Agenda Item 4-C.5

ED-ISQM 1 – Question 10 Communications with External Parties (This Nvivo Report also Includes Other Comments on Information and Communication)

Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

Q10 - Agree

2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

We support the requirements for communication with external parties. As noted in our response to the ITC, investors are calling for increased transparency about audit quality. As the IAASB has a clear role in strengthening public confidence in the global auditing and assurance profession, it is important for the IAASB to set principles and guidance to assist firms in being more transparent about how firms meet their responsibilities for audit quality (including through their networks), including at the engagement level.

This should include encouraging greater transparency about audit firm governance and how the firm's SOQM enables the delivery of high quality audits in an evolving business and audit environment and, for particular audits, how quality control is managed and delivered at the engagement level. Such transparency is achieved in part through enhanced auditor reporting, but can be achieved as appropriate through, for example, enhanced communications with audit committees, and further enhancements to the auditor's report or transparency reports or through other means. In this respect we believe the principle based requirements in paragraph 41(c), together with the application material in paragraph A151, should encourage firms to exchange insightful information about the firm's system of quality management with the firm's stakeholders.

3. National Auditing Standard Setters

Conselho Federal de Contabilidade - Federal Accounting Council (Brazil)

We recognize the importance of encouraging firms to communicate a true and fair view of its system of quality controls, governance and internal and external inspection activities if not precluded by law.

Hong Kong Institute of Certified Public Accountants

We consider the stakeholders' perception of the quality of engagements performed by the firm may be improved when the firm is transparent about the activities that it has undertaken to address quality, and the effectiveness of those activities. Hence, we believe the requirements for communication with external parties can promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

We consider paragraph 41(c)(iv) of the ED-ISQM 1 does not specifically require firms to prepare transparency report and we support that because it may discourage the exchange of valuable and insightful information with external parties through alternative means, which may be more appropriate or effective than a transparency report given the circumstances of the firm.

Institut Der Wirtschaftsprufer

We believe that the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. We also believe that the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so. We do not believe it to be appropriate to further harden the requirements to make such communication mandatory in any way because such requirements would be unenforceable in many jurisdictions.

Japanese Institute of CPAs

We agree with the proposed requirements for communication with external parties.

New Zealand Auditing and Assurance Standards Board

Transparency reporting is not required and is uncommon in New Zealand. The NZAuASB is supportive of the proposed approach, and agrees the proposals may encourage transparency as appropriate, without being too prescriptive.

4. Accounting Firms

Baker Tilly Virchow Krause LLP

We believe that the proposed requirements will encourage firms to communicate with external parties when it is appropriate to do so. We do not believe that communications with external parties should be required as in many smaller firms this is done informally, on an as needed basis, and requiring those communications would reduce the scalability / flexibility of the proposed standard.

Duncan and Topliss

R10: Yes, the standard specifically addresses external communication. Assuming adherence to the standard, this will in turn encourage the distribution of understanding of their quality management system with stakeholders, be it through a transparency report or otherwise.

ETY Global

Yes. Every information and communication channel is addressed to cover any firm needs.

Haysmacintyre LLP

Yes.

Kreston International

Yes

Nexia International

YES

Nexia Smith & Williamson

We agree that it should be up to individual firms to determine the nature and extent of non-mandatory communication about quality management, and therefore support the current drafting.

PKF International Limited

In our view, the requirements in ED-ISQM 1 for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

While these requirements may not be as relevant to smaller firms, the proposals are likely to encourage larger firms, or firms providing audit services to public interest or listed entities, to communicate via a transparency report.

PKF South Africa

The requirements in ED-ISQM 1 for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

While these requirements may not be as relevant to smaller firms, the proposals are likely to encourage larger firms, or firms providing audit services to public interest or listed entities, to communicate via a transparency report.

5. Public Sector Organizations

Auditor General South Africa

Yes, the requirements for communication with external parties do promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. The proposals to communicate, via a transparency report or otherwise, when appropriate will encourage firms to communicate.

Australasian Council of Auditors General

Yes. From a public sector perspective, ACAG offices will need to consider which external parties it is appropriate to communicate with and in what format. Public sector audit offices are not currently required to produce transparency reports as is the case for large firms in the private sector.

International Organization of Supreme Audit Institutions

Referring to a 'transparency report' in the standard may encourage firms to produce one. However, we consider it should be considered as good practice and left optional.

National Audit Office of Malta

Yes.

Office of the Auditor General of Canada

At present, we believe transparency reporting should be optional and therefore agree with how the proposals leave this matter to a firm policy choice.

Provincial Auditor Saskatchewan (1)

Yes, the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. Yes, the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so.

Swedish National Audit Office

Yes. We also believe that this would enhance the trust in the work of auditors.

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 introduction of the new component on information and communication.

Comision Interamericana de Control de Calidad de la AIC

Yes, they would encourage firms to communicate.

Comite Control de Calidad del ICPARD

Yes, they would encourage firms to communicate

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

CNDCEC agrees with IAASB's opinion, expressed in the Explanatory memorandum of ED-ISQM, that the publication of the transparency report is not a real need for auditors who do not carry out audit engagements in PIEs. Therefore, the transparency report should not be mandatory for them.

In Italy, as well as in the other EU member States, auditors carrying out audit engagements in PIEs are required to issue a transparency report, whose content is illustrated in art. 13 of Regulation (EU) no. 537/2014. The auditor is therefore required to comply with these provisions rather than with those included in ED-ISQM 1.

CPA Australia

We support the requirements on communication with external parties and note that in Australia auditors or firms which audit 10 or more listed entities or other bodies prescribed are already required to issue a transparency report. Therefore, this requirement may not have a significant impact in this jurisdiction.

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

This has been sufficiently dealt with.

Institute of Chartered Accountants of Scotland (ICAS)

We believe that the proposals might lead to more constructive dialogue between audit firms and external parties.

Malaysian Institute of CPAs

Yes, communication regarding quality management of the firm with external parties is encouraged. The Instittute support the view that the issuance of the transparency report is not the only method of communication and that alternative means will be more appropriate taking into consideration the circumstances of the firm and nature of the engagement.

New York State Society of CPAs

Response: Yes, the proposed exchange of information about the firm's system of quality management will prove beneficial to elevate audit quality and stakeholder understanding of differences in quality management systems between firms.

