

ED-ISQM 1: Question 5 - Objective of the System of Quality Management and Firm's Role Relating to the Public Interest

Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?

[Note: for the purposes of the Nvivo analysis, responses on this question were separated between the first part of the question and the second part. The report below therefore separates the responses into "Q5" and "Q5A"]

Q5 - Do you support the objective of the standard, which includes the objective of the system of quality management?

Q5 - 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:

That the "purpose of a system of quality management is to support the consistent performance of quality engagements" (Exposure Draft (ED)-ISQM1 paragraph 7)). The Committee notes that the International Forum of Independent Audit Regulators' (IFIAR's) 2017 inspection findings report said that "the global networks must continue in their efforts to strengthen their systems of quality control and drive consistent execution of high quality audits throughout the world". Consistent, high-quality audits are very much in the public interest, particularly for banks.

2. Regulators and Audit Oversight Authorities

National Association of State Boards of Accountancy

We support the objective of the standard, which includes the objective of the system of quality management.

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports the objective of the standard and notes that paragraph 7 of ED-ISQM 1 provides clarity on the relationship between the purpose of a system of quality management serving the public interest by supporting the performance of quality engagements.

Canadian Auditing and Assurance Standards Board

Yes. We support the objective of ED-ISQM 1.

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

We support the objective of the standard which includes the objective of the system of quality management.

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

We support the objective of the standard.

Hong Kong Institute of Certified Public Accountants

We support the objective of the standard that an effective system of quality control provides the foundation for the approach to achieving consistent engagement quality.

Kammer der Steuerberater und Wirtschaftsprüfer

Yes, we support the objective of the standard.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

The objective of the standard and the objective of the system of quality management is clear.

4. Accounting Firms

CAS International

The objective of the standard and the objective of the system of quality management is clear.

Crowe Global

We support the objective of the standard and the supporting objectives of the system of quality management.

Deloitte Touche Tohmatsu Limited

DTTL is supportive of the objective of the standard and agrees with how the standard explains the firm's role relating to the public interest.

Duncan and Topliss

R5: We agree with the objective. It clearly states the quality management objective and how this will improve and maintain the quality of firms using it.

Again yes, the standard clearly demonstrates how the objective supports the firm's role relating to the public interest. Higher quality audits – correct reports being issued – public has more confidence in the outcome of an audit.

ETY Global

We do.

Grant Thornton International Limited

We are supportive of the objective of the standard, except in its application to firms that only perform compilation engagements or agreed-upon procedures engagements. (See our response to question 1 above). We are further supportive of the objective of the system of quality management being included within the objective. In our view this provides a more comprehensive description of the expected outcome of compliance with the proposed standard.

Haysmacintyre LLP

yes

KPMG IFRG Limited

We support the objective of the ED.

Mazars

Yes, we support the objective of the standard and how the standard relates to a firm's public interest role.

Mazars USA LLP

Yes, we support the objective of the standard.

MNP LLP

Yes, we support the objective of the standard.

Moore Stephens International

Yes.

Nexia Smith & Williamson

Yes, we support the objective of the standard.

5. Public Sector Organizations

Auditor General South Africa

Yes, we do support the objective of the standard, which includes the objective of the system of quality management as the achievement of these objectives will signify an effective system of quality management.

Australasian Council of Auditors General

Yes, ACAG supports the objective of the standard, including the objective of the system of quality management.

International Organization of Supreme Audit Institutions

We support the objective of the standard.

National Audit Office of Malta

Objective of the standard agreed with.

Office of the Auditor General of Alberta

We support the objective of the standard and agree that paragraphs 7-13 provide sufficient detail of the firm's role in relation to public interest

Office of the Auditor General of Canada

We support the objective of the standard.

Provincial Auditor Saskatchewan (1)

Yes, we support the objective of the standard,

Swedish National Audit Office

Yes.

US Government Accountability Office

We support the objective of the standard, including the objective of the system of quality management. With regard to the standard explaining the firm's role relating to the public interest, we believe that the language in the proposed standard is sufficient. The references in paragraph 7 and application guidance in paragraph A2 link the standard's objective to the firm's public interest role.

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 objective of the standard and note it is very similar to the objective of extant ISQC 1.

CA Ireland

Yes, we support the objective of the standard, which includes the objective of the system of quality management.

California Society of CPA's

Yes (paragraph 18).

Chartered Accountants Australian and New Zealand and ACCA

We broadly support the objective of the standard.

Comision Interamericana de Control de Calidad de la AIC

We support that you include the objective of the quality management system.

Comite Control de Calidad del ICPARD

Yes, we do.

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

CNDCEC supports the objective of the standard (similar to the objective already provided in the ISQC 1 currently in force).

CPA Australia

Yes, we are supportive of the objective to design, implement and operate a system of quality management and the objectives of that system.

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

IAB-IEC supports the objective of the standard.

Institute of Chartered Accountants in England and Wales

We support the objective of the standard, however, we believe that there will be inconsistencies in the interpretation of which entities are of 'significant public interest'. Many commentators thought the category unnecessary.

Institute of Chartered Accountants of Pakistan

As noted earlier we have concerns on the implication of enhanced quality management requirements of the proposed standard on the SMPs (including sole practitioners). However, we support the objective of the standard, which includes the objective of the system of quality management and we also agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role.

Institute of CPAs of Uganda

ICPAU supports the objective of the standard, which includes the objective of the system of quality management. ICPAU agrees that firms should design, implement and operate systems of quality management designed to ensure that the firms' operations are conducted in accordance with professional standards and applicable legal and regulatory requirements and that the engagement reports issued are appropriate in the circumstances.

ICPAU agrees that the overall objective of quality management is clearly illustrated by the objective of the ED ISQM 1.

Institute of Independent Auditors of Brazil (IBRACON)

Yes, we support the objective of the standard. However, the introductory paragraph 7 may explicit contain the indication of IESBA Code where professional accountants have a responsibility to act in the public interest and as a result, the consistent performance of quality engagements is integral to a firm's responsibility to act in the public interest.

Instituto de Censores Jurados de Cuentas de España

Yes. The objective of the standard (Para. 18) is clearly described.

Malaysian Institute of CPAs

Yes.

New York State Society of CPAs

We support the objective of the proposed standard.

Royal Institute of Chartered Surveyors

Yes, we support the aim of the standard.

