ED-ISQM 1 – Question 13 – Networks

Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

Q13 - Agree

2. Regulators and Audit Oversight Authorities

National Association of State Boards of Accountancy
Yes, we support the proposals addressing networks.
We believe that ED-ISQM 1 is clear that the firm has the responsibility for quality management and not the network and that firms should not only rely on network requirements or network services.

3. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board
We support the proposals addressing networks. We believe the proposals address the issue of firms placing undue reliance on network requirements or services.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)
Response: Yes. We support that the proposals are appropriate because the firms must adapt the network’s methodology to their circumstances and regulation.

Hong Kong Institute of Certified Public Accountants
We support the proposals addressing networks with the aim to improve the robustness of the firm’s responsibilities for the network requirements or network services, so that the firm understands the network requirements or network services and the effect they have on the firm’s system of quality management.
In addition, we consider the ED-ISQM 1 emphasizes that the firm is responsible for its own system of quality management, thereby addressing the issue that firms may place undue reliance on network requirements or network services.

Japanese Institute of CPAs
We support the proposals addressing networks.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board
Response:
We support the proposals addressing network and believe that the proposals will appropriately address the issue of firms placing undue reliance on network requirements or network services.

4. Accounting Firms

CAS International
Response:
We support the proposals addressing network and believe that the proposals will appropriately address the issue of firms placing undue reliance on network requirements or network services.

Duncan and Topliss
R13: The standard is clear that the responsibility for compliance lies at the firm level and therefore should address the over-reliance issue.

ETY Global
Yes, as it maintains the firm responsible for its system for quality management.

Kreston International
Response: The proposals for networks are appropriate.

Nexia International
YES

PKF International Limited
We support the proposals addressing networks. In our view, the proposals will help to address the issue of firms placing undue reliance on network requirements or network services.

PKF South Africa
We support the proposals addressing networks. In our view, the proposals will help to address the issue of firms placing undue reliance on network requirements or network services.

5. Public Sector Organizations

Auditor General South Africa
Yes, the ED-ISQM 1 specifically indicate that each firm is responsible for its own systems of quality management, and should ensure that these systems are in accordance with the standard. Therefore, firms will not blindly place reliance on the network quality management requirements. The firms will now assess whether the network’s requirements are in accordance with the standard and only place reliance on them once they have confirmed this.

National Audit Office of Malta
Yes. The Standard rightly requires the audit firm to retain responsibility for its system of quality management. However, the benefits of forming part of a network can be reaped; for instance, an individual audit firm may replicate a best practice adopted throughout the network.

Office of the Auditor General New Zealand
We support the proposal that the firm is responsible for its own system of quality management and that the firm shall not allow compliance with network requirements or use network services to contravene the requirements of standard.
In saying this, we agree with the requirement in paragraph 59 for the firm to evaluate the effect of network requirements or network services on the firm’s system of quality management including whether they need to be adapted or supplemented.

We also agree with the requirement in paragraph 62 that requires the firm to communicate relevant information about identified deficiencies in network requirements or network services. This will indicate to the network where improvement to the network requirements or network services are required.

**Office of the Auditor General of Alberta**

Response: We agree that the firm is responsible for its system of quality management. ED-ISQM 1 sufficiently communicates this requirement.

**Provincial Auditor Saskatchewan (1)**

Yes, we support the proposals addressing networks and we think the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services.

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

**Australian Accounting Professional and Ethics Standards Board**

ED-ISQM 1 acknowledges that quality systems of networks can enhance quality for the firms in the network. However, the ultimate responsibility for the achievement of the standard’s objective fall on the individual firm. The standard is also clear that when a firm uses a service provider, it is responsible for understanding the provider, nature and scope of services, that the resource is appropriate and that the firm remains responsible for the SQM.

This approach is consistent with APES GN 30 Outsourced Services (originally issued by APESB in 2013 and revised in 2015) which guides on the professional and ethical obligations when dealing with outsourced services.

Subject to APESB’s significant concerns about the current form, scalability and prescriptive nature of the proposed ED-ISQM 1, we support the proposals addressing networks and consider they will appropriately address the issue of firms placing undue reliance on them. This was also supported by APESB stakeholders.

**Center for Audit Quality**

We believe addressing networks is important to achieving the objectives of the ED-ISQM 1 and support the proposed requirements. We expect firms will develop policies and procedures to comply with these requirements that may include obtaining information at an aggregate level. ED-ISQM 1 is sufficiently flexible.

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

Response: Yes, we support them, including groupings of firms with legal forms and different names of a network.

**Comite Control de Calidad del ICPARD**

Response: Yes, we support them, including groupings of firms with legal forms and names different from those of a network.
CNDCEC agrees with the proposal.

European Federation of Accountants and Auditors for SMEs
Yes, we support the proposals.

Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IAB-IEC)
Response: In its entirety, the proposals address the issue.

Institute of Chartered Accountants of Pakistan
Subject to our comments on scalability, the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services.

Institute of CPAs of Uganda
ICPAU supports the proposals addressing networks particularly the fact that firms in these cases remain responsible for the system of quality management, including the professional judgments made in their design, implementation and operation.

Instituto de Censores Jurados de Cuentas de España
Para 14 and especially Para 58 state the aspects to consider when a firm is part of a network including the network policies; firms’ responsibilities and applicable procedures.
We consider that the risk analysis and the responses stem from belonging to a network as proposed in para A192 et sq. are adequate.