South African Institute of Chartered Accountants

SAICA supports the requirements relating to information and communication and we believe that this will promote the exchange of valuable and insightful information about the firm's SOQM.

In relation to transparency reporting, SMPs are generally faced with a constraint on resources and are more likely to focus resources on revenue generating areas as opposed to internal administrative matters. It is therefore likely that SMPs will only produce such reports if forced to do so, through a requirement of a professional standard or other regulatory requirement.

During our outreach activities, it was concluded that if ED-ISQM 1 were to prescribe the issue of transparency reports, this will most likely apply to firms with a client base consisting of entities listed in paragraph 37 (e). Although this makes logical sense, the administration required in preparing a transparency report may outweigh the benefit gained from playing in the space of this specific types of entities and from a South African point of view, this may be counterproductive in addressing market concentration.

Our preference is therefore for ED-ISQM 1 not to prescribe the issue of transparency reports but rather encourage firms to use them as a means for external communication, as done in paragraph 41 (c)(iv) and continue to allow local law, regulation or professional standards to dictate when the firm is required to publish a transparency report, as per paragraph A142.

9. Individuals and Others

Training and Advisory Services and Chartered Accountants Academy

We are of the view that the requirements for communication with external parties will provide insightful feedback on the firm's system of quality management and can even foster benchmarking between the firms within the same jurisdiction, size or with a similar profile. The proposal does not seem to encourage communication through transparency reports but rather through various communication channels, but the proposal encourages consideration of the appropriateness of the transparency report. We also suggest that firms comply with a checklist for communicating in a public place.

Q10 - Agree but with further comments

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

13. In our view there would be merit in a firm's management confirming that their firm's quality management system has resulted in appropriately high quality (a 'quality control' statement). Also, we strongly support requiring further transparency on quality efforts and outcomes. We therefore suggest including a requirement that firms are to be transparent on their efforts to improve quality and the resulting outcomes, and that they issue a 'quality control' statement, unless that would not be appropriate in their jurisdiction. Whilst many jurisdictions (including all EU/EEA-jurisdictions) require transparency reporting, and whilst many firms are working on developing Audit Quality Indicators, neither of these are addressed in the standard.

Independent Regulatory Board for Auditors (South Africa)

Although we agree that the information and communication requirements will promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders, we urge the IAASB to take a decisive step forward and include the preparation and communication of transparency reports specifically as a requirement for certain firms, particularly those with clients that are entities that the firm determines are of significant public interest.

With the current unprecedented level of scrutiny of firms, it is in firms' best interests and in the public interest for firms to be transparent, and for the audit industry to embrace the attitude of disclosure and transparency that is encouraged among their clients.

The IAASB is well positioned to drive this change toward greater transparency in the public interest. Mandatory transparency reporting will result in more detailed and consistent information being made available to the market, with firms required to reflect deeply on their achievement of quality objectives. This should result in improved quality management and therefore quality.

We suggest that the requirement includes a minimum description of what should be included in transparency reports in respect of quality systems and management, such as reporting on the application and implementation of and compliance with ISQM 1, which would effectively form the reporting framework for transparency reports. We recommend that jurisdictional requirements also be referenced.

Application material to this requirement could then include further guidance as to how these items could be included in the transparency report and any further items that could be included.

The IAASB could then issue further supporting guidance beyond the standard. This could take the form of a practice note to ISQM 1, implementation guidance or examples.

Irish Auditing and Accounting Supervisory Authority

In our view there would be merit in a firm's management confirming that their firm's quality management system has resulted in appropriately high quality (a 'quality control' statement). Also, we strongly support requiring further transparency on quality efforts and outcomes. We therefore suggest including a requirement that firms are transparent on their efforts to improve quality and the resulting outcomes, and that they issue a 'quality control' statement, unless that would not be appropriate in their jurisdiction. Whilst many jurisdictions (including all EU/EEA-jurisdictions) require transparency reporting, and whilst many firms are working on developing Audit Quality Indicators, neither of these are addressed in the standard.

National Association of State Boards of Accountancy

We believe that the requirements for communication with external parties may result in valuable and insightful information. However, we are concerned whether there is sufficient guidance provided to result in balanced reporting of the firm's quality management system. Paragraphs 40(e) and 41(c) permits reporting "as the firm deems appropriate." Reports and communications on the system of quality management should not be misleading.

Paragraph A150 provides examples of what the communication with external parties may contain. We recommend that the guidance include linkage to ethical requirements and that the communication with external parties be subject to the guidance in the IESBA Code of Ethics.

As to whether the proposals encourage firms to communicate via transparency report or otherwise, we believe that the proposals encourage communication with external parties about the firm's system of quality management, but question whether the proposals imply that smaller firms should be preparing a transparency report. The implementation guide should include examples of appropriate communications as an alternative to a transparency report.

Paragraph A147 provides an example for a firm that only performs compilation engagements and states that external parties may obtain information about the firm's system of quality management through discussions and direct interaction with the firm. It would be helpful for the implementation guide to provide more direction on the envisioned extent of the communication for these types of situations.

3. National Auditing Standard Setters

AICPA

We believe that, in general, the requirements will promote improved communication; however, we are concerned that the reference to transparency reports in paragraph 41(c)(iv) will lead firms and regulators to believe that transparency reporting is implicitly required by the standard, regardless of the inclusion of the words "when the firm determines it appropriate to do so". In addition, it can be inferred that firms will be expected to provide information to anyone who may use it. This inference is strengthened by including guidance for making this determination in paragraphs 41(c)(iv) (a) and (b). We recommend that paragraph 41(c)(iv) be revised to state "Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm determines it appropriate to do so" and moving what is in (a) and (b), and the reference to transparency reporting, to application material.

Australian Auditing and Assurance Standards Board

The AUASB is supportive of guidance around appropriate communications with external parties, however the AUASB is concerned with the drafting convention used in paragraph 41. Transparency reports are not always necessary and the AUASB recommends that the wording in paragraph 41(c)(iv) 'in a transparency report or otherwise' be moved to application material as an example of external communications. The AUASB considers that if the drafting conventions being proposed for ISA 315 are implemented to ISQM 1, this matter will potentially be resolved.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

The requirements for communication with external parties will promote the exchange of insightful information about the firm's system of quality management with stakeholders, where required.