Self-Regulatory Organization of Auditors Association

Yes

Wirtschaftsprüferkammer

We basically support the objective of the standard.

9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

Yes

We support the objective of the standard including the objective of system quality management, the standards explain very well in the introductory stage the firm's role relating to the public interest.

Vera Massarygina

Yes

Q5 - Agree but with further comments

1. Monitoring Group

International Forum of Independent Audit Regulators

As audit regulators, we believe that consideration of the public interest, including the needs of investors and other users, should drive the projects to enhance auditing standards. We strongly support references in the exposure draft to the auditor's responsibility to act in the public interest. However, we continue to believe that the objective of ISQM 1 should refer to the public interest recognising the firm should act in a manner consistent with its responsibility to the public interest, including considering the needs of investors and other users.

International Organization of Securities Commissions (IOSCO)

The IAASB should address the need for a high standard to be required as a minimum threshold.

IOSCO considers that the Board's expectations with regard to the auditor's appropriate responsibility for quality are considered to be of a high level and, thereby, the level of assurance could be increased from just being 'reasonable'.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (South Africa)

The explanatory memorandum and ED-ISQM 1 refer to the objective of the standard, the objective of the firm and the objective of the system of quality management. Reference to "objectives" in different contexts adds complexity to the standard. It is recommended that these objectives be consolidated into one objective, which should feature early in the standard.

We recommend that the objective should also refer to the public interest. The firm should demonstrate that it has acted in the public interest, considering the needs of stakeholders.

3. National Auditing Standard Setters

AICPA

We support the objective of the standard; however, we believe that the related explanations in the standard can be improved.

The relationship between the objective of the firm and the objective of the system of quality management is very clearly explained in paragraphs 16-18 of the Explanatory Memorandum but is not explained in the standard. We suggest the following revision to paragraph 7 of ED-ISQM 1 to incorporate this explanation:

Paragraph 7 **The objective of the firm, as stated in paragraph 18, is to design, implement and operate a system of quality management.** ~~The purpose of a system of quality management is designed to support the consistent performance of quality engagements, by providing~~ **provide** the firm with reasonable assurance that the objectives of the system, stated in paragraph 18(a) and (b), are achieved. ~~The objectives of the system of quality management support the consistent performance of quality engagements, which serves the public interest is served by the consistent performance of quality engagements.~~ Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and

applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism. (Ref: Para. A2–A4)

Japanese Institute of CPAs

Objective of ED-ISQM 1

We support the description in paragraph 18. However, without reading the explanation in paragraphs 16 and 17 of the Explanatory Memorandum, it is difficult to understand that the objective of ED-ISQM 1 consists of the objective of the firm and the objective of the system of quality management. Accordingly, we suggest the following changes:

" 18. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm~~;~~

The objective of the system of quality management is to ~~that~~ provides the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances."

In addition, we believe that it is difficult to distinguish the following similar wordings which are used in the Explanatory Memorandum and ED-ISQM 1:

- "The objective of the system of quality management" (singular "objective"): To provide the firm with reasonable assurance of the matters described in paragraphs 18(a) and (b) (the charts in paragraphs 16, 27, 31 and 37 of the Explanatory Memorandum, and paragraph 18 of ED-ISQM 1)
- "The objectives of the system of quality management" (plural "objectives"): The statements in paragraphs 18(a) and (b) (paragraph 17 of the Explanatory Memorandum, and paragraphs 7, 10(a) and 12 (last sentence) of ED-ISQM 1)
- "The purpose of a system of quality management" ("purpose"): To support the consistent performance of quality engagements, by providing the firm with reasonable assurance that the objectives of the system, stated in paragraphs 18(a) and (b), are achieved (the first sentence of paragraph 7 of ED-ISQM 1)

For the sake of clarity, the wordings "the objectives of the system of quality management" and "the purpose of a system of quality management" should be changed to other appropriate wordings. For example, with respect to paragraphs 7, 10(a) and 12 of ED-ISQM 1, we suggest the following changes:

"7. ~~The purpose of a system of quality management is to support~~ the consistent performance of quality engagements, by providing the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances. ~~the objectives of the system, stated in paragraph 18(a) and (b), are achieved.~~

The public interest is served by the consistent performance of quality engagements. ~~Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements.~~ Achieving

~~quality engagements the objectives of those standards and complying with the requirements of applicable law or regulation~~ involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism. (Ref: Para. A2–A4)

...

10. In taking a risk-based approach to quality management, the firm applies the firm's risk assessment process to the other components. The firm's risk assessment process consists of:

- (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with achievement of ~~reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved...~~

...

12... The monitoring and remediation process provides information that is the basis for the evaluation of whether the ~~objective of the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.~~"

New Zealand Auditing and Assurance Standards Board

As New Zealand's national standard setting board, the NZAuASB supports the standard stating the objective of the firm as being to design, implement and operate a system of quality management which, as a key contributor to audit quality, is in the public interest. Capturing this notion is critically important, especially in the current global environment where, in many jurisdictions, there are perceptions of inadequate audit quality and insufficient means of measuring quality in a comprehensive way (including at the firm and engagement level). A strong and measurable system of quality management at both the firm and engagement level has an important part to play in restoring trust in the value of audit.

In particular, the NZAuASB is supportive of an objective that is focused on the process of designing, implementing and operating a system of quality management in the public interest. In the Board's view it is essential that the standard explains clearly what the firm's public interest role is and provides clarity about the objective of quality management to be achieved. To achieve this, the NZAuASB recommends that the formulation of the objective be more explicit in linking the objective of the firm and the system of quality management to serving the public interest.

As New Zealand's national standard setting board, the NZAuASB also supports the standard stating the objective of the firm as being to design, implement and operate a system of quality management which, as a key contributor to audit quality, is in the public interest. Capturing this notion is critically important, especially in the current global environment where, in many jurisdictions, there are perceptions of inadequate audit quality and insufficient means of measuring quality in a comprehensive way (including at the firm and engagement level). A strong and measurable system of quality management at both the firm and engagement level has an important part to play in restoring trust in the value of audit.

To ensure that the proposals, as a whole, operate in the public interest, the NZAuASB recommends:

- Avoiding a focus on the outcome of the process. We recommend that both the objective and the requirements within the proposals should focus on the process of designing, implementing and operating a quality management system, rather than on the outcome of the process. We consider there may be unintended consequences of overly granular requirements in the proposals that focus on the outcome of the system of quality management. This is explored further in response to question 6(b).