Malaysian Institute of CPAs
Yes

New York State Society of CPAs
Response: We generally support the proposals addressing the networks. We believe that paragraphs 59, A197 and A198 adequately address the issue of firms placing undue reliance on network requirements or network services.

Nordic Federation of Public Accountants
Yes, we are supportive of these proposals.

Royal Institute of Chartered Surveyors
Yes, we support the proposals addressing networks. We also believe that although a firm belongs to a network and regardless of the implementation of network requirements or network services, ultimately the firm remains responsible for its system of quality management.

Self-Regulatory Organization of Auditors Association
Yes

9. Individuals and Others

Shady Fouad Ahmed Mehelba

yes

Training and Advisory Services and Chartered Accountants Academy

Yes

We support the proposals addressing networks. Head office gives objectives however at country level

Vera Massarygina

Yes

Q13 - Agree but with further comments

1. Monitoring Group

Basel Committee on Banking Supervision

We are supportive of the IAASB’s proposals to require the individual firms within the network to understand network requirements and services. We also understand the problems identified in paragraph 79 of the explanatory memorandum in applying requirements at the network level. However, audits of internationally active banks are performed primarily by the largest networks of firms and, as the supervisors for these banks, we are very much interested in the quality management established at the network level and disseminated to member firms. The Committee believes that network firms should be expected to uniformly apply the requirements set forth in the auditing and ethical standards across the network and that the network systems and processes ensure that this is the case. In addition, the Committee’s view is that the quality management systems and processes established at the network level should be within the scope of audit inspections to ensure that there is accountability for them. The Committee believes that this is an important public interest issue.

The Committee urges the IAASB to give further consideration as to whether requirements can realistically be imposed (and inspected) at the network level (including across network member audit firms). This would encourage consistent application and make the network accountable. The IAASB should also consider whether, if there are no legal obligations for the network, the firms in the same network, eg using the same brand, could be made collectively responsible for network requirements, services and resources. Regarding accountability, the IAASB should also clarify in ISQM1 that any network requirements, services and resources used by an individual audit firm are part of the individual audit firm’s quality management processes and therefore within the scope of any inspections of the individual audit firm.

International Forum of Independent Audit Regulators

We welcome the addition of requirements relating to network resources or services used locally. However, the proposed requirements fall short of addressing the determination of the appropriateness of using network resources or services at the local firm. In particular, the proposed requirements do not address an evidenced evaluation (at network and/or local level) and conclusion by the local firm as to whether, and the extent to which, the network resource or service (e.g. audit tools, independence systems) is appropriate to use. Further, it is unclear why requirements for the use of service providers are more robust than those
relating to network resources and services. The application material (paragraph A195) also allows for the understanding of network resources and services to be performed by inquiry alone, which is not sufficient or appropriate. We also question what work effort should be done to support the “evaluation” referred to in paragraph 59.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

25. We support that ISQM 1 also addresses the role of the networks to which many audit firms belong/are affiliated with. The nature and extent of resources provided by the networks to the audit firms has become increasingly significant, as has their impact on objective setting, governance and policies/procedures as well as the level of oversight by networks of their member firms. Given that increasing significance, we are of the view that it is important that the provisions concerning networks be further expanded. We recommend requiring that audit firms take a proactive role with regard to their network and that, where possible, they are involved in target and objective setting by the network, and that they ensure that policies and procedures developed by the network are only implemented at firm level where they contribute to the firm’s responsibility and objectives for quality. We also recommend that the IAASB considers whether the standards should distinguish between local networks and international networks. This is because a firm’s role and influence in a local network is likely to have a greater impact.

26. Additionally, we recommend requiring that firms document how resources provided by the network (e.g. audit tools, independence systems etc.) support their quality objectives and are compliant with local laws and standards. This is especially important with respect to key tools and methodologies developed by the networks which their Member Firms have to implement. Given the responsibility for quality management at Member Firm level, they should be able to demonstrate how they have satisfied themselves that, and document how, the methodology and tools (audit software, data analytics tools) contribute to performing quality audits.

Financial Reporting Council United Kingdom

We strongly support the IAASB proposals addressing networks in response to the issues that have been raised in relation to undue reliance by firms and engagement teams on the network’s system of quality control.

We believe that the firm is responsible for the engagements it performs and for the reports that are issued on behalf of the firm and therefore it is the firm that is ultimately responsible for its SOQM, regardless of the nature and extent of network requirements or network services (NRSs) used by the firm.

In this regard, we support the requirement in paragraph 59 that encourages a more robust understanding of NRSs being used in the firm. However, we do not agree that this requirement is sufficient to meet the IAASB’s objective set out above as it does not explicitly require the firm to determine whether NRSs are appropriate for use. Currently, the firm is only required to evaluate the effect on the risk assessment process (i.e. determine how the NRSs need to be used in the firm’s SOQM) and whether those NRSs need to be adapted or supplemented to be appropriate for use (i.e. and whether more needs to be done). We find the requirements relating to service providers much clearer and robust in this regard.

In finalising the standard, we strongly encourage the IAASB to amend paragraphs 59 (and 68(a)) to explicitly recognise the firm’s responsibility to determine not only how NRSs need to be used and what more needs to be done, but also whether NRSs are appropriate for use. We believe that this more robust approach has the potential to improve communications and transparency between the network and network
firms and encourage improvements in the requirements and services provided by the network. Our editorial suggestions in relation to specific paragraphs can be found in Appendix 5.

59 In complying with the requirements in 26-30, the firm shall evaluate the effect of the network requirements or network services on the firm’s system of quality management, including determining whether they are appropriate for use in the firm’s system of quality management, and whether they need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management.

