

ED-ISQM 1: Other Comments

Other additional comments on the following areas of ED-ISQM 1 that were not related to a specific question.

- (i) Definitions;
- (ii) Relevant ethical requirements;
- (iii) Acceptance and continuance;
- (iv) Documentation; and
- (v) Editorial comments.

Definitions**2. Regulators and Audit Oversight Authorities****Canadian Public Accountability Board**

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

Financial Reporting Council United Kingdom

We acknowledge that the IAASB used the term 'responses' instead of 'controls' because it emphasises the importance of responding to the quality risks and the proactive nature of the new quality management approach. However, we believe that this term adds unnecessary complexity. Particularly as it is now inconsistent with ED-ISA 315 which uses 'controls'. If, as explained in the EM, the responses to quality risks are analogous to controls, and not inconsistent with the COSO Integrated Framework (2013), then we strongly advise the IAASB to use the term 'controls'.

We also suggest that the second sentence of A11 is deleted, and the first sentence moved to the bulleted list in A165

3. National Auditing Standard Setters**Institut Der Wirtschaftsprüfer**

We would also like to address the definition of listed entity in paragraph 19 (i), which has caused significant difficulty in implementation worldwide. The way the definition is currently worded, it does not cover those entities that are not yet publicly listed but have taken concrete measures to become so. Furthermore, the definition as worded includes situations where third parties (e.g., brokers) choose to trade a security on a platform that meets the definition of "being marketed under the regulations of ... other equivalent body" without any knowledge of the entity whose security is being traded. The former situation results in audit of financial statements of entities not being subject to heightened independence and quality management measures when they are needed; the latter results in heightened independence and quality management measures when the entity has not even sought to be a listed entity and those measures can be regarded as disproportionate.

We suggest that this situation could be ameliorated by having the definition read as follows:

“An entity that has or had taken concrete measures such that its shares, stock or debt are, or are expected to be, quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or equivalent body”.

Japanese Institute of CPAs

Paragraph 19(e)

The definitions of “engagement quality reviewer” in ED-ISQM 1 (paragraph 19(e)) and ED-ISQM 2 (paragraph 11(b)) differ from the definition in ED-22o (paragraph 10(c)); they should be aligned.

Paragraph 19(m) (the definition of “personnel”)

We believe that it is necessary to clarify whether the definition of “personnel” includes individuals, other than partners and staff, who perform procedures in professional service engagements. “Personnel” is defined as “partners and staff” and “staff” is defined as “professionals, other than partners, including any experts the firm employs.” Accordingly, the definition of “personnel” does not include, for example, individuals other than professionals who support the work performed by the staff. On the other hand, “engagement team” is defined as “all partners and staff who perform the engagement, and any other individuals who perform procedures on the engagement ...” Therefore, there is inconsistency regarding “any other individuals who perform procedures on the engagement” between the definition of “personnel” and the definition of “engagement team.”

The last sentence of paragraph A13

Because the text is long and difficult to read, we suggest that the text be bulleted as follows:

“For the purposes of this ISQM, “network requirements or network services” includes:

- Requirements established by the network regarding the firm’s system of quality management; and
- Services or resources provided by the network that the firm chooses to implement or use in its system of quality management. Network services are obtained from the network, network firms or another structure or organization in the network.”

Royal Nederlandse Beroepsorganisatie van Accountants

Furthermore, the definition of engagement team seems very broad. It also seems to include component auditors. We wonder whether this was intended We recommend considering whether component auditors should be excluded from this definition in order to have clear responsibilities.

4. Accounting Firms

EY Global Limited

Paragraph 19(b):

Consider rewriting the definition for ‘engagement documentation’ to “The record of work performed, results obtained, and conclusions the practitioner reached which supports the engagement report issued (terms such as “working papers” or “work papers” are sometimes used).”

Paragraph 19(f)

Consider rewriting the first sentence of the definition for ‘engagement team’ to: All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm, to support the engagement report issued.

Paragraph 19(v):

Remove the definition of the system of quality management as the definition of system of quality management is redundant with the objective in paragraph 18.

Kreston International

Should paragraph 19(a) be (i) or (ii) or (iii).

Mazars

Some aspects of the standards may also create challenges for implementation and further guidance should be given to help all firms to be in line with the principles (definition of “quality objectives” (ISQM 1), definition of a “deficiency” (ISSM 1), examples of “quality indicators” to be put in place (ISQM 1), definition of the audit team and consideration of joint audit (ISA 220)).