However, we are of the view that the requirement should not be made mandatory and firms can decide to communicate, via a transparency report or otherwise, based on their willingness to do so.

Additionally, further guidance on the format of communication may be provided by national regulatory bodies.

4. Accounting Firms

Baker Tilly International

The current quality objective in ED-ISQM1.40e is clear but the required response in ED-ISQM1.41c lacks clarity. In particular, the required response to produce a transparency report "when the firm determines it appropriate" is ambiguous and difficult to apply consistently. If the IAASB considers that firms should produce a transparency report, then it should be bold enough to say so in the standard by including a clear requirement. However, if the IAASB doesn't consider this a necessity then it should not include such a "required" response which isn't really required unless the firm wishes to do something. For the avoidance of doubt, we do not believe that all firms should be required to publish a transparency report on the grounds of practicality and applicability to firms of all sizes.

BDO International

With respect to the new Information and communication component we support the IAASB's decision not to prescribe 'with whom' communication should take place and the type of information that should be obtained, generated and communicated. We take the view that the new requirements outlined in paragraphs 40-41 provide sufficient content such that firms can still tailor the method and nature of information and communications that they need to share. This will also likely assist with scalability issues - particularly in those firms that are sole practitioners or SMPs. Inclusion of paragraph 40 (c) and the emphasis on the impact of a firm's culture on successful communication is particularly welcome.

Yes, we believe the requirements for communication with external parties may promote the sharing of information about the firm's system of quality management with the firm's stakeholders. The information that is suggested to be included in such reports as identified in paragraph A150 is clear and relevant. The example of a transparency report as a form of communication is useful as there are several examples firms can look to and is highly relevant given increasing usage of these types of reports across different jurisdictions. However, there is a danger that its very inclusion could lead to a lack of perceived flexibility in the standard (i.e., often these examples can become a rule of thumb or presumption and may result in a loss of flexibility as to the nature, timing and extent of appropriate communications in different jurisdictions).

We do note and are supportive of the flexibility that has been embedded within requirement 41 (c), (i). This is particularly important so as not to restrict the requirements only to information provided by a transparency report, but also to enable other means of valuable and insightful information (such as website information) to be considered. Whether the requirements as set out in ED-ISQM 1 are likely to encourage firms to start to use transparency reporting or otherwise is debatable. However, the potential increase in communication of information about a firm's system of quality management, whether through a transparency report or other means, is in the public interest as it would enable external parties to have more information when making decisions about a firm.

Crowe Global

It is right that ISQM 1 addresses communications to stakeholders about the firm's system of quality management. The final standard has to encourage flexibility because of the differing circumstances of firms. Transparency reports are a valuable source of information for certain types of firms, such as those with public interest engagements, but the IAASB has to be careful with the presentation of the standard to avoid conveying any impression that transparency reports are a requirement. The Explanatory Memorandum lists a transparency report as an example of a means of communication, but it is important to remember that there are other means of communication available, particularly as not all jurisdictions mandate the preparation of transparency reports.

Deloitte Touche Tohmatsu Limited

While DTTL is supportive of the requirements for communication with external parties about the firm's system of quality management, we believe that the proposals, which include the language "as the firm determines appropriate" and "when the firm determines it appropriate to do so" will likely not encourage firms to change existing behavior.

Further, while supportive of transparency, we agree with the Board's view that there may be alternate means of exchanging information with external parties, given the circumstances of the firm, that may be more appropriate or effective than a transparency report. As such, we would propose removing the reference to "transparency report" within the requirements of the standard. In addition, from a drafting perspective, the language "in a transparency report or otherwise" provides for optionality in a requirement and would typically be included in the application material as an example. Accordingly, DTTL suggests the following proposed revisions to paragraph 41(c)(iv) of ED-ISQM 1:

Paragraph 41(c)(iv)

> Other communication to external parties about the firm's system of quality management~~, in a transparency report or otherwise,~~ when the firm determines it appropriate to do so, taking into account:…

EY Global Limited

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

We believe the standard goes as far as it practically can regarding external communications due to the variation in local laws and regulations over transparency reporting and other external communications. We however would recommend that the reference to 'in a transparency report or otherwise' be removed from the requirement in 41(c)(iv) as we believe this reference is subject to misinterpretation, such that it can be misunderstood to be a requirement for firms to issue 'transparency' reports. It also will 'future-proof' the requirement as while such reporting may be referred to as transparency reporting today, this reporting is likely to evolve and could be referred to differently in the future.

Grant Thornton International Limited

We support the intent of providing guidance around appropriate communications with external parties, however, we note that where details of matters that may be communicated is provided, albeit through application material, there is a tendency for firms and regulators to view this as a list of matters that must always be communicated. This may result in firms communicating information that external users may not find useful or of interest.

We also note that paragraph 41(c)(iv)a references the use of transparency reports as a means of communicating to external parties. Although as drafted, this paragraph does not actually require the use of a transparency report to communicate to external parties, the mere fact that it is included in a requirement may lead firms and regulators down this path. This may cause issues where firms do not prepare a transparency report and the regulator is expecting one to be prepared or may result in firms issuing a transparency report where there is no demand for such. We are of the view that a transparency report is not always necessary, or the most appropriate means of communication about a firm's system of quality management and would recommend that this is removed from the requirement and only retained in the application material as an example of how a firm may choose to communicate.

KPMG IFRG Limited

We are supportive of enhanced communications and agree with the inclusion of “Information and Communication” as a new component within the ED. We believe a principles-based approach that provides flexibility is important within this component given the wide and differing range of internal and external stakeholders.

While we support transparency and the objectives of communication with external parties, we propose deleting the specific reference to “transparency reports” in paragraph 41(c)(iv) as it could be construed that these reports are mandatory.

Mazars

Yes, we believe communication to stakeholders around quality management is part of our vested public interest role. Annual mandatory transparency report for firms auditing Public Interest Entities in Europe has proven its large interest in interacting with the stakeholders.

We consider there should be more consideration of requiring all firms complying with this standard to make public statements around compliance, possibly by providing templates for wording for smaller firms.

We are unable to form a view as to whether the standard will encourage firms to communicate where not currently required to do so.