Independent Regulatory Board for Auditors (South Africa)

A concern was also raised where scalability follows a “top down” approach. In other words, where an SMP is part of a large network, and the network policies and procedures need to be applied, these could be difficult to scale back for the SMP. In this case, the network requirements section of ISQM 1 should address the responsibilities of the SMP.

We support the proposals addressing networks. It is clear in ED-ISQM 1 that each firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system, even if designed by another firm in the network.

Paragraph 58 of ED-ISQM 1 requires the firm to “understand” certain requirements. It is not clear how the firm’s “understanding” is to be documented. What is the work effort that is required in order to obtain understanding? How is understanding demonstrated? What is the threshold for understanding?

We recommend that the requirements be expanded upon to include requirements addressing a demonstrated and documented evaluation (at network and/or firm level) and a conclusion by the firm as to whether, and the extent to which, the network resource or service (e.g. audit tools, independence systems) is appropriate to use. The firm needs to demonstrate that it has not placed undue reliance on the network.

We recommend providing clarity on the extent of documentation that each individual firm in the network needs to maintain, when the network has documented requirements for the network. Does the network documentation need to be maintained by each individual firm in the network?

It appears that requirements for the use of service providers are more extensive than those relating to network resources and services. This seems to imply that more work effort is required by the firm regarding service providers. Is this the intention?

The application material (paragraph A195 of ED-ISQM 1) allows for the understanding of network resources and services to be obtained by inquiry alone, and this is not sufficient or appropriate. A greater work effort requirement is recommended, including the inspection of documentation.

We question what work effort should be done to support the “evaluation” referred to in paragraph 59.

Irish Auditing and Accounting Supervisory Authority

We support the fact that ISQM 1 addresses the role of the networks to which many audit firms belong/are affiliated with. The nature and extent of resources provided by the networks to audit firms has become increasingly significant, as has their impact on objective setting, governance, policies/procedures and the level of oversight by networks of their member firms. Given that increasing significance, we are of the view that it is important that the provisions concerning networks are further expanded. We recommend requiring that audit firms take a proactive role with regard to their network and that, where possible, they are involved in target and objective setting by the network, and that they ensure that policies and procedures developed by the network are only implemented at firm level where they contribute to the firm’s responsibility and
objectives for quality. We also recommend that the IAASB considers whether the standards should distinguish between local networks and international networks. This is because a firm's role and influence in a local network is likely to have a greater impact.

Additionally, we recommend requiring that firms document how resources provided by the network (e.g. audit tools, independence systems etc.) support their quality objectives and are compliant with local laws and standards. This is especially important with respect to key tools and methodologies developed by the networks which their member firms are required to implement. Given the responsibility for quality management at member firm level, they should be able to demonstrate how they have satisfied themselves that, and document how, the network's methodology and tools (audit software, data analytics tools) contribute to performing quality audits.

3. National Auditing Standard Setters

AICPA

We support the proposals addressing networks. We suggest that paragraph A201 incorporate the idea that the information obtained from the network is at an appropriate level of aggregation. We would not expect, for example, that the network would provide detailed information on the specific engagements selected and individuals reviewed to other firms in the network, but rather would provide aggregated information about the results to other member firms. We believe this aligns with the language in paragraph A201, but that paragraph A201 could more clearly state this. For example:

The information about the overall scope and results of the monitoring activities across the network firms' system of quality management may highlight trends and common areas of identified deficiencies across the network, or examples of quality that may be replicated across the network. Such information may be used by the firm to determine the nature, timing and extent of its monitoring activities. It may also indicate deficiencies in network requirements or network services used by the firm for its system of quality management. Any such deficiencies could be communicated at an aggregated or thematic level.

Australian Auditing and Assurance Standards Board

The AUASB supports the concepts to address network firms perceived or actual undue reliance on network requirements or services. The enhanced requirements around network firms, while supported by stakeholders, is seen to be a practical challenge that will need to be worked through by network firms. Some stakeholders expressed concern that the granularity of the requirements may undermine the purpose of being in a network and may lead to unintended consequences. Additionally, there was a level of concern raised by stakeholders as to the consistency of application across network firms in different jurisdictions and what this means from a regulatory perspective. As previously described in our response to Question 2, the AUASB considers that more detail may be required in ISQM 1 to demonstrate how this can be achieved.

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

Kammer der Steuerberater und Wirtschaftsprufer
Answer: We support the IAASB’s proposal to address networks. From a practical point of view, we do not think it is possible to standardize it in another way. Nevertheless, it does not mean that it will not be burdensome for all firms within a given network to comply with the requirements as set in the proposed quality management standard. The burden will be on firms to evaluate design and implementation of the network’s controls operating in other countries. In many cases, firms will struggle obtaining the relevant information and this situation could create tension that would not help enhance audit quality.

New Zealand Auditing and Assurance Standards Board

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

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

Royal Nederlandse Beroepsorganisatie van Accountants

We acknowledge that firms cannot simply rely on networks and have their own responsibility to evaluate the appropriateness of the policies, procedures and solutions provided by their network. At the same time networks currently play an important role in providing audit approaches and tools to local firms. We feel that they also have an important role to play in achieving consistent audit quality within a network. This role is important to overcome the risk of undue reliance of individual auditors on the work performed by component auditors in network firms in other countries.

Therefore we suggest that ISQM 1 sets an expectation that firms apply network requirements and network services whenever possible and inform networks whenever they feel that material made available to them by the network is not fit for purpose.