Nexia Smith & Williamson

The definition of “system of quality management” in paragraph 19(v) seems almost to repeat the firm’s objective in paragraph 18. There is also repetition of paragraph 19(p).

Language: in many places we consider the language to be wordy and over-complicated, for example:

PriceWaterhouseCoopers

While we consider the requirements in the standard to be appropriate, we note that we have concerns about the practical implications of the potential change in the definition of the engagement team in proposed ISA 220 (Revised), when applied to individuals outside the firm, including outside a firm’s network. The impact of that change will need to be assessed by a firm in complying with the requirements in ISQM 1, which may prove significant. See our related response letter on the exposure draft of ISA 220 (Revised).

Paragraph 19(r) - The words “In the context of the ISQMs” are not necessary given the lead in to paragraph 19.

5. Public Sector Organizations

Auditor General South Africa

Yes, the risk-based approach will increase the exercising of professional skepticism, however more guidance and emphasis is required on the following;

Leadership culture of exercising professional scepticism,

Definition of professional skepticism to be brought back into ISQM

Paragraph 22 dealing with the considerations of the nature and circumstances of the firm of the explanatory memorandum to be brought into standard.

Office of the Auditor General New Zealand

We consider ED- ISQM 1 has sufficient flexibility to enable us to customise the design, implementation and operation of our system of quality management based on the nature and circumstances of our institution.

However, the IAASB may wish to consider including public sector considerations with respect to the definition used in ISQM 1 for a “firm”.

How we appoint public sector auditors in New Zealand

By law, the Auditor-General is the auditor of all public entities. However, the Act allows the Auditor-General to appoint people to carry out audits on his behalf. We call the people who carry out audits on the Auditor-General’s behalf “appointed auditors”. They can be appointed from the Auditor-General’s own business unit, Audit New Zealand, or from within a chartered accounting firm. We refer to chartered accounting firms and Audit New Zealand as audit service providers (ASPs).

The audit report is signed by the appointed auditor and includes the name of the audit service provider (the appointed auditor’s firm).

How this is currently addressed in ISQC1

In New Zealand we currently comply with Professional and Ethical Standard 3 (Amended) (PES 3). This standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board. This standard conforms to the current ISQC1 standard issued by the IAASB.

Included in the definition section of PES 3, under the definition of “firm” is a section covering specific considerations for the public sector that addresses how the definition of “firm” applies to the public sector. This is:

Where a statutory officer (such as the Auditor-General) appointed an employee or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer’s behalf, for the purposes of the Professional and Ethical Standard the term “firm” refers to the combination of statutory officer, the appointed auditor, and if applicable, the firm of which the appointed auditor is a partner, member or employee.

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors IBR-IRE

The following A-paragraphs could for example be removed: A12 to A16, A55, A83, A85, A86, A90, A91, A94 to A97, A100, A105, A114, A115, A116. In particular, A59 is a repetition of the requirement (par. 10 c). Par. A59 could be removed and A69 should be an A-paragraph linked to par. 10 (c).

Institute of Chartered Accountants in England and Wales

Consideration should also be given to simple editorial rationalisations, such as whether any genuine case can be made for repeating the words 'system of quality management' over 170 times in ISQM 1 alone, rather than having a category of abbreviations following the definitions that simply says that the use of the word 'system' is to be taken as meaning 'system of quality management' throughout, and of course checking that this is in fact the case. Ditto 'engagement quality review' ('review') and 'engagement quality reviewer' ('reviewer').

The following comments are on paragraphs that are unnecessarily obvious, verbose, repetitive, circular or otherwise hard to understand (or apparently illogical) as a result of the clumsy use of language. They are simply those that have been brought to our attention and do not represent a comprehensive analysis.

- The definition of 'system of quality management' in paras 19(v), 18 and 19(p) (repetitive)
- Para 19(k): would be better to delete 'larger' and just refer to 'a structure'. Larger is a relative term.

Institute of CPAs of Uganda

ICPAU raises concerns on the definition of the term ‘Engagement Team’ used across the set of Quality Management Standards. ICPAU notes that the definitions are not used consistently across the standards, thus they seem unclear and accordingly may not be capable of application in a consistent way, for example; whereas the definition provided under ED-ISQM 1 makes reference to an engagement team comprising of all partners and staff performing the engagement with the exception of external experts engaged by the firm.....(Para 19(f)), para A31 illustrates engagement teams to include human resources from service delivery centers who perform specific tasks that are repetitive or specialized in nature while Para 10(m) of ED-ISQM 1 defines staff to include ‘any experts the firm employs.’