4. Accounting Firms

BDO International

Objective section

Yes, we are broadly supportive of the objective of ED-ISQM 1.

Specifically, we are supportive of the clarification provided in the objective (over and above what is stated in extant ISQC 1) that the system of quality management is directed towards ‘audits or reviews of financial statements, or other assurance or related services engagements performed by the firm...’ as this provides much needed confirmation to stakeholders and firm management as to which service lines are likely to be subject to the ED-ISQM 1 requirements. This confirmation was absent, as per our earlier comments, in the scope section. We also support linking the objective with other public interest concepts such as ‘social responsibility’ (in paragraph A26).

We also support the extension of part (a) to include ‘...and conduct engagements in accordance with such standards and requirements...’ on the basis that this emphasises the importance of behavioural changes as it applies to engagements. The clarification in part (b) towards ‘engagement reports’ rather than just ‘reports’ in extant ISQC 1 is also a welcome change. We also continue to support ED-ISQM 1’s emphasis on ‘reasonable assurance’ rather than ‘absolute assurance’ which acknowledges there are potential limitations of all systems of quality management and that uncertainties and risks may exist that cannot be predicted.

We note that in the ED-ISQM 1 the wording part (a) of the objective refers to:

‘The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements...’

This gives rise to a question about whether the word ‘applicable’ should be repositioned to say ‘...all applicable professional standards and legal and regulatory requirements...’ to reflect that some professional standards may not apply in certain jurisdictions.

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.

While we understand that the current construction of IAASB objective statements across all standards is to inform the reader that the ‘objective of the firm/auditor/engagement team is to do [X]...’ – this does create an impression that the IAASB is prescribing how firms or others should run their business at a detailed level. This is an issue that had a wider impact – but in ED-ISQM 1 which is so evidently directed to working practices of firms and exercising of professional judgement – it may have been an opportunity to break with previous approaches and to focus instead of ‘...the objective of firms in applying this standard...’.

EY Global Limited

We support the objective of the standard and understand that the objective of the firm, in the context of the standard, is to design, implement, and operate a system of quality management that achieves the objectives

for the system of quality management. We believe that the supporting explanation of the relationship of the objective of the firm and the objective of the system of quality management is very clearly stated in paragraphs 16 and 17 of the explanatory memorandum. We recommend adding the text from paragraphs 16 and 17 of the explanatory memorandum that clarifies the objective of the firm and the objective of the system of quality management to either the introductory paragraphs or the draft frequently asked questions (FAQ) materials, which could also include the supporting graphic.

Kreston International

The overall objectives of the standards as set out in paragraph 18 (a) and (b) are appropriate. The language of the standard is confusing Paragraph 19(a)(i) refers to “A quality objective required to achieve the objective of this ISQM is not established”, this multiple use of the term objective does not make the standard clear. There is a risk that the overall objective of the ISQM is diluted by a focus on the objectives of the components of the quality management system.

PKF International Limited

We support the objective of the standard, but in our view the standard could be improved by expanding on the definition of “reasonable assurance”, which is a term that is integral to the objective of ED-ISQM 1. The concept of “reasonable assurance” is included within paragraph 18 of ED-ISQM 1, and this paragraph, more widely, sets out the overall objectives of the standard.

In practice, it will be important that firms adopt a consistent understanding of “reasonable assurance” but we are concerned that the definition of “reasonable assurance” in ED-ISQM 1 is too brief to allow for consistency. Consequently, we recommend the definition is expanded to reduce the risk of diverging interpretations and to promote consistent application.

Please also refer to our response below to Question 12 (e), which further addresses our concerns regarding the concept of “reasonable assurance”.

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.

PKF South Africa

We support the objective of the standard, but in our view the standard could be improved by expanding on the definition of “reasonable assurance”, which is a term that is integral to the objective of ED-ISQM 1.

The concept of “reasonable assurance” is included within paragraph 18 of ED-ISQM 1, and this paragraph, more widely, sets out the overall objectives of the standard. In practice, it will be important that firms adopt a consistent understanding of “reasonable assurance” but we are concerned that the definition of “reasonable assurance” in ED-ISQM 1 is too brief to allow for consistency. Consequently, we recommend the definition is expanded to reduce the risk of diverging interpretations and to promote consistent application.

Also refer to our response below to Question 12 (e), which further addresses our concerns regarding the concept of “reasonable assurance”.

PriceWaterhouseCoopers

We support the objective of the standard.

Comparing the proposed objective with that proposed in ISA 220 (Revised) with respect to quality at the engagement level, we note one element of inconsistency. ISA 220 (Revised) states that “the objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved, such that.....”. Although implicit in the proposed ISQM 1 objective, a similar construct could be applied here, to bring consistency between these two interrelated standards, by amending the objective thus:

“The objective of the firm is to manage quality at the firm and engagement levels, through designing, implementing and operating a system of quality management.....”

While we support the overall objective of the standard, we have concerns with the proposed quality objectives within each component (see our response to question 6).

Paragraph 18 Objective (refer to our response to question 5):

- We recommend the standard’s objective be made consistent with the objective in proposed ISA 220 (Revised) by adding reference to managing and achieving quality.

RSM International Limited

We agree with the objective of the standard. The relationship between the objective of the firm and the objective of the system of quality management is very well explained in paragraphs 16-18 of the Explanatory Memorandum. We believe this should be added to the standard through revisions in the introduction section or application guidance.

5. Public Sector Organizations

Office of the Auditor General New Zealand

We also find the reasonable assurance threshold to be not sufficiently articulated for a system of quality management framework. The use of the term reasonable assurance in the proposed standard is the same as is used for assurance engagements. We recommend the definition used in the proposed standard be enhanced so that it uses some of the content of paragraph 18 in the Explanatory Memorandum, which notes reasonable assurance is obtained through the operation of the system as a whole and is tied back to the objectives of the system of quality management.

We are also concerned that the current wording in the standard may imply that the firm exists for the purpose of designing, implementing and operating a quality management system, which is not necessarily the case.