4. Accounting Firms

Baker Tilly International

Response: We believe that the proposals addressing networks are reasonable and proportionate and are clear in identifying that the responsibility for the SOQM lies with the individual firm at all times. These requirements will place an additional burden on the networks to provide sufficient information for the firms in certain situations, but we do not consider these to be unreasonable.

In respect of the risk assessment process (ED-ISQM1.59) the standard implies that the individual firm may be able to place reliance on the quality reviews undertaken by the network. Whilst the firm would be expected to take account of the findings of the network’s review in conducting its own review program, the firm is responsible for its system of quality management and for its engagement quality. We do not consider it to be appropriate for the firm to replace its own quality review program with the network reviews of completed engagements. Greater clarity in this area would be beneficial, including that a firm must include a review of completed files as part of its SOQM. Further guidance on the factors which may influence the timing and extent of the firm’s review program would be helpful.

BDO International
This new approach will likely cause firms and networks to redirect resources towards certain areas of risk within a system of quality management, rather than maintain a system of quality control that complies generically with standards but may not otherwise ensure sufficient audit quality within a firm.

The objective is appropriately focused on the ‘firm’ and in doing so makes it clear that it has to ‘...design, implement and operate...’ a system of quality management. This gives rise to a concern that in a network scenario whether this may misinform readers of ED-ISQM 1 or appear to be unnecessarily restrictive. This may be the case where the design of a consistent QMF is being led by a network with firms being encouraged to modify or tailor content during the implementation phase based on local facts and circumstances. It would be helpful for the IAASB to consider application guidance to inform readers that it could be a ‘firm or network’ which may be involved in the design phase although tailoring of a QMF would be performed at the firm level.

As currently presented, this enhanced set of requirements (especially when compared to extant ISQC 1), combined with the potential impact on many areas of cross-firm functional departments and the integrative nature of the proposed QMF components, is likely to place a high burden on firms (and networks).

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

In our opinion, ED-ISQM 1 is clear that the firm is responsible for its system of quality management no matter what type of support they may receive from a network. This will be a shift in mindset for many within firms and leadership positions.

We agree with the premise that ultimately the firms are performing the engagements and should be held accountable for the effectiveness of the system of quality management. We caution, though, that such requirements should only be applied to what a firm has the ability to control. The proposed standard currently recognises that concern by focusing on how a firm responds to network requirements and the communication that must occur within a network of firms. We agree with the requirement for the firm to report any deficiencies in those services or support they find to the network for remediation. We think this focus is helpful in driving greater understanding of where and how reliance is placed on network- and firm-level resources.

We believe that the requirement for two-way communication and increased transparency between networks and firms will be beneficial and will lead to overall improved engagement quality, although we accept that this is likely to be challenging in different network structures.

We understand the IAASB’s decision not to include requirements specifically addressed at networks and believe that pressure from the firms will reinforce the importance of timely remediation by the network without a specific ISQM 1 requirement to do so.

However, based on paragraph 61, and the accompanying application guidance, there is the potential for users to misinterpret the extent of information they need to obtain to sufficiently perform monitoring and remediation activities (particularly across other jurisdictions or firms). More clarity on the extent of these requirements, or through different scenarios provided by way of implementation support, would be helpful.

Crowe Global
Response: We agree with the proposals addressing networks. It is right to address network requirements and network services from the perspective of the firm, as it is firms that conduct audit and assurance services, and firms are subject to external oversight. Firms have to take responsibility for their reliance on the network, but the standard does address how the network can support firms in fulfilling this responsibility. The proposals achieve the right balance. We encourage the IAASB to engage with the networks to develop practical implementation guidance for this aspect of the standard.

Deloitte Touche Tohmatsu Limited

Response: DTTL is supportive of the proposals addressing networks and believes that they may address the perception that firms place undue reliance on network requirements or network services. However, DTTL also agrees with the Board’s views expressed in paragraph 76 of the explanatory memorandum that in circumstances in which network firms share common elements related to the system of quality management, such common elements can be instrumental in enhancing engagement quality. We recommend that such language be included within the application material to ED-ISQM 1 in recognition of the benefit of centralized or common elements related to the system of quality management across firms that belong to a network.

EY Global Limited

We are also supportive of the proposals addressing networks and recognize the need for a member firm to have an understanding of network services and requirements, including the results of monitoring activities the network performs, in order for a member firm to design, implement, and operate its system of quality management.

Yes, we believe that the requirements for communication included in ED-ISQM 1 related to external parties promote the exchange of valuable and insightful information. For example, we believe that this will improve communications between the network and member firms and among member firms as it relates to the expanded requirements included in ED-ISQM 1 for resources.

We believe the communication requirements will lead to:

- Firms having a better understanding of what network services and requirements the network provides
- Firms identifying where there are gaps between network services and requirements and the responses needed to mitigate the quality risks identified and assessed by the member firms
- A network having an improved understanding of the member firms’ systems of quality management

Yes, we support the proposals addressing networks. We recognize the need for a member firm to have an understanding of network services and requirements, including the results of monitoring activities the network performs, in order to appropriately design, implement, and operate its system of quality management.

More specifically, the EY network drives consistency throughout its member firms by providing its member firms certain consistent network requirements and services, and we believe these requirements work with our network approach. It is in the public interest for there to be consistency in the operation of the systems of quality management across member firms as it provides the ability for member firms to have a basis for using the resources or services of other firms within the network. Member firms need to obtain an understanding of network services and the member firms’ responsibilities for operating them effectively. In addition, the member firms should be provided information from the network about any deficiencies or
issues in the network services to design timely compensating responses or controls and to understand any limitations of the network services.

