaluation should be done for example if an external inspection has made severe comments about quality or if the SMP fails the external inspection.

**Wirtschaftspruferkammer**

The evaluation of the system of quality management at least annually is already prescribed in Germany. Para 55b Abs. 3 Public Accountant Act requires the Professional Accountants in Public Practice who conduct statutory audits to assess the internal quality control system at least once a year concerning the policies and procedures for audits, for continuing professional development, instruction and supervision of the employees as well for the files kept. In the case of deficits in the internal quality control system, necessary measures to remove the deficits must be taken. The members of the profession shall document annually in a report the results of the evaluation, measures which were taken or suggested, violations of professional duties or of the Regulation (EU) No. 537/2014, in as far as these are not minor, as well as the consequences of the violations described under No. 3 and the measures taken to remove the violations.
Another Challenge for SMPs is the documentation of their informal processes in order to reach such reasonable conclusion without being challenged. A staff publication could be helpful in this respect as well.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Yes, unless change in firm strategy takes place such as having publicly listed company for first engagement year, we recommend that appropriate level should evaluate whether previous quality management are adequate for that purpose, and I suggest that this case must be emphasized as it related to concerns of most capital authority market and stock exchange markets’ stakeholders may request updated report although in less complex entities the period if it is extended, this may reduce broaden of work over this entities provide no red flags raised by monitoring

Training and Advisory Services and Chartered Accountants Academy

Yes

The requirement reinforces the responsibility and accountability of leadership for the system of quality management. A possible challenge might arise for judgement on whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken.

Q12(e) - Unclear

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

13. In our view there would be merit in a firm’s management confirming that their firm’s quality management system has resulted in appropriately high quality (a ‘quality control’ statement).

Irish Auditing and Accounting Supervisory Authority

In our view there would be merit in a firm’s management confirming that their firm’s quality management system has resulted in appropriately high quality (a ‘quality control’ statement).

5. Public Sector Organizations

Office of the Auditor General of Canada

ISQM 1 paragraph 55 requires the individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved. On their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors IBR-IRE

We are not convinced that even if the evaluation defined in par. 56 must be done annually for certain topics, it is clear enough that components of the system of quality management could be reviewed on a risk analysis basis or a rotation basis.
Instituto de Censores Jurados de Cuentas de España

As stated in answer 12 a), in our opinion it seems reasonable that monitoring methodology and regularity show a certain degree of flexibility, especially if a response to a quality risk is working adequately. On the contrary, if a response does not work properly, increasing the regularity of the monitoring activity might be necessary.

Other comments on monitoring and remediation

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

6. 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).

Independent Regulatory Board for Auditors (South Africa)

We recommend that the requirement in ISQM 1 address the need for remedial action to be taken in real time. If it is not realistic to include this as a requirement, we recommend including guidance on the timing of remedial action.

We suggest that the requirement for the evaluation of whether the system of quality management provides reasonable assurance that the objectives have been achieved be located earlier on in the standard. The requirement is included in paragraph 55 of ED-ISQM 1 toward the end of the component requirements.

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).

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

There are several application material paragraphs that are a duplicate of content elsewhere, for example A36 is duplicative of A32; A178 is duplicative of A174.

Canadian Auditing and Assurance Standards Board

We believe the IAASB could remove paragraphs 11, A21, some of the examples in A69, A112, A122 and A188. In our opinion, these paragraphs do not add clarity or new information.
Chinese Institute of Certified Public Accountants

The proposed standards do not provide clear explanation on the relationship of engagement quality review and other quality management process such as monitoring and remediation, inspection of in-process engagement, etc., what their responsibilities respectively are, and how they coordinate and collaborate. Suggest further explanation.

Japanese Institute of CPAs

Paragraph 50
The reference to paragraph A163 should be amended to the reference to paragraph A184.

Paragraph 51 (findings about a particular engagement)
We suggest moving paragraph 51 after paragraph 47 as it relates to evaluating findings and identifying deficiencies, which is addressed in paragraph 47.