We support the objective of the standard. The term “public interest” is widely used, and may mean different things to different people, therefore it may be helpful if the standard was accompanied by guidance material which clearly defines and explains what is meant by the use of the term “public interest” in an audit and assurance context. In our view this would help ensure the standard remains applicable in the longer-term, by making it clear how practitioners are to exercise judgements at every stage of an engagement. We recommend that the objective be more explicit in setting out or linking how the objective of the firm and the system of quality management relates to serving the public interest.

Paragraph 18 states that “the objective of the firm is to design, implement and operate a system of quality management...” The current wording implies that the firm exists for the purpose of designing, implementing

and operating a quality management system. This paragraph should be reworded to reflect that the objective relates to the firm's quality management, not to its *raison d'être*. Adding "in the context of this standard" as used in paragraph 16 of the Explanatory Memorandum to ED-ISQM 1 would resolve this.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality

We support the objective of ED-ISQM 1, including the objective of the system of quality management.

We encourage the Board to include paragraphs 16 and 17 (including the graphic) of the Explanatory Memorandum to ED-ISQM 1 in the application material or FAQ materials to support paragraph 18 of ED-ISQM 1.

Illinois CPA Society

We support the objectives of the standard and believe a reference to acting in the public interest should be explicitly referred to in the objective of the standard. Firms have a responsibility to act in the public interest (para. 7).

Institute of Chartered Accountants of Scotland (ICAS)

We would seek greater clarity in relation to the objective in paragraph 18(a). This states that 'The firm and its personnel fulfil their responsibilities....'. We ask the IAASB to consider whether there is also a need to include a specific reference in the objective to persons who are also involved in engagements but are not personnel of the firm.

Nordic Federation of Public Accountants

We support the objective of the standard. However, the structure of the standard consists of objectives on different levels, and we would recommend clarifications throughout the standard about which objective the standard is referring to, for example by clarifying this in the sub-headings or by using italics in the paragraphs.

South African Institute of Chartered Accountants

SAICA supports the objective of ED-ISQM 1.

In relation to objectives, ED-ISQM 1 refers to the purpose of a SOQM, being the consistent performance of quality engagements. In line with the structure of other international standards on auditing, ED-ISQM 1 also contains an objective for the firm to achieve, in this case to design, implement and operate a SOQM that provides the firm with reasonable assurance in relation to the fulfilment of responsibilities and issuing of reports. At face value, the purpose of the SOQM and the objective of ED-ISQM 1 seem clear, but it has been identified as area of unnecessary confusion. To this end, we recommend that the IAASB integrate the purpose of the SOQM in supporting the consistent performance of quality engagements into the objective of ED-ISQM 1.

In line with the recommendation to align the purpose of the SOQM to the objective of ED-ISQM 1, we further suggest that the objective of ED-ISQM 1 makes specific reference to the fact that the public interest is served by the consistent performance of quality engagements

9. Individuals and Others

Shady Fouad Ahmed Mehelba

Yes, I find it appropriate and this objective is aligned with enhancing quality of professional services although some challenges will be probable for SMPs in relation to engagement quality review (judgement segregation of engagement reviewers from audit team and terminology of governance and its relation to quality management component). I recommend to address in each topic the degree of flexibility for SMPs clearly that may increase scalability of the standard from our experience, as well as, for PIE I suggest to emphasize minimum requirements for each quality management component rather than requesting establishing of firm's policies and procedures.

The quality objective should be linked to the degree of accreditation of the profession, so linkage to ethics or reference to maintaining acceptable lower level of firm quality risk in objectives would give adequate understanding to publics, enhance this linkage and emphasize the importance of the changes, also in Para. 18.b term such as "appropriate in circumstances" may be vague or not clear the aim of the changes to publics so we recommend that paragraph adjust as follow :-

Q5 - Disagree

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

14. With respect to the objective of ISQM 1, we question the statement that the quality management system should provide "reasonable assurance" to the firm that it (1) fulfils its responsibilities in accordance with the standards, (2) conducts engagements in accordance with the standards, and (3) reports are appropriate. We are of the view that stakeholders and the public interest would be better served with a more direct and stronger objective such as 'the objective of the firm is to ensure the appropriateness of engagement reports in the circumstances, and that the firm and personnel act in the public interest, in accordance with standards and legal/regulatory requirements'.

Financial Reporting Council United Kingdom

However, there is no reference to public interest in the objective, nor the consistent performance of quality engagements. ISQM1 acknowledges that the SOQM supports the consistent performance of quality engagements (as described in paragraph 7) and we therefore question why this, and the firm's role to serve the public interest, is not addressed explicitly in the objective. We strongly advise the IAASB to consider a revision to the objective so it is clear that an outcome, in designing, implementing and operating the SOQM, is the consistent performance of quality engagements that serve the public interest.

Irish Auditing and Accounting Supervisory Authority

With respect to the objective of ISQM 1, we question the statement that the quality management system should provide "reasonable assurance" to the firm that it (1) fulfils its responsibilities in accordance with the standards, (2) conducts engagements in accordance with the standards, and (3) reports are appropriate. We are of the view that stakeholders and the public interest would be better served with a more direct and stronger objective such as 'the objective of the firm is to ensure the appropriateness of engagement reports in the circumstances, and that the firm and personnel act in the public interest, in accordance with standards and legal/regulatory requirements'.

3. National Auditing Standard Setters

Institut Der Wirtschaftsprüfer

No, we do not support the objective of the standard as noted in the body of our comment letter, to which we refer.

2.1. Overall Quality Objective

The standard does not define a reasonable overall quality objective for firms. Firms of professional accountants provide services involving trust and credibility. Stakeholders are supposed to trust in the credible ability of firms to perform their services to meet their expectations, including compliance with legal requirements and professional standards.

Stakeholder expectations include (objective) expectations regarding compliance with legal requirements and professional standards, as well as (subjective) expectations of certain stakeholders taken into account in the firm's overall strategy and derived the firm's service level agreements with some stakeholders. However, only reasonable stakeholder expectations need to be considered in the firm's strategy. Consequently, the overall objective of the firm needs to be related to its developing and maintaining the capabilities needed to deliver its services to fulfill reasonable stakeholder expectations in relation to quality. A prerequisite for establishing and maintaining such capabilities is for the firm to obtain the appropriate resources needed to develop and maintain such capabilities. It should also be recognized that stakeholder expectations relate not only to the present, but also to the future. To this effect, a system of quality management is only a means to this end.