From a practical implementation standpoint, our network will be incentivized by these new requirements in ED-ISQM 1 to provide consistent information about the network services to all member firms in a consistent manner (i.e., we would not expect each member firm to submit an information request and for the network to respond individually to each member firm; such a process would be unmanageable for our network).

We also believe that the risk assessment process requirements drive action at the network level. As mentioned in Q2 above, this standard is driving networks to a consistent approach to the risk assessment process across the network and follows through into the design of the monitoring and remediation process. It is our understanding that the intent of the standard is for networks to “think about” the system of quality management from the perspective of the member firms for the purposes of determining how best to support the individual member firms across the network. We agree with this intent and suggest that perhaps this intent could be made clearer in the standard itself (e.g., in application material or introductory paragraphs).

Overall, although the requirements in ED-ISQM 1 are not directed at the network, we do strongly believe that the standard drives behavior and actions at the network level to drive consistency to the extent appropriate across the member firms’ systems of quality management.

KPMG IFRG Limited

We welcome paragraph 58 of the ED which is clear in stating that each audit firm within a network remains responsible for its SoQM, whilst also clearly requiring the audit firm (within the network) to understand the requirements established, and services or resources provided, by the network.

Paragraph 63(b) requires the audit firms within a network to “understand whether the network’s remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s)”. We note that the extent to which an audit firm may arrive at their conclusions about effectiveness or remediation and plans implemented at a network level (when not directly part of the process) will be dependent on the level and quality of information received from the network on a timely basis. However, the ED does not explain what would be considered ‘undue reliance on network requirements or network services’ as described in Explanatory Memorandum paragraph 77.

Mazars USA LLP

Response: Overall, we support the proposals addressing networks. We have some concerns about the most efficient and effective way to manage implementation in smaller member firms, to avoid duplication and as well as over reliance by member firms on the network.

MGI Worldwide

Response

We are pleased with the statement in paragraph 14 that reiterates that “the firm remains responsible for its system of quality management” regardless of whether the firm uses network services or complies with network requirements.

Our network provides few network services directly to firms in relation to quality management and the network requirements reflect the wide-ranging regulatory locations and sizes of member firms in being
lighter-touch. There is a greater focus on local regulatory and firm-level quality services and requirements as a result.

We do undertake quality assurance review of member firms on a cyclical basis but those reviews are NOT designed to provide reasonable assurance regarding compliance with existing ISQC 1 or ISAs nor the proposed new standards (see paragraphs 59 and 60). Our communication with member firms will need to reiterate how these reviews (and the associated self-assessment questionnaires which firms complete annually) can fit into their firm-level responses and what other reviews or monitoring would be needed. We would look at revising the self-assessment quality questionnaires, which may be used by firms incorrectly to “confirm” their annual compliance with quality management principles.

We will work with members to aid their compliance with paragraph 41(c)(ii), in respect of improving communication (in respect of the extent of the communication and the matters to be communicated) within the network, as this is an area we consider needs improvement. Although we have implemented a formal feedback mechanism for members to use on other members, there is an apparent reluctance to use it and this means that communication amongst network members can be informal and anecdotal, which does not always lead to improved quality outcomes.

We note the requirement in paragraph 61 that will require “The firm shall, at least annually, [to] obtain information from the network, about the overall scope and results of the monitoring activities across the network firms’ systems of quality management and:

(a) Consider the effect of such information on the nature, timing and extent of the monitoring activities that need to be undertaken by the firm; and

(b) Communicate the information to personnel to the extent that it is relevant to their responsibilities such that personnel take prompt and appropriate action in accordance with their responsibilities (including as it relates to the performance of engagements).”

We will look at how we can provide appropriate feedback on the network’s systems of quality management, other than a summary of the results for the previous review year which are provided at our Global AGM in October each year. We are unsure whether the required response envisages a member firm being informed of the assessed quality outcomes for another member firm (currently based on a quality rating system) or whether the overall results for the latest review years will be sufficient. More guidance here would clarify matters.

Moore Stephens International

Response: We would have preferred to see more explicit requirements directed at networks since these are already inferred by some regulators. The proposed requirements may make the situation even more confused and inconsistent. We do not disagree with the principles behind the proposals, the issue is that they are only one half of the equation. There is currently no ‘standard way’ in which networks operate, since there are no explicit requirements in standards, and we are concerned that quasi requirements may be inferred inconsistently between jurisdictions.

Nexia Smith & Williamson

Whilst we understand the need for the proposals, we question how the requirement in paragraph 63(b) would work in practice. It is difficult to see how an individual firm can understand whether the network’s remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s), unless they were provided with full detail about how the network arrived at its conclusions. This
would place a significant additional time and cost burden on individual firms and on the network. It should also be borne in mind that some networks do not impose common audit methodologies upon their members.

We would also encourage the IAASB not to impose requirements on networks via the “back door” of individual firms. If the requirement in paragraph 63(b) is kept, it should be imposed on the networks directly, with suitable application guidance.

**PriceWaterhouseCoopers**

The proposal on networks are reasonable. Given the wide range of network structures and differing laws and regulation that exist globally, it would be impracticable to establish requirements directly applicable to networks. We, therefore, support the proposed approach adopted in addressing the use of network requirements and services such that a member firm of a network is responsible for evaluating the use of requirements or services provided to it by the network and whether they need to be amended or supplemented to be appropriate for use in the firm's SoQM. In our view, this strikes an appropriate balance between preventing undue reliance and recognizing the potential benefits to quality of a firm being part of a network with a strong quality management focus and consistent policies and procedures.