Relatedly ED-ISQM 2 requires discussions between the Engagement Quality Reviewer (EQR) with the engagement team throughout the engagement (para 21) and para A4 provides for outsourcing incase a firm has no internal capacity for an EQR. All in all, the challenge then remains whether EQR, experts, specialists would form part of the engagement team as defined under para 19(f) or not.

Wirtschaftsprüferkammer

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

Relevant Ethical Requirements

2. Regulators and Audit Oversight Authorities

Financial Reporting Council United Kingdom

Paragraph 32 emphasises independence through the phraseology “relevant ethical requirements, including those related to independence”. We believe this emphasis on independence is important, and absent this emphasis in paragraph 33, it is not clear that the standard appropriately addresses the responsibilities of the firm regarding independence except in respect of paragraph 33(d). To clarify, we suggest this phraseology is also applied to paragraph 33(a).

Independent Regulatory Board for Auditors (South Africa)

“Relevant ethical requirements” are defined as “principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits of financial statements, together with national requirements that are more restrictive”. Like some other audit regulators and standard setters, the IRBA has adopted Parts 1, 3, 4A and 4B of the IESBA Code. Part 2 of the IESBA Code has not been adopted. As a portion of the IESBA Code has not been adopted, a question arises regarding the suitability of the relevant ethical requirements definition. Can a firm or engagement partner state that he/she has complied with all relevant ethical requirements if the firm or engagement partner has not complied with Part 2 of the IESBA Code (or equivalent local Code), as Part 2 is not a jurisdictional requirement for auditors? How would this adoption of only relevant aspects of the IESBA Code be referenced in an audit report and any other external reporting?

3. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

There are several application material paragraphs that are too onerous in nature or too granular in detail, for example A130 in relation to technology; and A67 –A74 in relation to ethics where the IAASB have attempted to summarise the IESBA Code in a few paragraphs, whilst practitioners need to comply with the full Code.

Canadian Auditing and Assurance Standards Board

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

Chinese Institute of Certified Public Accountants

Suggest explicitly stating as a quality objective of relevant ethical requirements that performance evaluation and compensation of individuals within the firm should support and not result in impair independence of engagement partners or engagement quality reviewers.

Japanese Institute of CPAs

Paragraph 19(s)

Relevant ethical requirements should be complied with not only by professionals but also by the firms. Accordingly, we suggest the following amendments to paragraph 19(s) of ED-ISQM 1 (see our comments to ED-ISQM 2):

“Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants and firms when undertaking ...”

Paragraph A73

We believe it is necessary to clarify the distinction between the third bullet (“The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable”) and the fifth bullet (“Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach”).

New Zealand Auditing and Assurance Standards Board

A72 – given there is already references to the IESBA code in para A67 why need to repeat the conceptual framework here? (Same as A74) Cannot summarise the Code in a few para – have to comply with all of it, so why try to include a few excerpts?

4. Accounting Firms

Baker Tilly International

In expanding the above requirements as we propose, we also propose expanding the requirement in ED-ISQM1.33d such that the firm should “obtain, at least annually, documented confirmation of compliance with ethical requirements, including independence, from all personnel required to comply with relevant ethical requirements”.

PriceWaterhouseCoopers

Paragraph A68 Relevant Ethical Requirements: Although we acknowledge the items listed are examples, we believe they set expectations that not all stakeholders may agree with. We recommend deleting the bulleted examples.

Paragraph 32 - To remove repetition we suggest this could be collapsed into one objective:

“The firm shall establish the following quality objectives that addresses the fulfillment of responsibilities in accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics:

- (a) The firm, its personnel and others subject to relevant ethical requirements:
 - (i) understand the relevant ethical requirements, including those related to independence;
 - (ii) ~~(b) The firm, its personnel and others subject to relevant ethical requirements~~ fulfill their responsibilities in relation to the relevant ethical requirements, including those related to independence;
 - (iii) ~~(c) The firm, its personnel and others subject to relevant ethical requirements~~ identify and appropriately respond to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.”

Paragraph A67 - We suggest ending the final sentence after “independence”. Reference to privacy laws feels out of context.

Paragraph A69 - We suggest that the fifth bullet in this list be revised as follows:

Establishing policies or procedures for effective communication of ~~personnel to communicate~~ relevant information to appropriate parties within the firm or to the engagement partner related to:

- Personal or firm interests or relationships ~~situations~~ that may create threats to independence, for example, financial interests, loans, employment relationships, business relationships, long association with engagements or personal appointments.
- Clients and client engagements, including non-assurance engagements. For example, this may include details of proposed engagements and related fees. ~~the scope of services, fees or information about long association.~~
- ~~Business relationships.~~
- Any breaches of the relevant ethical requirements, including those related to independence.