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

A154 is justification (or benefits from) not application- suggest delete
A155 – how does this help. Is the purpose to highlight the need for professional judgement or highlight matters to consider.
A157 – sounds like a debate about which component – does it really matter which component it is in? How does effort in fitting responses into components promote audit quality? Is it not better to focus on making sure the responses happen?
A171 – why repeat A65 and the IESBA Code? Suggest condensing to example to illustrate the threat or consider whether this is included in the IESBA Code rather?
A178 – why repeat the requirement. Why repeat A174?
A179 – why lay out the justification for the requirement? That does not really help in application, i.e. how to perform not why perform?
A180 – why is a requirement in application material …the policies and procedures are required to take into account…? Condense to what the firm may consider.
A188 – how does that help – stating the obvious can remove.
A189 – very dense paragraph

4. Accounting Firms

Baker Tilly International

ED-ISQM1.42(a) - refers to the components of the system of quality management which, by extension includes individual engagements. However, we believe that it would be appropriate to have a specific objective that “The monitoring and remediation process provides relevant, reliable and timely information about the quality of completed audit and assurance engagements”.
ED-ISQM1.46b sets out requirements relating to the objectivity of those performing monitoring activities, which will include reviews of completed engagements. It is not clear from the standard how this can be achieved in smaller firms, particularly single partner firms. Further illustrative guidance would be helpful to identify how smaller firms can achieve compliance with these requirements.

ID-ISQM1.52 requires that the individuals assigned operational responsibility communicate certain matters on a timely basis to the individual assigned ultimate responsibility and accountability for the SOQM. However, the standard does not describe or explain what should happen in instances, typically in smaller firms, where the two roles are undertaken by the same individual. To what extent is documentation required in this instance?

**BDO International**

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.

**Monitoring and remediation**

Paragraph 51 (b), states: ‘When the report is considered to be inappropriate, consider the implications and take appropriate action, including considering whether to obtain legal advice.’

If we read this in conjunction with the IESBA Code of Ethics, requirement 111.2 (‘A professional accountant shall not knowingly be associated with reports [...] where the accountant believes that the information: (a) contains a materially false or misleading statement, [...]’), we would have expected the ED-ISQM 1 version to contain a much more active response, such as rectifying the report or disassociating from that report, rather than merely ‘considering obtaining legal advice’, which seems a rather passive response.

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

**EY Global Limited**

Paragraph 46(a)

We recommend that paragraph 46(a) be deleted as it is repetitive of the requirements in paragraph 25.

Paragraph 44

Paragraph 44 isn’t written as a response, but rather the sub-bullets are items for the firm to consider when designing and implementing its monitoring activities. We recommend that these attributes be incorporated into the application material.

If the IAASB leaves paragraph 44 as is, we recommend rewriting or eliminating 44(b) as it currently reads “In designing and implementing the monitoring activities, the firm shall take into account for monitoring activities over the firm’s risk assessment process, the design of that process.” Repeating the phrase “monitoring activities” makes the requirement difficult to read.

Paragraph 51

Paragraph 51 isn’t written in a style consistent with the other required responses in the standard (i.e., The firm shall establish policies and procedures...”) and we recommend rewriting it.

Paragraphs 53 and 54
Paragraphs 53 and 54 within the ‘Monitoring and remediation process’ component are duplicative of paragraphs 40(b) and 40(e) and 41(c), respectively. In removing these paragraphs, the IAASB should also evaluate the corresponding application material for paragraphs 53 and 54 and whether the contents should be included in the application material for paragraphs 40(b), 40(e), and 41(c).

Removing paragraphs 53 and 54 can help streamline the required responses in the ‘Monitoring and remediation process’ component which has a significant number of detailed and out of balance with the rest of the standard. See comments in the ‘Responses’ section of ‘Other matters’ above for more details.

**Nexia Smith & Williamson**

Paragraph A160: we cannot envisage why the nature, timing and extent of the firm’s monitoring activities would not be more robust where the risks are greater.

**PriceWaterhouseCoopers**

In addition to the points raised in appendix 4, we also think that it may be useful to provide further examples in the application material to the monitoring and remediation component of ongoing monitoring activities that a firm may perform. For example, a central quality function might perform reviews of an acceptance decision when certain risk factors are present, or a central learning and education function might perform reviews to monitor that relevant partners and staff have attended mandatory training and, when applicable, assess the reason for non-attendance and actions that need to be taken.

**Paragraph 42(c)** - See paragraph 7 editorial suggestion with respect to objectives.

**Paragraph 44** - We suggest that “the appropriate combination” be replaced with “an appropriate combination”, in order to remove the inference that there is only a single appropriate combination.

**Paragraph 54** - Notwithstanding our comments in relation to paragraph 41(c), we suggest this requirement should use the same construct as paragraph 57(b)(ii) to reflect that paragraph 41(c) is subject the firm’s policies and procedures in determining whether to communicate: “The firm shall communicate to external parties, in accordance with the firm’s policies or procedures required by paragraph 41(c), information about the results of the firm’s monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 41(c).”