There are circumstances, however, where there may be requirements or services provided, not by a central network function, but by a regional function or individual member firm within a network that are used by other member firms within the network. We suggest the standard needs to more explicitly clarify that such requirements or services are within the scope of this section of the ISQM in order to avoid inconsistent understanding. In our view, there is greater risk of quality risks arising from such arrangements than services provided “directly” by a dedicated global network function. It would be useful for the application material to highlight such scenarios.

As noted in our responses to questions 1(c) and 2, this area of the standard will benefit from implementation support materials, given this is an entirely new concept. Providing examples, for both audit and other non-audit services within the scope of this standard, that illustrate relevant considerations for how such network requirements or services may interact with the firm’s risk assessment process related to components of the firm’s SoQM, how a firm may think about evaluating the effect of those requirements and services, and examples of the types of matters that might be communicated, will in our view be helpful.

**Paragraphs 58-63 Network Requirements or Network Services:**

Paragraph 58 Scope (refer to our response to question 13): We suggest the standard needs to explicitly clarify that regional developed or individual firm-to-firm services are within the scope of these requirements, to avoid inconsistent understanding. Implementation support materials, for both audit and other non-audit services within the scope of this standard, will be important in this area.

Networks requirements and services and service providers - We believe that the standard needs to explicitly clarify that regionally developed, or individual network firm-to-network firm, services are within the scope of the network services requirements in order to avoid inconsistent understanding. Similarly, with respect to service providers, further clarity and guidance are needed on the scope of services to which these requirements apply, and the extent of the firm’s required responses to quality risks. Otherwise, we fear that there will be inconsistent interpretation and practices emerging. Depending on the scope of application and, therefore, the potentially significant interactions required with external parties, we also believe, the potential costs and benefits of the service provider requirements need to be further assessed. For both these
sections of the standard, clear implementation support materials, addressing both audit and other non-audit services within the scope of this standard, will be important.

Paragraph A193 Network Requirements or Network Services:

We think it would be useful to provide an example of a service provided by one firm within a network to another firm in the network to more explicitly illustrate that such services are also within the scope of the requirements related to network services.

RSM International Limited

Response: Yes, although we suggest that it could be made clear that information regarding trends and common areas of identified deficiencies across the network would normally be anonymized and not name individual member firms.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

We support the IAASB’s proposal to address networks. From a practical point of view, we do not think it is possible to standardize it in any other way. Nevertheless, it does not mean that it will not be burdensome for all firms within a given network to comply with the requirements as set in the proposed quality management standard. The burden will be on smaller network firms to evaluate design and implementation the network’s controls that are operating in other countries. In many cases, firms could struggle in obtaining the relevant information and this situation could create a tension that would not help enhance audit quality.

CA Ireland

Paragraph 14 clearly states that the firm remains responsible for its system of quality management even if part of a network. In practice it is likely that networks will develop standard material to be applied by member firms and as a consequence this may result in member firms defaulting to material developed centrally.

Paragraph 61, and the Application Guidance A195-202, set out requirements that may result in users misinterpreting the extent of information needed to sufficiently perform monitoring and remediation activities across the Network or Network Firms. More clarity on the likely extent of these requirements would be helpful, for example, through the expansion of different scenarios in the “Draft Examples” or FAQs provided by the IAASB.

We believe that it is unrealistic for a firm to carry out the level of investigation and follow up and documentation set out in paragraph 63(b).

Chartered Accountants Australian and New Zealand and ACCA

It is reasonable for firms to be required to understand the network and how this impacts them. However the requirements may be difficult and challenging to implement. Further clarity and guidance on what firms are expected to do and document is required.

CPA Australia

Response: We support the IAASB’s efforts to address the risk that firms place undue reliance on network requirements or network services and to improve the communication and transparency between the network
and network firms. However, the new requirements put significant onus on the network to communicate the system of quality management, and the firm to understand the detail of that system and assess whether it meets the quality objectives. It is not clear the extent to which the firm needs to determine for themselves whether the system is operating effectively, or they can rely on the outcomes of the monitoring process. The proposed requirements could diminish the benefits of being part of a network and will have cost implications for firms.

**IFAC Small and Medium Practices Committee**

Yes, we support the proposal addressing network and the network requirements although we suspect para 61, for example, will be hard to operationalize. However, this should not stop IAASB to consider including a requirement or other mechanism in ISQM 1 given that the Board is of the view that networks would likely need to provide such information to all network firms as a response to the proposed standard, going forward.

**Illinois CPA Society**

Response: Yes, we support the proposals addressing networks. We do believe the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services. However, we believe smaller firms have challenges in complying with this ED

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

The proposed requirements in paragraph 61 are necessary to prevent undue reliance on networks but they will be hard to operationalise consistently.

Firms will not welcome the need to assess the effectiveness of systems applied at a network level not least because there may be no established mechanism for doing this, and because they will have to consider how they perform the evaluation. That might involve the development of criteria which may or may not already exist at the network level, and a mechanism for dealing with adverse findings.

The requirements effectively ask the firm to assess work performed at network level for network purposes, or to re-perform work already performed at network level. This has cost and administrative implications, even for firms with well-established and transparent quality management systems at the network level. Difficulties will arise if the firm has reason to disagree with internal findings, or to suspect that monitoring activities have not been performed effectively, or if information is simply not made available.