Hence, in the context of ISQM 1 the objective of the firm should be to obtain and develop the capabilities of the firm needed to obtain reasonable assurance that the firm performs audit or reviews, or other assurance and related services engagements, in accordance with professional standards and applicable legal and regulatory requirements and meets reasonable stakeholder expectations in relation to the quality of those engagements.

Such capabilities include, in particular, a quality culture, appropriately qualified and motivated personnel, and appropriate technology and processes. Operational quality objectives can be derived from the capabilities needed. How these quality objectives ought to be achieved and measured should be the responsibility of the firm's leadership given the applicable circumstances, including those arising from legal and regulatory requirements and professional standards.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

We support an objective of the standard that would be about ensuring that the firm is performing quality work. It would indeed be much more straightforward for the objective to be output orientated and aligned to the individual firm's overall strategy, rather than process orientated.

European Federation of Accountants and Auditors for SMEs

We suggest the IAASB consider an output-based objective of the standard that is, the provision of high-quality services.

Institute of Singapore Chartered Accountants

In reference to paragraph 18, the objective of the firm "to design, implement and operate a system of quality management" is worded like a strategy (i.e. how to achieve the objective) instead of an objective or goal.

We suggest to re-define the objective and separate it from the strategy to keep the objective statement clear and precise.

The firm's objective should include its public interest role. An example of such an objective could be: "to fulfil professional duty and the public interest in providing effective, efficient and timely service".

Q5 - Unclear

1. Monitoring Group

International Association of Insurance Supervisors

There are several other areas where the IAIS believes improvements can be made:

ED-ISQM1 refers to reasonable assurance being obtained when the firm's system of quality management reduces risk to an acceptably low level. The current text would seem to leave it to the audit firm to determine an acceptable level of risk. It should be clarified that this level of risk should be determined in the public interest. This assessment should also have regard to the various stakeholders of the firm – in particular audit, securities and financial services regulators.

3. National Auditing Standard Setters

Royal Nederlandse Beroepsorganisatie van Accountants

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..

We have some questions regarding the objective of the standard. We are aware of the fact that the term "Reasonable assurance" was used in ISQC1. Nevertheless we experience that in reality it is difficult to determine whether a system provides reasonable assurance. In the draft standard, the term "reasonable assurance" relating to the system of quality management has a different meaning than in the ISAs and other standards.

Furthermore, we refer to our remarks above that the system of quality management and the process of improvement are in fact two interrelated objectives that a firm needs to achieve. When and how is reasonable assurance accomplished? Are there specific frameworks that can be considered such as COSO?

A last aspect that we want to bring to your attention is the fact that maintaining the system takes time. Does the system of quality management provide reasonable assurance if deficiencies are identified, but cannot be solved immediately? In our opinion, this is reality in practice. We recommend to recognize this in the standard and allow an acceptable period to solve deficiencies. In the Netherlands firms are given such a period in the local standard as a response to the first experiences.

We believe that acting in the public interest should be explicitly stated in the objective. The public interest should be incorporated in all professional actions and behavior of all employees and partners of the firm. It is the cornerstone of the profession. However, it may not be clear for everyone that appropriately applying the

standards is in the public interest if this is not stated explicitly. Therefore, we recommend incorporating this in the objective in paragraph 18a at the end (...and requirements and thereby act in the public interest).

4. Accounting Firms

Baker Tilly International

We support the shift in emphasis from more reactive Quality Control to a more proactive objective of Quality Management. However, ED-ISQM 1 has a strong focus on the creation of an administrative process but little on the relationship between this administration and execution at the engagement level, i.e. the actual achievement of quality in engagements. As a result, there remains the challenge that a firm may implement an appropriate system of quality management in accordance with the revised system but may still find that individual audits have significant quality findings or indeed, in extreme cases, an audit failure.

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors IBR-IRE

See answer 6, c).

IFAC Small and Medium Practices Committee

We refer to the points as mentioned under (1)(a) and (b) which the SMPC believes need to be better addressed although we do agree that the ultimate objective is to establish an effective QM framework that delivers high-quality services and ensuring the engagement reports issued by the firm are appropriate in the circumstances.

Q5A - Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?

Q5A - Agree

1. Monitoring Group

International Association of Insurance Supervisors

The IAIS is supportive of the work of the IAASB in this area. It is important that suitable standards are in place to ensure that the quality of audits is managed, reviewed and assessed. In particular, the IAIS supports:

- Greater emphasis on the importance of the public interest in managing the quality of audits.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

In part. We strongly support the explanation in paragraph 7 that the public interest is served by the consistent performance of quality engagements, and the further explanation as to how quality engagements are achieved.

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports the objective of the standard and notes that paragraph 7 of ED-ISQM 1 provides clarity on the relationship between the purpose of a system of quality management serving the public interest by supporting the performance of quality engagements.

Canadian Auditing and Assurance Standards Board

We support how ED-ISQM 1 explains the firm's role relating to the public interest. It is clear how achieving the objective of ED-ISQM 1 relates to this role

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

Moreover, we agree with how the standard explains the firm's role relating to the public interest and we consider that it is clear how achieving the objective of the standard relates to the firm's public interest role. We consider that there is no need to explain more about the firm's role relating to the public interest. Paragraph 7 is explicit enough.

Hong Kong Institute of Certified Public Accountants

We agree with how the standard explains the firm's role relating to the public interest by explaining the connection between the public interest and the objective of the standard (paragraph 7 of the ED-ISQM 1).

Institut Der Wirtschaftsprüfer

We do agree that the standard appropriately explains the firm's role relating to the public interest because the purpose of writing an ISQM is to serve the public interest. There is therefore a presumption that, unless there are indications to the contrary, firms that comply with ISQM 1 have met their public interest role. It would be entirely inappropriate to seek to enshrine the public interest role within the objectives or requirements as this would be unenforceable in most jurisdictions of which we are aware because the courts would take the view that laws, regulations and professional standards are written with due consideration of the public interest and therefore firms cannot be expected to "second-guess" these in seeking to fulfill their public interest role. Therefore, meeting the objective of the standard (as appropriately revised as we suggest) would lead to the presumption that the firm has fulfilled its public interest role.

Kammer der Steuerberater und Wirtschaftsprüfer

We think that paragraph 7 is explicit enough and there is no need for more explanation about the firm's role relating to the public interest.