Mazars USA LLP

Other than objecting to the use of the words “transparency report” in ED-ISQM 1 paragraph 41(c)(iv), which are required by regulation in certain jurisdictions, we believe the requirements for communication promote the exchange of valuable and insightful information about the firm’s system of quality management to stakeholders.

MGI Worldwide

The requirements promote the idea of an exchange of valuable and insightful information but we doubt that many SMPs (unless they have listed or other public interest entity clients) would actually produce a transparency report where it is not the norm within the territory.

Following on from A152, the network would consider producing a network transparency report for member firms to refer to given that individual transparency reports or other external reporting of the individual firms’ quality rating as determined by the network quality assurance process, may not be a favoured option for many members.

Moore Stephens International

It is entirely possible that some firms may read these as extending a requirement to produce transparency reports to all firms. While we understand that this is not the case, a clarification and underlining of this would be helpful.

RSM International Limited

Yes although we recommend that paragraph 41(c)(iv) or the associated guidance is clarified to state explicitly that a transparency report is not a requirement of ED-ISQM 1 but may be required by local law or regulation. We note the language in this paragraph, but it could be made clearer.

5. Public Sector Organizations

Office of the Auditor General New Zealand

With respect to transparency and its role in audit quality, we do not consider the revisions go far enough. ED ISQM 1 does not require a transparency report. At a local level we intend to encourage our standard setter to require firms to prepare and publicly release a transparency report.

We consider the preparation of transparency reports are in the public interest. As a result, we recommend the proposed standard establish minimum transparency reporting requirements.

We support transparency and we support the concept of transparency disclosures. As a result, it is our view that the proposed standard does not change the existing requirements to communicate information about a firm's system of quality management. Therefore, we recommend the IAASB consider setting minimum transparency disclosure requirements within the standard.

Office of the Auditor General of Alberta

Many firms publicly report a transparency reports. The reports provide an overview of the firm(s) system of quality management. Unfortunately, the current standard and ED-ISQC 1 do not define quality. One of the biggest challenges with audit quality is that it is not clearly observable and therefore we encourage the IAASB to define quality within the standard. We recognize the difficulty in defining quality; however, this should not prevent the standard from setting an appropriate definition. The definition would need to incorporate the following:

- Does quality include an acceptable deficiency rate? Currently regulators are reporting that the deficiency rate is too high, however it is not clear what an acceptable rate would be.
- Does quality include price or cost? Is price a component of quality?
- How is public interest incorporated into quality? Public interest of public transit or plane crashes is zero. Public interest of car accidents is much higher given that car accidents happen multiple times per day and only select accidents are reported publicly versus a single plane crash, which is reported around the world.

We encourage the IAASB to define quality and require firms to report publicly against their meeting of quality. Such a standard would show that public interest is a primary component of quality and allow the public to determine quality. For example, each firm will operate with independent deficiency rates. The rates that each firm charges would be significantly impacted by their deficiency rate. Firms with lower deficiency rates would cost more and firms with higher deficiency rates will cost less. Entities and stakeholders will then select the firm that meets their needs. This approach would improve the fact that audit or assurance quality is not clearly observable.

6. Member Bodies and Other Professional Organizations

CA Ireland

Yes, we believe that the requirements for communication with external parties may promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. In Europe, PIE audit firms are legally required to publish annual Transparency Reports however, it is unclear whether the standard will encourage other firms to start to use transparency reporting.

Any reports issued under ISQM1 need to be clearly differentiated from the Transparency Reports required by law. When a Transparency Report requirement is already established under law we believe the standard should allow the local legal requirements to meet the requirements of ISQM1?

Center for Audit Quality

We support the principle that the firm should determine when it is appropriate to communicate with external parties. A principles-based approach that provides flexibility is important. The needs of external parties vary, and firms should have the ability to tailor communications based on the demand of such parties. While the CAQ advocates for transparency in general, we suggest deleting the reference to "transparency reports" in ED-ISQM 1 paragraph 41(c)(iv) as it could be construed that these types of reports are required, which would be a change from current practice.

We encourage the Board to consider including the language from paragraph 57 of the Explanatory Memorandum to ED-ISQM 1 in the application material, which states that transparency reports are not required.

Chartered Accountants Australian and New Zealand and ACCA

We believe the need for transparency reports should be driven by local jurisdiction requirements. For example, transparency reporting is required for some firms in Australia and not required in New Zealand. The Australian experience has been that the transparency reports are not widely utilized by stakeholders other than the regulator, and therefore question whether the benefits outweigh costs.

EXPERTsuisse

In our view the requirements for communication with external parties do promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. A transparency report may not be compulsory according to local regulations but EXPERTsuisse supports the encouragement of this instrument as it addresses the public interest and helps to improve the value and relevance of the audit. However, we would suggest to better place these explanations outside the standard as these are not mandatory and this would streamline ED-ISQM 1. Also, transparency reporting should be limited to audit firms with a strong exposure to PIEs and the content and structure of such reporting should be left to the discretion of the audit firm.

IFAC Small and Medicum Practices Committee

Whilst we support transparency, we are yet to be convinced that communication with external parties can promote the exchange of valuable and insightful information between the firm and its stakeholders in all cases (and especially for smaller owner run entities), partly because there is a lack of guidelines on such scope of communication in the standard. If this requirement is to be retained, then it is important that the guidelines for producing it are clearly defined. For example, in certain jurisdictions, the phrase "Transparency Report" is already defined and has specific legal meaning.

We acknowledge the requirement of para 41(c) (iii) that states "when the firm determines it appropriate to do so" but continue to believe that it would be helpful to clarify that this does not apply to smaller firms or to recognize the fact that such communication to any external parties is limited when firms do not provide audit services to listed companies or PIEs. Without a clear message, there is a danger that over time it could be assumed as best practice.

In addition, it may also be useful to clarify who the external parties are e.g. regulators, PAOs, TCWG – when deciding to disclose to the public or otherwise – Para A142.

Institute of Chartered Accountants in England and Wales

The requirements for communication with external parties may promote the exchange of information but the quality of those communications will not depend on the ISA given the lack of specificity in the proposals. This may be a well-intentioned approach, but it will probably make little difference to behaviour. This is compounded by the fact that the use of the words 'where appropriate' are likely to give rise to disagreements between firms and regulators. Taken together, we believe that the IAASB should consider rationalising these requirements to avoid creating expectations that are unlikely to be met.