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

We support the IAASB’s proposal to address networks. From a practical point of view, we do not believe it would be possible to standardise the requirements in another way. Nevertheless, it does not mean that it will not be burdensome for all firms within a given network to comply with the requirements as set out in the proposed quality management standard. The burden will be on firms to evaluate, design and implement the network’s controls operating in other jurisdictions. In some cases, firms may struggle to obtain the relevant information and this situation could create tension that will not help enhance audit quality.

**Institute of Singapore Chartered Accountants**

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

South African Institute of Chartered Accountants

SAICA is in support of the proposals addressing networks.

The standard is clear in stating that the firm remains responsible for its SOQM, including professional judgements made in the design, implementation and operation of the SOQM. This requirement should result in the concern relating to firms placing undue reliance on network requirements or network services being addressed. Although in the minority, we did experience a sense that certain firms will still sit back and wait for global network firms to distribute the updated network policies or procedures that incorporate the new and revised requirements relating to quality management.

One area that needs to be clarified relates to firm having to understand certain requirements. It is not clear what is meant by this and how the firm demonstrates compliance with this requirement.

A question in terms of where the requirements are for the network firm to ensure that quality is consistently applied across the network was raised. The initial thought was that perhaps the requirements are imposed the wrong way around, in putting the responsibility on the firm (at the lower level) and not on the top level. In reading ED-ISQM 1 with the understanding of the concern that is being addressed, we are satisfied that it is clear that requirements relate to the individual firm and appropriately so. There, however still seems to be an element missing, relating to quality management at network level. Perhaps the ED-ISQM 1 is not the appropriate place to address this but it is our view that this is still a concern that the IAASB should consider further.

Wirtschaftspruferkammer

We support the proposal to address networks however it will be burdensome for all firms within a network to comply with the requirements.

Q13 - Disagree

3. National Auditing Standard Setters

Chinese Institute of Certified Public Accountants

We think there is over-reliance on the network provided guidance at the firm level without considering local situation and take responsibility to design, implement and operate the system of quality management to meet local regulator expectations. In paragraph 14 of EDISQM 1, we fully agree the firm remains responsible for its system of quality management when considering and implementing network provided guidance and using network provided services. However, the standard does not explicitly state that the firm needs to design, implement and operate system of quality management at firm level based on local considerations such as laws, regulation, oversight framework, and market environment (bottom up approach). We are concerned that the firms will place undue reliance on network provided guidance (top down approach) without doing proper assessment at local level. The firm is evaluated by local regulators on the effectiveness of quality management, therefore, it is important for the standards to be clear that firm
should perform both top down and bottom up approaches in designing, implementing and operating the firm’s system of quality management.

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

However, we have the following concern. We consider that the requirements relating to the network and the service providers are too substantial to implement. The requirements do not seem to be sufficiently scalable. It seems cumbersome for firms in networks or using service providers to require to get a deep understanding of what is documented at the network or service provider level.

We support in principles the IAASB’s proposal to address networks. We understand the aim of the new requirements that is to improve the robustness of the firm’s responsibilities for the network requirements or network services, so that the firm understands the network requirements or network services and the effect they have on the firm’s system of quality management. However, we consider that the proposed requirements are too difficult and impractical to implement. We also believe that such requirements will generate duplication in work.

4. Accounting Firms

Grant Thornton International Limited

We understand the rationale for the inclusion of requirements relating to the firm’s use of network requirements and services and agree that it is important to achieving quality that firms do not place undue reliance on services and resources provided by the network. Our concern lies in the focus and the extent of the proposals.

We agree that the individual firm should be responsible for its own system of quality management, however, we do not agree with treating the network in the same way as a service provider in this respect. Unlike a service provider, a network shares the same reputation as the firms within the network and has a vested interest in promoting quality within the individual member firms. Arguably, the risks to quality are more extensive at firms that do not have access to the extensive resources a network can provide, yet the standard appears to be placing a larger burden on firms that participate in the benefit of these resources.

The proposals require firms to understand the network requirements, services and resources and any responsibilities that the firm itself may have to implement the requirements or use the services and resources. The related application material provides examples of the types of inquiries and documentation that the firm may consider in performing its assessment, but it provides little or no guidance on the extent of the assessment that the firm should perform, nor the extent of the documentation required to evidence that the firm has performed the assessment. We would recommend that such guidance be incorporated into the proposed standard to guide firms in determining what they need to have in place to fulfil the requirements of the standard.

We are also concerned that introducing such requirements extends the scope and authority of the proposed standard beyond firms that provide audits or reviews of financial statements to those firms in the network that just perform compilation or agreed-upon procedures engagements. Refer to our response to question 1(c) above, where we recommend that consideration be given as to whether ED ISQM 1 should be extended to those firms that only perform such engagements, or whether a modified version of ED ISQM 1 might be appropriate for those firms.
Mazars

Response: No, the proposal should be extended and adapted to the structure of the networks. It may be difficult to provide the detailed information regarding the design and implementation of global tools and applications to all member firms of the network. This will create significant duplication of documentation across the network firms.

Q13 - Unclear

1. Monitoring Group

International Association of Insurance Supervisors

Quality of management at an audit firm network level

Many insurers and other organisations are audited by firms that are part of a larger audit network. In such cases, the quality management systems and processes that are established at the network level have a direct impact on the quality of audits by firms within the network. For these reasons, it is important that quality management systems and processes at the network level are within scope of audit inspections. This would help to ensure that the network contributes appropriately and positively towards audit quality.