4. Accounting Firms

Crowe Global

It is right to address the firm's role relating to the public interest and to relate the objectives of the standard to the firm's public interest role.

Deloitte Touche Tohmatsu Limited

DTTL believes that paragraph 7 of ED-ISQM 1 clearly outlines the connection between the purpose of the system of quality management and the public interest and how achieving the objective of the standard relates to the firm's public interest role.

Duncan and Topliss

Again yes, the standard clearly demonstrates how the objective supports the firm's role relating to the public interest. Higher quality audits – correct reports being issued – public has more confidence in the outcome of an audit.

ETY Global

We also agree with how the standard explain the firm's role relating to the public interest and how achieving the objective of the standard relates to the firm's public interest role.

EY Global Limited

We agree with how ED-ISQM 1 explains the firm's role relating to the public interest and understand how achieving the objective of the standard relates to the firm's public interest role. The objective for the standard, like the objective for all standards, should be quantifiable and not subjective for the purposes of measuring the firm's achievement against the objective. We believe incorporating the public interest into the objective of the standard would run the risk of inconsistent interpretation and expectation of the system of quality management.

KPMG IFRG Limited

We believe the firm's role related to the public interest is clear and that this is served by the consistent performance of quality engagements. We believe that including the Information and Communications component, encouraging transparency, is a positive step towards enhancing an audit firm's public interest role through more robust communications.

Kreston International

The firm's role relating to the public interest is clear.

Mazars

Yes, we support the objective of the standard and how the standard relates to a firm's public interest role.

Mazars USA LLP

We also agree with how the proposed standard explains the firm's role relating to the public interest. Achieving the objective of the proposed standard clearly relates to the firm's public interest role.

MGI Worldwide

Yes. The explanation of the "public interest" role of the firms is clear, and the examples provided of a client that may be of "significant public interest" is more helpful than the current "public interest entity" focus.

PKF International Limited

We agree with how the standard explains the firm's role relating to the public interest. In our view the standard is sufficiently clear, both explicitly and implicitly, as to how the objectives of the standard relate to the firm's public interest role and it strikes the right balance without being overly prescriptive in this regard.

PKF South Africa

We agree with how the standard explains the firm's role relating to the public interest. In our view the standard is sufficiently clear, both explicitly and implicitly, as to how the objectives of the standard relate to the firm's public interest role and it strikes the right balance without being overly prescriptive in this regard.

PriceWaterhouseCoopers

We consider the description within the standard that "the public interest is served by the consistent performance of quality engagements" to be appropriate. The interpretation of the term "public interest", as with the term "public interest entity" varies across jurisdictions and we do not believe ISQM 1 is the vehicle to seek to address a definition.

5. Public Sector Organizations

International Organization of Supreme Audit Institutions

While ISQM 1 should not be prohibited from referring to the public interest, it is not necessary to do so as public interest is reflected in professional standards, laws and regulations that undergo appropriate due process. The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear.

See also reply to question 1.

Office of the Auditor General of Canada

The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear.

Provincial Auditor Saskatchewan (1)

Yes, we support the objective of the standard, and agree with how the standard explains the firm's role relating to the public interest. We find it sufficiently clear on how to achieve the objective of the standard relates to the firm's public interest role.

US Government Accountability Office

We support the objective of the standard, including the objective of the system of quality management. With regard to the standard explaining the firm's role relating to the public interest, we believe that the language in the proposed standard is sufficient. The references in paragraph 7 and application guidance in paragraph A2 link the standard's objective to the firm's public interest role

6. Member Bodies and Other Professional Organizations

Accountancy Europe

There is no need to explain more about the firm's role relating to the public interest; paragraph 7 is explicit enough. Standards and laws are designed to be operated within the public interest and it is in this context that firms should be delivering qualitative services.

Also, the IESBA Code, as mentioned in paragraph A2, contains requirements and application material for professional accountants that enable them to meet their responsibility to act in the public interest. The current project about Role and Mindset is even emphasising this aspect of the IESBA Code.

Australian Accounting Professional and Ethics Standards Board

The firm's role relating to the public interest is made clear as they are required to demonstrate a commitment to quality and serve the public interest through the consistent performance of quality engagements.

California Society of CPA's

Yes.

Center for Audit Quality

We agree with and support how ED-ISQM 1 explains the firm's role relating to the public interest (i.e., that the public interest is served by the consistent performance of quality engagements). It is clear how achieving the objective of ED-ISQM 1 relates to the firm's public interest role.

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

Moreover, CNDCEC agrees with the considerations relating to the public interest in developing and maintaining the system of quality management.

Institute of Chartered Accountants in England and Wales

The 'public interest' remains a nebulous and highly specific concept culturally and legally, and there is a defensive tone in IAASB's discussions on this issue. While understandable, given the dialogue about the extent to which IAASB's standards do or do not serve the public interest, this is unfortunate. The simple reference in paragraph 7 to the public interest being served by the consistent performance of quality engagements is perfectly adequate. No reference needs to be made to this in the objective, and no difference in behaviour would be achieved by so doing.

Institute of Chartered Accountants of Pakistan

As noted earlier we have concerns on the implication of enhanced quality management requirements of the proposed standard on the SMPs (including sole practitioners). However, we support the objective of the standard, which includes the objective of the system of quality management and we also agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role.

Instituto de Censores Jurados de Cuentas de España

Achievement of the public interest objective through the quality management system is stated in Paragraph 7.

New York State Society of CPAs

We also support the fact that the proposed standard does not attempt to define "public interest entity." We believe the proposed standard properly limits its proposed requirement to act in the public interest by referring to the IESBA Code of Ethics for Professional Accountants (including International Independence Standards) and the definitions therein. We support the way that the proposed standard incorporates the term, "public interest," in its proposed requirements only by stating, in paragraphs 7 and 23(c), the fact that performing quality engagements serves the public interest. We support that, other than by requiring performing quality engagements in general, and in its reference to IESBA, the proposed standard per se does not require acting in the public interest in any way.

Royal Institute of Chartered Surveyors

Furthermore, we agree that consistent performance of quality engagements will serve the public interest.

9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

It is clear how achieving the objective of the standard relates to the firm's public interest role serving as gatekeepers of financial reporting and disclosure through their independent audits and engagement quality management

Q5A - Concerns with how public interest is described or it is unclear

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

The explanatory memoranda to the draft standards put significant emphasis on addressing public interest considerations by encouraging proactive management of quality at the engagement level.