We do not believe that the words 'transparency report' should appear in the requirements because the vast majority of firms are not required to produce them, nor should they be. It would be more appropriate to refer to them in application material.

Institute of CPAs of Uganda

ICPAU thinks that the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm’s system of quality management with its stakeholders.

However we would recommend that the ED-ISQM 1 requires firms to provide on timely basis valuable and transparent information about any developments within the firms to external parties particularly regulators.

Institute of Independent Auditors of Brazil (IBRACON)

Considering the evolving environment, we recognize the importance in encouraging the communication with firm’s stakeholders to provide better information about audit firms, their governance and their internal governance systems. We also acknowledge that this should not be mandatory as it depends on the demand for such information and the legislation of each jurisdiction. However, by having transparency report undefined in the standard, we are not clear on what the Standard would require be contained in the report at a member firm level and how the regulators will interpret the requirements around reporting.

Nordic Federation of Public Accountants

We believe that this requirement primarily focuses on big audit firms that have clients with a broad range of stakeholders and where there is a more apparent public interest. For smaller firms with a different type of clients which do not communicate via a transparency report, this requirement might be a challenge, since there is a lack of guidance on how to communicate this kind of information externally.

Royal Institute of Chartered Surveyors

Regular communication that provide valuable and insightful information about the firm’s system of quality management with external parties including firm’s stakeholders helps promote transparency and trust in firms with robust internal controls. We believe through a transparency report, as it is required in many jurisdictions and for firms that perform audits of public entities, is one way to achieve this. By providing flexibility by allowing alternative means that may be more appropriate and effective than a transparency report given the circumstances of the firm, can also be relevant and useful.

We note in areas where transparency reports are not required, it may be useful to understand why stakeholders do not demand these reports, and perhaps the reports should be tailored specifically for each market / jurisdiction. Additionally, there may be a need to educate stakeholders regarding the importance of quality management systems.

7. Investors and Analysts

Corporate Reporting Users' Forum

2. The disclosure of information on quality management systems to the users of financial statements should be enhanced.

(1)The transparency reports should be used actively.

We appreciate that the exposure draft includes the enhancement of the communication with external stakeholders but, if scalability is premised, the details of the quality management system of each audit firm should be fully communicated, not only to those who are in charge of governance but also to the users of financial statements including investors, for example by disclosures in transparency reports.

(2)The prospective shareholders and creditors, including investors, should be included in the scope of communication.

We strongly request that paragraph A146 of the ED-ISQM1 should be improved. We appreciate it includes the existing shareholders and credit providers, as the potential external parties which may use the information on the quality management system of the audit firms.

That said, we believe that the prospective shareholders and credit providers should also be included as such parties, as the existing shareholders and credit providers are not the only parties who would use the financial statements for their economic decisions on investments or credit provisions.

The other capital market participants also would use the financial statements prepared by an entity. The investors and financial institutions, other than the existing shareholders or creditors, may use those documents as an important source of information to judge if they can invest in, or provide credit to the company.

We believe an increasing number of market participants have become more aware of the importance of auditor's reports since the introduction of the key audit matters (KAM). We expect they will regard the auditor's report as a source of information as essential as the financial statements. They will become more interested in which firm is the auditor of the company, and how the firm maintains its audit quality.

For example, global investors and banks may find it useful for their investment or lending decisions in the overseas markets, if the local auditors unfamiliar to them provide the information on their audit quality management.

Even if auditors are commenting positively on management about quality management, they have to implement them as their commitment. Such statements about the quality management would enable users of such information to identify those auditors who may be obedient to their client entities and do not perform the audit process rigorously enough. Auditors adopting such a less rigorous approach would lose the confidence of the market, and consequently their market share. There is also the possibility that companies, where the directors have perpetuated fraudulent financial reporting, may find it difficult to replace an auditor with a lax approach, with a more rigorous one.

9. Individuals and Others

Shady Fouad Ahmed Mehelba

While paragraph 41.a describes the responses that should be considered by the firm, In Paragraph 41.c .(iv) the firm has the opportunity to determine whether to report in its transparency report , while giving such opportunity will contradict with meeting some requirement of registration process for capital market authority by entities .As in some jurisdictions, it is required to have transparency report submitted and latest engagement or firm's quality review either by network from which the firm belonged to , or by other oversighting professional government bodies . In these few cases , the firm itself has no opportunities to determine whether to provide or not for any of its transparency reports(once required) , I believe the phrase in Para 41 .c may need to be adjusted as follow:-

41.c .(iv) . Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm is requested in its jurisdiction for such communication or submission of the report or it determines that it is appropriate to do so, taking into account: (Ref: Para. A145, A149–A153) a. Whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm; and (Ref: Para. A146–A147) b. The nature and circumstances of the firm, including the nature of the firm's operating environment. (Ref: Para. A148)

That transparent reports for example in some jurisdictions are adopted as required by professional body with predetermined contents ,deadline , CPE , HR , management and supervision hours , components may vary from ISQM's components , risk assessment process , i believe that recommending to describe clearly results of risk assessment in communication process based on statement of those responsible for governance and leadership and for those deficiencies relate to entities involved in providing engagements to significant PIE or publicly listed transparency report channels should have been improved to include ,investigation ,consultancy and communications to professional bodies in case of emergencies, otherwise adding general paragraph about adoption of quality management adequate to achieve quality objective unless required by jurisdictions a full explanation of risk and Reponses process may be appropriate in the report

Q10 - Disagree

3. National Auditing Standard Setters

Kammer der Steuerberater und Wirtschaftsprufer

ISQM 1.41 lit. c. should be removed. Usually larger audit firms are required to issue a transparency report by law due to their client base including PIEs. Even without such a paragraph, every audit firm can include comments on their QMS on its homepage, in audit proposal or other communications. Including a paragraph in ISQM1 could lead to creating a requirement, which goes far beyond practicable regulations for smaller firms.