In order to increase the effectiveness of such network inspections, the IAASB should give further consideration to whether requirements can be enforced against networks of audit firms. If this is not possible, the IAASB should consider whether weaknesses in the systems and processes of the audit firm network can give rise to enforcement action against audit firms collectively that are part of that network.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

In addition to external monitoring, networks also provide services to local firms, and a distinction is drawn in the exposure draft between the services they provide to the firm and the services provided by an external party. The requirements to understand and assess the network’s services (58, A197-198) are approached differently to those of external services providers, and we are unclear why this is the case when the nature of both are the same.

3. National Auditing Standard Setters

Institut Der Wirtschaftsprufer

We support paragraph 79 in the explanatory memorandum that the firms are held solely responsible for their QMS and not the network. However, this thought needs to be laid down in the standard, preferably in the application material.

6. Member Bodies and Other Professional Organizations

California Society of CPA's

Paragraphs 58-63 and A192-A204- We think this may make it very tough for members of networks to place any real reliance on other members being in compliance with network requirements.
Institute of Independent Auditors of Brazil (IBRACON)

Networks are important sources of methodologies, policies and procedures and set a base to build a system of quality management. However, we also consider it is always important to adapt for the circumstances of each firm in its jurisdiction, including new requirements when needed.

Additional comments on networks

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

The distinctions between the definitions of an engagement team, network and service provider are also unclear and could lead to misunderstandings and challenges in identifying and assessing risks. For example, should service delivery centres supporting the engagement team be viewed as a network service, an external service provider or part of the engagement team? We recommend that these terms be further refined.

4. Accounting Firms

EY Global Limited

Paragraph 19(k)

The application material for networks in paragraph A13 says “in all cases networks are external to the firm” which contradicts the application material for service providers in paragraph A205 which says, “The service providers used by the firm include individuals or organizations that are external to the firm, excluding networks, network firms or other structures or organizations in the network.”

Our recommendation is for A13 to be rewritten to say “networks are external to the firm; however, are not considered as service providers” to avoid confusion.

Paragraph A196

We believe paragraph A196 should be deleted as it repeats the requirements included in paragraph 41(c) and does not add any new information.

Grant Thornton International Limited

Paragraph 61 of ED-ISQM 1 includes a requirement for firms to obtain and communicate the results of monitoring activities across the network firms’ system of quality management at least annually. We are of the view that “at least annually” may become the default communication time period, and depending on the results of the monitoring activities, a timelier communication may be appropriate. We would recommend that this requirement is amended to include the need for more timely communication should a matter arise that would warrant more immediate communication.

PriceWaterhouseCoopers

Paragraph 61 - The comma after “network” should be deleted.

6. Member Bodies and Other Professional Organizations

California Society of CPA's
As an aside, paragraph 203 says paragraph 42 includes networks requirements, but paragraph 42 is actually silent about networks. Possibly paragraph 42 should be edited to specifically mention networks with a reference to the more detailed guidance.

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

Para A202: we consider the language here confusing. Should it be ‘...for example, when a network firm performs work for the firm’s engagements, such as in the capacity of a component auditor.’?

**South African Institute of Chartered Accountants**

Networks

With respect to the definition of Networks, a question was raised around what is meant by the term larger in the definition of network (paragraph 19 (k)). Although the definition has not changed and the intention is to keep this definition aligned with that contained in the International Code of Ethics for Professional Accountants, there was a question around the meaning of the word larger and the implications that this will have on the requirements in relation to a network. If the network is not considered to be large, does this then mean that this is not a network as defined and therefore does not need to comply with the considerations relating to networks? It is our suggestion that this be expanded on in the application material of ED-ISQM 1.

**Harmonization or coordination with other jurisdictions**

**4. Accounting Firms**

**Deloitte Touche Tohmatsu Limited**

Consistency of global standards

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

**PKF International Limited**

Harmonization with other jurisdictions – we encourage the IAASB to maintain communications on harmonization of global standards on quality management with other standard setters in those countries and jurisdictions in which the ED-ISQM 1 would not be directly applicable, for example the USA. Additionally, we encourage the IAASB to provide related guidance for global networks and for ISQM 1 compliant firms which may intend to use a non-ISQM 1 firm as a component auditor in a group audit engagement. Such guidance should be aimed at helping networks and firms better understand both the risks to their own compliance with ISQM 1 which could arise through interactions with non-ISQM 1 firms, as well as how to design and implement acceptable responses to mitigate those risks.

**PKF South Africa**

Harmonisation with other jurisdictions – we encourage the IAASB to maintain communications on harmonisation of global standards on quality management with those countries and jurisdictions in which the
ED-ISQM 1 would not, or may not, be directly applicable, for example the USA. Additionally, we encourage the IAASB to provide related guidance material for use by global networks and by ISQM 1 compliant firms which may intend to use a non-ISQM 1 firm as a component auditor in a group audit engagement. Such guidance should be aimed at helping networks and firms to better understand both the risks to their own compliance with ISQM 1 which arise from interactions with non-ISQM 1 firms, as well as how to design and implement acceptable responses in mitigation to these risks.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

For ED-ISQM 1 and its application in an SMP environment, coordination with national standard setters could be of great value as each jurisdiction might develop a tool to help smaller firms to put in place a system of quality management.

New York State Society of CPAs

Response: We support the new quality management approach, but we suggest consideration be given to adding guidance and examples. We welcome continued guidance from the IAASB that will assist and support firms in the implementation and maintenance of these standards in their international practices and serve as a model for the United States (US), and other national standards setters.