The "public interest" is referred to para 19 of the explanatory memorandum to ED ISQM 1. We recognize the importance of a clear definition of what this encompasses yet support the development of the quality management framework prior to the finalization of the discovery of what the most relevant definition encompasses.

Regardless of this definition currently lacking the Board should consider whether the public interest should be more prominent in the proposed standard and whether references to the public interest framework to be developed by the PIOB or the existing IFAC Policy Position 5 are appropriate to better understand which public interest considerations are addressed and how they are taken into account.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

9. We feel that the introductory paragraphs to ISQM 1 provide more insight and perspective on the ambitions and intent of the new standard than the actual content of ISQM 1. We therefore suggest that the requirements and application material should be amended to fully reflect the ambitions and intentions of the new standard. For example, while the importance of taking the public interest into account is mentioned in the explanatory memorandum as one of the key points, the public interest perspective does not appear to be reflected in the objective, and not sufficiently in the requirements of the standard (it only appears in par. 23c). In the same vein, we encourage the IAASB to review the material on the risk approach and include that in the requirements and application material sections of the standard itself. In particular, we are of the view that the explanation of the risk assessment process provided in paragraph 10 of the proposed standard should be moved to the requirements section.

Irish Auditing and Accounting Supervisory Authority

We feel that the introductory paragraphs to ISQM 1 provide more insight and perspective on the goals and intent of the new standard than the actual content of ISQM 1. We therefore suggest that the requirements and application material should be amended to fully reflect the goals and intentions of the new standard. For example, while the importance of taking the public interest into account is included in the explanatory memorandum as one of the key points, the public interest perspective does not appear to be reflected in either the objective or the requirements of the standard. In the same vein, we encourage the IAASB to

review the material on the risk approach in the introductory paragraphs and include it in the requirements and application material sections of the standard itself. In particular, we are of the view that the explanation of the risk assessment process provided in paragraph 10 of the proposed standard should be moved to the requirements section.

National Association of State Boards of Accountancy

While the objective connects the system of quality management to providing reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, there is no direct linkage to public interest. “Public interest” should be defined.

3. National Auditing Standard Setters

Japanese Institute of CPAs

The firm’s role relating to the public interest (paragraphs 7 and A2)

We believe that the descriptions about the firm’s role relating to the public interest can be made clearer. The second sentence in paragraph 7 states only that “the public interest is served by the consistent performance of quality engagements,” and it does not sufficiently explain why the consistent performance of quality engagements serves the public interest. We suggest adding an explanation in the application material (paragraph A2) to state that the audits of the listed entities influence a wide range of stakeholders and therefore, the consistent performance of quality audits of the listed entities will be of particular benefit to the public interest. Our suggested wording is as follows:

" A2. The IESBA Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest. Although nature and extent of the professional accountant's role to act in the public interest vary dependent on the engagements performed, all professional accountants have a responsibility to act in the public interest. For example, in the case of the audits of the listed entities, the intended users include investors in the financial market. Therefore, for the firm that performs the audits of the listed entities, consistent performance of quality audits of the listed entities is a top priority to meet its responsibility to act in the public interest. (see paragraphs 23(c) and 37(e)(ii))."

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

We wish to raise our members’ concern on the term “significant public interest”. There appears to be confusion surrounding the usage of the term. The standard states that “public interest is served by the consistent performance of quality engagements.” Further in the application paragraph A23, it explains that “...an entity may be of significant public interest because it has a large number and wide range of stakeholders or due to the nature and size of its business.” There is, however, no clear guidance or criteria on the term with specific examples.

Practitioners generally view their responsibility to their stakeholders who have different expectations and not to the public as a whole. If the practitioner’s role is to serve a “public interest” role, there must be a clear definition of what public interest intends to cover as the term “public interest” is very wide and subject to different interpretation and application.

In the absence of a clear and well-defined term:

- the practitioners will face tremendous difficulty in designing the system of quality management effectively and efficiently as they will not know who they are serving.
- The practitioners may be incurring additional costs' in providing lots of additional information which outweigh the benefits of such additional information.

A good quality system must be clear and balanced in implementation.

4. Accounting Firms

Baker Tilly International

With regards to the public interest, and public perception, it may be difficult for the firm, the IAASB, regulators and others to justify how a firm can have an appropriate system of quality management, giving them “reasonable assurance” around the quality of audit work, yet still issues may arise on individual engagements.

With regards to the Public Interest, there is little in the revised standard which explicitly requires the firm to act specifically in the public interest, other than the statement in ED-ISQM1.7 that “The Public Interest is served by the consistent performance of quality engagements”. There may remain a perception/expectation gap between reasonable assurance, as outlined in the paragraph above, and absolute assurance in this context. Other than that reference, the focus on public interest throughout the standard relates to “public interest entities”. Given the importance of SMEs to national and global economies, further emphasis of the wider “public interest” in the quality of engagements may be warranted.

BDO International

In consideration of whether ED-ISQM 1 explains the connection between the public interest and the objective of the standard, we believe that paragraph 7 is both necessary and sufficient although as currently drafted it implies a more generic rather than firm-specific role. Specifically, we:

- Do not have a strong preference either way for including or excluding a reference to the public interest within the objective statement. We recognise the challenge of including a concept that could be open to misinterpretation (such as through inadvertent measurement of a concept which is itself difficult to define). As a consequence, we support the IAASB's decision not to specifically reference the public interest within the requirement. There is a danger that doing so encourages inclusion of the public interest in all objectives and requirements to the extent that it becomes meaningless.
- Note that the public interest goes beyond mere compliance with professional standards (and thus the stated objective of ED-ISQM 1) and rests on other variables such as culture, values, day to day actions and individual behaviours. Given the importance attached to these attributes we believe there is a case for making a reference to these aspects in the objective or associated application guidance.

CAS International

We view our responsibility to the stakeholders who have specific requirements but not to the public as a whole. We are not appointed to serve the public at large. We must have specific stakeholders, i.e. investors, shareholders, regulators, revenue agency, employee etc.

In the absence of clear definition and explanation:

- We will face tremendous difficulty in designing the system of quality management effectively and efficiently as they will not know who they are serving.
- We are required to incur unnecessary and additional costs in providing lots of additional information which outweighs the benefit of such additional information.