4. Accounting Firms

PriceWaterhouseCoopers

Communication with third parties - We question whether an explicit quality objective related to communication with external parties is necessary. External reporting is an output of the system rather than a core component that supports managing and achieving quality on engagements. It is first and foremost a matter for jurisdictional regulators and, in fact, best addressed by them, taking into account the nature and circumstances of their capital markets and stakeholders. We are concerned that the criteria for a firm's own determination of when it would be appropriate to report externally to third parties are too broadly defined. In our view, the requirements should be limited to addressing communication externally when required to do so by a jurisdictional requirement. Application material can provide relevant considerations for when a firm might otherwise choose to communicate externally, including how the firm may communicate and tailor its communication in such circumstances, which may include a transparency report. As we discuss in our response to question 10, we also suggest providing examples of the matters that may be relevant to communicate to various different third-party users.

We observe that paragraph 40(e) of the standard seems out of place. ISQM 1 addresses the establishment and operation of a SoQM and paragraph 40 states in its lead in that the quality objectives are to "enable the design, implementation and operation of the system of quality management". This specific paragraph addresses external reporting - it has no bearing on the firm's system or impact on quality. It is therefore an output of the system rather than an element of a component of the system. We, therefore, question whether this requirement is necessary in this standard. This is first and foremost a matter for jurisdictional regulators and, in fact, best addressed by them, taking into account the nature and circumstances of their capital markets and stakeholders.

We also make the following observations on paragraph 41(c)(iv), which addresses the firm's policies and procedures with respect to communication with external parties:

- The requirement to take into account "whether there are external parties who may use such information" sets a low bar. We find it difficult to envisage any circumstances where there would typically not be some external party that "may" use such information, even for small firms, thereby implying it is always appropriate to communicate. In our view, this represents a significant scalability concern.
- We consider it inappropriate to specifically refer to a transparency report as a means of communicating to external parties within the requirement. That is one example of how information may be communicated and, in our view, examples such as this should be included within application material. We do not consider this to represent "essential explanatory material" and therefore does not warrant inclusion in the requirement.

Publication of detailed quality information could also be harmful in some specific circumstances. For example, jurisdictions with emerging markets may have less sophisticated investors and/or governance requirements generally, and disclosure of detailed information may in fact lead to lesser, rather than improved, trust in audit if the information is not understood in context.

Taking into account the above points, we recommend that the standard could better address this matter by amending paragraph 40(e) to be conditional upon a jurisdictional requirement:

"<u>When required by law, regulation or professional standards</u>, the firm communicates relevant and reliable information to external parties regarding the firm's system of quality management."

With respect to the required responses, we suggest:

1. paragraph 41(c)(i) be amended to directly address communication with regulators or oversight bodies, for example *"Communication with regulatory or professional oversight bodies"*; and
2. paragraph 41 (c)(iv) be amended in line with our suggested quality objective above, as follows:

   "<u>When required by law, regulation or professional standards</u>, other communication to external parties about the firm's system of quality management [remainder deleted]."

We suggest that application material can provide relevant considerations for *how* a firm may communicate in such circumstances, which may include through a transparency report, and provide examples of the matters that may be relevant to communicate to various different third-party users e.g., investors, those charged with governance etc.

Recognising the IAASB's intent in including these requirements, we propose that the application material could address that, when not required to communicate such information, a firm may nevertheless determine it is appropriate to communicate and provide relevant considerations as to why such communication may be of value to such third parties.

Structuring the requirements and application material in this manner will, in our view, properly reflect the primacy of the role of jurisdictional law and regulation in this area, while still promoting the overall message intended by the Board.

Paragraphs 40(e) and 41(c)(iv) Communication to external third parties (refer to our response to question 10): We recommend further consideration of the proposed inclusion of these paragraphs is warranted. We also consider the proposed threshold for the firm's determination of whether to report to be too broad. We provide a recommendation for how to amend the requirements. We also suggest that reference to transparency reporting be moved to the application material as this represents an example only and is not essential explanatory material.

5. Public Sector Organizations

US Government Accountability Office

We believe that the requirements for communication with external parties about a firm's quality management system are not easily addressed. We note that paragraphs A142 and A153 mention that laws or regulations may either specifically require transparency reports or prohibit communication with external parties concerning a firm's quality management system. It is also unclear with whom small- and medium-sized governmental audit organizations that do not perform engagements of public interest entities should communicate. Finally, producing transparency reports or similar external reports, if not required by applicable law or regulation, could place an undue demand on the limited resources of small- and medium-sized governmental audit organizations.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

Communication with external parties and the issuance of transparency reports are aspects that are regulated by local jurisdictions. We do not think that the standard will significantly affect behaviour in this are; firms will follow what is required in their own jurisdiction, or not.

European Federation of Accountants and Auditors for SMEs

While in general transparency is to be encouraged as it promotes trust, accountability and shared learning, communication with external parties is typically regulated by regional or local regulation and in the case of non-audit services communication to any external party is limited.

Institute of Chartered Accountants of Pakistan

We believe that communication with outside parties may involve valuable and insightful information about the firm's system of quality management. However, this area would primarily be under the jurisdictional framework. We believe that unless required by laws and regulations of a particular jurisdiction, there should be no requirement for firms to communicate, via a 'transparency report' or otherwise as it would be cumbersome for firms and may also compromise firm's confidentiality. We also foresee implementation challenges for SMPs as in current form the proposed requirements do not provide adequate guidance on the assessment criteria. Further, the term 'external parties' is too broad and requires explanation / definition for clarity and common understanding.

Institute of Singapore Chartered Accountants

While ISQM 1 addresses the establishment and operation of a system of quality management, the requirement of paragraph 40(e) addresses external reporting, which has no bearing on the firm's system or impact on quality. It is therefore an output of the system rather than an element of a component of the system. As such, this requirement seems out of place, and may not be best located in this standard. This appears to be more of a matter for jurisdictional regulators.

Under paragraph 41(c)(iv)a, the firm is required to determine whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm. While it is not explicitly stated in the standard that such communication is mandatory, it can be challenging to justify otherwise. Specifically, the term "external parties" is too broad and we suggest for some criteria to be included in the standard to define it.

When determining such criteria to be included, it would be worthwhile to consider a cost-benefit analysis. While it is possible to put out much information about the firm's quality management, we should consider if such information would be relevant to the intended users.