**Paragraphs 55-57** - See paragraph 7 editorial suggestion with respect to objectives.

**Paragraph A190** - See paragraph 7 editorial suggestion with respect to objectives.

**Paragraph A191** - We suggest the following addition to the second bullet to make clear that it is the firm’s determination: “When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.” See also paragraph 7 editorial suggestion on objectives with respect to the lead-in wording.

5. Public Sector Organizations

**Office of the Auditor General New Zealand**

It is our view that the application material in respect of the frequency of evaluating the system of quality management could be improved so that it is clear which aspects of the system of quality management could be evaluated more or less often than annually. We support the scope provided in paragraph 44 to apply professional judgement and perform these on a cyclical/reduced testing where appropriate.
It is our view that the proposed standard could be enhanced to require the firm to set policies and procedures that will apply when quality deficiencies are identified from monitoring activities, which are attributable to the engagement partner’s performance.

The proposed standard should also clarify the nature of the reliance that the firm can place on the quality reviews performed by regulators or professional bodies, which could be especially important for smaller firms in meeting the requirements for engagement inspections set out in paragraph 44.

We think paragraph 50 (evaluation of remedial actions) should be clarified to explain the evaluation of the effectiveness of remedial actions implemented to address previously identified deficiencies are effective and the requirement to assess the design and implementation of each deficiency. The guidance paragraph (A163) does not provide any further help.

6. Member Bodies and Other Professional Organizations

IFAC Small and Medium Practices Committee

Para 46(b) will also likely be problematical for many SMPs, since it precludes engagement team members or the EQ-reviewer from performing any inspection of an engagement (this issue is not new and has long been an issue with ISQC 1). However, it should be recognized that this requirement may not be able to be adopted in some jurisdictions due to its implications for restraint of trade under competition law for small practices without qualified individuals outside of the engagement team for engagements other than audits of financial statements of listed entities or PIEs. The question arises whether the phrase “unless prohibited by law or regulation” might need to be inserted in an appropriate way to address this issue in the standard.

Institute of Chartered Accountants in England and Wales

Para A157: suggest delete (verbose and particularly impenetrable, seemingly suffering from the same unnecessary conceptual and methodological complexity as similar material in ISA 315: it addresses no widespread mischief, inconsistency or misunderstanding)

Para A162: the firm’s monitoring activities may include monitoring of those areas of change. This should just refer to the fact that monitoring activities may need to change if the system of quality management changes.

Para A164: this would be clearer if it simply said that even if a system has not changed it does not need to be tested on a cyclical basis.

Para A189: the suggestion here in relation to the smaller firm seems to be at odds with the independence angle in para A171.

Malaysian Institute of CPAs

Provide clarification about the objectivity of those performing activities in the context of SMPs.

South African Institute of Chartered Accountants

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.
In relation to the requirement for the firm to respond to identified deficiencies, ED-ISQM 1 requires the firm to design and implement remedial action but the timeframe of this is not clear. We therefore recommend that the IAASB consider expanding this section to include a prescribed timeframe for the implementation of such remedial action and the evaluation of the effectiveness of the related remedial action.

**Wirtschaftspruferkammer**

Extant ISQC 1 Para 48 (c) requires that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the firm’s quality control policies and procedures, or who may be involved in performing the engagement quality control review. A firm with a limited number of persons may choose to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities (A68).

We have not found corresponding provisions in proposed ISQM 1. Therefore we would ask the IAASB to clarify how the engagement review should be performed in small firms.

**9. Individuals and Others**

**Shady Fouad Ahmed Mehelba**

I believe that response and degree of risk will vary depending on the quality management component in which the risk exists. For example, violation of relevant requirements (leadership and governance) or monitoring of the ISQM will have a pervasive effect and will need special or general response, such as communicating with appropriate governance level, more regular meeting with partner in firm, direct supervision by partner, more direct supervision hours and re-delegation of responsibilities to those with high qualifications, examples of such pervasive or high risk level need to be presented linked or emphasized with minimum responses’ requirements.

To be enhanced the process of risk assessment itself, it should be subject to quality engagement review as part of quality management so it should be evaluated by those partners not hired as engagement review partners or those not involved in quality management review. Also policies should describe that for delegations of supervision in regard specific classes of entities’engagement should be rotated at annually.