A good quality system must be clear and balanced in implementation and as such we do propose that the Board considers using the term “Stakeholders’ interest” in place of “public interest”.

We appreciate IFAC/IAASB can provide a clear definition on the Public Interest.

We need clarify.

Grant Thornton International Limited

We are of the view that the proposed standard is clear in explaining that achieving the objective of ED-ISQM 1 will facilitate the performance of quality engagements and that it is the consistent performance of quality engagements by a firm that results in a firm acting in the public interest. However, we are of the view that better distinction is required between the terms “public interest” and “entities of significant public interest.” The similarity of the terms could lead to confusion in the implementation of this standard.

5. Public Sector Organizations

Auditor General South Africa

Paragraphs 7 and A2 refers to the term “public interest” but does not explain what is meant with the term e.g. who might be included in the definition of public and which types of interests need to be considered by the auditor?

We are of the view that the term “public interest” needs to be explained or guidance provided on factors to consider that are in the public interest to enable linking the achievement of the objective of the standard to the firm’s public interest role.

Australasian Council of Auditors General

However, the objective does not explicitly link to the public interest role.

Notwithstanding, ACAG believes the public interest role should be fulfilled through achievement of the objective of the standard and conducting quality audits in compliance with professional standards, in particular ethical standards; and issuing audit reports that are appropriate in the circumstances.

ACAG notes that the public interest role will vary between private sector audit firms and public audit offices, as well as across engagement types. For Offices of Auditors-General, the public interest role and purpose is to support accountability and transparency in the Government sector through independent reporting to Parliament.

National Audit Office of Malta

We believe that the relationship between achieving the objective of the standard and the firm’s acting in the public interest could be more clearly explained.

Office of the Auditor General New Zealand

As outlined below in response to the specific questions about the objective of the proposed standard, we think the proposed standard could be enhanced so that it more effectively contributes to improving the quality of engagements by providing a clearer explanation about what is meant by the “public interest” in an audit and assurance context.

We support the objective of the standard. The term “public interest” is widely used, and may mean different things to different people, therefore it may be helpful if the standard was accompanied by guidance material which clearly defines and explains what is meant by the use of the term “public interest” in an audit and assurance context. In our view this would help ensure the standard remains applicable in the longer-term,

by making it clear how practitioners are to exercise judgements at every stage of an engagement. We recommend that the objective be more explicit in setting out or linking how the objective of the firm and the system of quality management relates to serving the public interest.

6. Member Bodies and Other Professional Organizations

CA Ireland

We are concerned that there is no common interpretation of the term 'public interest' in the context of the standard and therefore there is a risk the standard will be inconsistently applied. The absence of clarity in this regard may diminish the scalability of the standard.

Comision Interamericana de Control de Calidad de la AIC

Regarding the "public interest", it is required that the standard communicate it with greater clarity and precision.

Comite Control de Calidad del ICPARD

Regarding the "public interest", the standard is required to communicate it with greater clarity and precision.

CPA Australia

We recognised that ISQM1 does not precisely elaborate on what the term "public interest" implies (refer also to our response to Question 11). For audit firms to implement ISQM 1, however, it is necessary to understand how to serve the public interest. Therefore, we suggest providing further clarification of the definition of public interest.

European Federation of Accountants and Auditors for SMEs

We believe that activities performed by a professional accountant have different degrees of public interest. The public interest will vary according to the type of engagement, the type of client etc. However, paragraph A2 refers to responsibility to act in the public interest implying this is a constant. The standard should reflect this.

IFAC Small and Medium Practices Committee

In addition, the SMPC has previously commented on the nuances of proposed wording concerning public interest. Not all activities performed by a professional accountant carry the same degree of public interest, and what constitutes public interest may also vary depending on circumstances. As currently presented, para A2 refers to responsibility to act in the public interest, potentially implying that this is a constant.

Para A23 notes the types of engagements, types of entities etc. as factors to be considered when taking into consideration the nature and circumstances of the engagements performed by the firm. However, it is not clear how these types of factors are expected to have an impact on public interest considerations and consequentially, the QM aspect of a firm. It would be helpful if the Board can clarify if there is supposed to be a sliding scale or just different areas of emphasis.

Institute of Independent Auditors of Brazil (IBRACON)

Yes, we support the objective of the standard. However, the introductory paragraph 7 may explicit contain the indication of IESBA Code where professional accountants have a responsibility to act in the public interest and as a result, the consistent performance of quality engagements is integral to a firm's responsibility to act in the public interest.

Instituto Mexicano de Contadores Públicos

We consider necessary to broaden the definition of the term “public interest” or include the corresponding reference to the Ethics Code.

Malaysian Institute of CPAs

The explanation on public interest does not seem to be clear enough or help in achieving the objective. Definition of public interest and which are the relevant parties are not provided in the ED. This lack of determination of the scope of public interest may open up the auditors to liabilities from parties that the report is not designed for.

The Institute would like to propose that the Board work towards defining public interest.

The Finnish Association of Authorised Public Accountants

The responsibility to act in the public interest is a fundamental requirement as prescribed in the IESBA Code of Ethics. The public interest is often looked at from the PIE point of view and the SME perspective is often secondary or missing. Whenever public interest is mentioned, the broad range of entities and their stakeholders should be taken into account.

Wirtschaftsprüferkammer

It is noted in Para 7 of ED-ISQM 1 that the public interest is served by the consistent performance of quality engagements. Regarding the firm’s role relating to the public interest we would like to stress the aspect that not all audit firms perform statutory audits and that not all statutory audits are audits of public interest entities. The wording of the proposed ISQM 1 assumes that all services provided by professional accountants cover the same level of public interest.

We urge the IAASB to clarify that at first the standards and laws are designed to be operated within the public interest. It is the task of firms to apply standards and laws and deliver qualitative services as a consequence.

Q5A - Unclear

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Scotland (ICAS)

We believe that the standard should include a statement that specifically refers to the firm’s role in relation to the public interest. The IAASB should give further consideration to this matter as part of its ongoing coordination activities with IESBA.

Nordic Federation of Public Accountants

Regarding how the standard explains the firm’s role relating to the public interest, it is our general view that explanations regarding the rationale behind certain approaches and requirements would be better placed in another document than in the standard itself.