We should also consider circumstances where publication of detailed quality information could be harmful. For example, jurisdictions with emerging markets may have less sophisticated investors and/or governance requirements generally, and disclosure of detailed information may in fact lead to lesser, rather than improved, trust in audit if the information is not understood in context.

In terms of the content of the communication, the application materials can provide guidelines on how to prevent bias in selecting the information to be included in such communication (e.g. selective inclusion of quality indicators that reflect a positive outlook). The application materials can also include requirements and guidelines on explaining how to interpret the indicators in such communication (e.g. indicators at a point in time may not be reflective of the firm's situation over a reporting period).

Another concern that we have is the inclusion of the suggestion to communicate through a "transparency report" or otherwise. The explicit inclusion of the term "transparency report" in the standard itself may be subject to misinterpretation that such a report is mandatory. Such an inclusion is also against the principle of scalability as smaller firms may not find it cost effective to put out such a communication when there are few or no specific users. As such, we suggest removing the term "transparency report" from the standard to prevent expectation gaps.

One implementation challenge that we foresee is that small firms might not understand how to apply scalability to this requirement unless there is a defined scope of assessment. For example, a small firm that does not perform any engagements for public interest entities may conclude that there are no external parties who will be interested in their quality management and hence, will not need to put out such communication. However, the small firm may require guidance on how to perform the assessment to arrive at this conclusion. Also, small firms would require assistance on how to document such thought process. In the event that they are required to make such communication, it would be helpful to provide more detailed guidance or sample reports for their reference.

Instituto de Censores Jurados de Cuentas de España

Para 40 and Para 149 et seq. about communication requirements with external parties do not promote exchanging information of interest about the quality management system. The most common mean of disclosure is the transparency report. The obligation of reporting and regulatory requirements varies from one jurisdiction to another and the information disclosed about the quality management system does not contribute to reinforce communication between firms and stakeholders. Since Non-PIE auditors are not required to prepare a transparency report, another transparency mean would be necessary. However, this would also entail an administrative cost to be assessed in relation to benefits obtained

Instituto Mexicano de Contadores Públicos

No, because the transparency reports are not a common practice and resistance to its adoption may exist.

Self-Regulatory Organization of Auditors Association

Only if law or regulation of the country require

Wirtschaftspruferkammer

We are convinced that extant provisions regarding the communication with external parties are sufficient and did not perceive any complaints in this regard.

According to Article 13 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC a statutory auditor or an audit firm that carries out statutory audits of public-interest entities shall make public an annual transparency report.

In addition to that ISA 260 (Revised) resp. IDW Auditing Standard 470 applies in Germany.

The proposed requirements are in our view too far reaching, because the requirements are not limited to those firms that carry out statutory audits of public-interest entities.

Moreover we would ask the IAASB to clarify who the external parties are.

9. Individuals and Others

Vera Massarygina

Only if law or regulation of the country require

Q10 - Unclear

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

Other requirements may include duties such as documentation or transparency disclosure which could enhance enforceability in view of a predominantly principal based implementation.

3. National Auditing Standard Setters

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

Communication with external parties and the issuance of transparency reports are aspects that are regulated by local jurisdictions.

In France, for example, all audit firms auditing PIEs are required to publish a transparency report. However, it is no usual for other firms to publish transparency report (e.g. firms auditing non PIEs or preforming non-audit services). Based on paragraphs A148 and A149, we understand that there is no obligation for all practitioners to issue a transparency report.

With respect to paragraph A150 that gives examples of information that can be communicated to external parties about the firm's system of quality management, some indicators are usual in a transparency report, but some of them are not. This is the case, for example, for the results of inspections that are public in certain jurisdictions only. We consider that paragraph A150 is too far-reaching compared to article 13 of the regulation (EU) n°537/2014 of the European parliament and of the Council that defines the content of the transparency report. Article 13 is principles based and is set out below. Proportionality may also be an issue.

Article 13 - " (…) 2. The annual transparency report shall include at least the following:

(a) a description of the legal structure and ownership of the audit firm;

(b) where the statutory auditor or the audit firm is a member of a network:

> (i) a description of the network and the legal and structural arrangements in the network;
>
> (ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network;
>
> (iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business;
>
> (iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;

(c) a description of the governance structure of the audit firm;

(d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;

(e) an indication of when the last quality assurance review referred to in Article 26 was carried out;

(f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;

(g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;

(h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC; 27.5.2014 L 158/94 Official Journal of the European Union EN

(i) information concerning the basis for the partners' remuneration in audit firms;

(j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);

(k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:

> (i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;

(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;

(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and

(iv) revenues from non-audit services to other entities. (…)"

Royal Nederlandse Beroepsorganisatie van Accountants

It is stated that the firm communicates to external parties as the firm determines to be appropriate. This leaves room for interpretation. The balancing of interests should be clear. The proposals speak about "users that might be interested" which may be very broad.

4. Accounting Firms

CAS International

Professional service providers do not draw public fund for their operation, therefore we suggest the level of information sharing with public should be decided by the leadership of the firm.

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors IBR-IRE

In Belgium, transparency reports are already required for several years. They are published by the audit firms and controlled by regulatory bodies.

California Society of CPA's

Paragraph 41(c) – We are not sure this will result in any communication other than that already required, but it does summarize when such communication is required.

Illinois CPA Society

We believe, for many of our member firms, a transparency report or the like, has been prepared and communicated to stakeholders. However, for smaller firms and sole practitioners, a transparency report might be too burdensome. Perhaps a slimmed down version of a transparency report would be more appropriate.

7. Investors and Analysts

International Corporate Governance Network

ICGN will not address the further aspects of the Exposure Draft, as our existing policy work has not dealt in detail with the specifics of auditor/company engagement. However, we would like to raise one fundamental example as to where the guidance could go further from an investor perspective. Specifically, the Exposure Draft makes no reference to the extent to which quality management can be linked to engagement not just between audit firms and companies but also engagement between investors and companies and perhaps in some cases between investors and audit firms directly.

We believe it is important to "join the dots" between audit quality and investor stewardship and their guiding policy documents. With enhanced audit reporting, we believe that investor engagement with boards and audit committees can also reinforce the importance of audit quality. We would encourage IAASB to make explicit reference to the importance of investor engagement in its review of audit quality management and to consider adding it as one of IAASB's key public sector issues.

Other comments on information and communication

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

22. With regards to information and communication, we think that the standard should focus more on the intention and outcome of information and communication. The current language lacks clear requirements that the firm clearly communicates all relevant information to partners and staff, and also that a firm should focus on the key issues and avoid unnecessary detail in communications. Additionally, there should be a focus on what can be done to improve the power of messaging to ensure that partners and staff react appropriately to the information and communication in their actual (day-to-day) behaviours.

Irish Auditing and Accounting Supervisory Authority

With regards to information and communication, we think that the standard should focus more on the intention and outcome of information and communication. The current language lacks clear requirements that the firm clearly communicates all relevant information to partners and staff, with a focus on the key issues and avoiding unnecessary detail. Additionally, there should be a focus on what can be done to improve the power of messaging to ensure that partners and staff react appropriately to the information and communication in their actual (day-to-day) behaviours.

3. National Auditing Standard Setters

AICPA

We are concerned that firms will believe that a communication "system" must be formal and very structured. Application material addressing what a communication system would look like, particularly for SMPs, would be very helpful.

Institut Der Wirtschaftsprufer

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

Japanese Institute of CPAs

We suggest that the IAASB reconsider whether the following guidance is really necessary, as we believe they are not useful.

- The third sentence of A12, A21, A31, A32, the last sentence of A34, A35, A36, A39, A41, A57, A94, A97, A116, A121, A122, A137, A154, the first sentence of A172, the last paragraph of A180, A187 (excluding the last paragraph), and A188
- Paragraphs 41(b), A62 and A141

We believe that it is necessary to consider whether the wordings "design" and "operate" are used in a consistent manner in the following sentences:

- Paragraph 41(b): "Communicating the responsibility for <u>implementing</u> the firm's responses to relevant personnel, including engagement teams. (Ref: Para. A141)"
- Paragraph A62: "The responses designed and implemented by the firm may <u>operate</u> at the firm level

or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level in order for a response to operate as designed ….”

- Paragraph A141: “Responsibility for operating the responses designed and implemented by the firm may be assigned to: … The engagement team, as described in paragraph A62 ….”

Paragraphs A186 and A187

- Paragraphs A186 and A187 should be referenced from paragraphs 52 to 53 and not from paragraph 54. They do not address communication to external parties which is addressed in paragraph 54.

New Zealand Auditing and Assurance Standards Board

Caution against overly granular requirements

Para 41(c). Consider whether (i)-(iv) could be factors to consider in application material rather than a prescriptive list of parties.

4. Accounting Firms

Baker Tilly International

ED-ISQM1.40(a) – The term “information system” will be very difficult to define in practice and also presents a significant challenge to scalability. Whilst it is relatively easy to envisage an information system for a large firm, what would this look like in a small single partner firm, or even more so in a sole practitioner? This is an area which, if it remains a requirement, will need to have some well-developed illustrative, practical examples to assist with implementation.

ED-ISQM1.40(c) – see earlier comments relating to “firm’s culture” promoting responsibility. We would suggest using “firm’s leadership” within the objectives.

Information and Communication

The requirement for firms to establish an “Information system” (ED-ISQM1.40a) will be extremely difficult to achieve in practice for SMPs and sole practitioners to whom the standard applies. Whilst it is easy to envisage what such an information system might look like in a larger firm, it is very difficult to envisage what this would look like in a smaller firm, and even more so how such a firm could demonstrate its arrangements to a regulator. This is another example of where true scalability of the standard would be better achieved through a building blocks approach.

BDO International

In paragraph 40 – while the individual elements of (a) to (e) appear to be appropriate, the ordering should be reconsidered so that the more holistic quality objective (c) is repositioned ahead of the currently drafted part (a).

Nexia Smith & Williamson

Paragraph A69 could acknowledge that the “information and communication” component will be more straightforward in an SMP, and there is no need to create artificial processes if it can be demonstrated that more informal processes consistently achieve the quality objectives.

PriceWaterhouseCoopers

Paragraph 41(a) & (c) - We suggest that “with” in these paragraphs should be replaced with “to”. The same change would also apply to the heading above paragraph A142.

8. Academics

UNSW Audit Research Network

Information and Communication

With reference to information and communication (paragraphs 40 and 41), we feel that the focus as it relates to communication within the firm is too narrowly defined and limited to the quality system itself, rather than also including the outputs of the quality system. To illustrate, we would have anticipated communication of the findings from root cause analysis to have been specifically addressed in this section. Our own research (Harding and Trotman 2009) shows that an effective information system that communicates how personnel have performed on previous engagements, as well as aggregated information on how personnel at different hierarchical levels have performed on previous engagements, can be effective in reducing the extent to which personnel are overconfident in the competence of their colleagues (e.g., Tan and Jamal 2001; Jamal and Tan 2001; Han, Jamal and Tan 2011). We therefore recommend that paragraphs 40 and A139 be expanded to more explicitly recognize the need to establish quality objectives relating to the communication of outputs of the system of quality management, rather than only focusing on the mechanics of the system itself.

We concur with the requirement in paragraphs 40(c) and 40(d) to establish quality objectives that address the exchange of information as it relates to the operation of a firm's system of quality management and the performance of engagements. Research highlights, however, that personnel may be reluctant to 'speak-up' (e.g., Gold, Gronewold and Salterio 2014; Kadous, Proell, Rich and Zhou 2019), and we would recommend that paragraph A139 be expanded to not only cover how a firm's system of quality management may encourage communication of engagement related matters (paragraph A139 as presently written is focused on communication as it relates to the system of quality management itself and is silent on communication of matters arising when performing engagements), but also matters that may be considered when encouraging open and robust communication. For example, research finds that 'speaking up' is more likely when the engagement partner is team oriented (i.e., emphasizes a group identity and team accomplishment) (Nelson, Proell and Randel 2016), emphasizes intrinsic versus extrinsic goals (Kadous, Proell, Rich and Zhou 2019), when personnel anticipate receiving feedback on the resolution of the issue raised (Griffith, Kadous, and Proell 2019) and when the firm has an open error management climate where mistakes are viewed as an opportunity to learn rather than to impose sanctions (Gold, Gronewold and Salterio 2014).