Acceptance and Continuance

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

17. The language on non-relevance of requirements (paragraph 21) should be expanded to clarify to what extent it could occur. For instance, the fact that a firm is very small would not be an adequate reason for not performing periodic engagement inspections as part of its self-assessment of the quality management system. Such periodic engagement inspections can be performed by service organizations. The current language in the application material does not provide guidance on alternative ways for small firms to meet the quality objectives. Also, it should be stated that firms may need to refuse to accept certain engagements if they cannot meet public interest expectations regarding quality management. Pursuant to paragraphs 67(a) and (b), the firm shall document the work performed to achieve the quality objectives, we suggest also clarifying that the documentation should include an explanation of why requirements are not relevant under paragraph 21, unless that is self-evident.

Independent Regulatory Board for Auditors (South Africa)

Regarding the assessment of acceptance and continuance of client relationships and specific engagements:

Paragraph 34 of ED-ISQM 1 states that: “The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances.” It is not clear what “that are appropriate in the circumstances” means in this context. This condition may imply that quality objectives that address acceptance and continuance are not always appropriate, or that in some circumstances the quality objectives are not relevant or applicable? Who would assess this, and what would such circumstances entail?

In the current economic climate, we are aware that fee pressures, tighter profit margins and audit fees that remain largely stagnant may have affected the work of some auditors. This has resulted in some firms accepting audits that they may not be competent to perform and to accept clients that may lack integrity; in turn, these instances may result in ethical breaches by the auditors. Numerous issues have been identified, including firms not sufficiently weighing up the risks in relation to the perceived benefits of taking on an audit client; commercial interests outweighing audit quality considerations; the risk of association with clients whose integrity may be lacking; and a general risk of damaging the reputation of not only the firm but also the profession as a whole. While firms may perform procedures to assess whether a client should be accepted, the procedures to assess continuance of client relationships are not sufficiently robust.

This means there is no reassessment of whether the firm remains competent to perform the audit as clients evolve and grow; whether the firm remains compliant with relevant ethical and independence requirements after a client has been accepted; and whether the client continues to maintain integrity or whether new information that suggests that the client lacks integrity may have emerged. Many of the audit deficiencies identified during inspections and recent audit failures can be attributed to a lack of regular, honest and robust assessment of competence, ethics and client integrity in the firm’s client acceptance or continuance process, an indication that leadership has not obtained the required level of reasonable assurance in this regard. The strengthening of client acceptance and continuance requirements is therefore strongly supported.

ED-ISQM 1 does not set out which individual/s within the firm should be responsible for carrying out the client acceptance and continuance assessment. In our experience, it is usually the audit engagement partner who is tasked with carrying out the initial client acceptance assessment and the subsequent client continuance assessments. Where the firm provides both audit and non-audit services, it seems that a common approach is for the non-audit engagement teams to defer to the judgments and decisions of the audit engagement partners regarding client acceptance and continuance. It seems sensible that the (prospective) engagement partner should be responsible for performing the client acceptance/continuance assessment, since the engagement partner would likely have the most information regarding the client or prospective client. However, in some circumstances the engagement partner might be less objective in his/her assessment, for example, in order to safeguard fee income. Guidance in this regard could be provided, or further precautions could be included in ISQM 1 to address the risk (and threats) that engagement partners do not include all the adverse information in the client acceptance or continuance assessment.

We recommend that a requirement (similar to extant paragraph 26 of ISQC 1), in the form of a response to quality risks, that firms should terminate client relationships if there are indications or

evidence that the client (including management and, when appropriate, those charged with governance (TCWG)) lacks integrity be included, as:

- Management and TCWG are charged with safekeeping and the appropriate application of shareholders' resources;
- Management and TCWG account to shareholders for their stewardship, inter alia, through the preparation of annual financial statements;
- Both the stewardship and the accounting thereof through financial reporting rely heavily on the integrity of management and TCWG; and
- The likelihood that auditors will detect fraud perpetrated by management or TCWG is restricted by several limitations inherent in an audit.

This proposed requirement which could lead all available firms to decline the audit engagement of a client that lacks integrity. In turn, this would create a vacancy in the office of the auditor. In South Africa, such a vacancy would attract the scrutiny of several regulators (we presume that this would also be the case in other jurisdictions around the world). This scrutiny would, in turn, lead to pressure being put on the client to deal with its integrity issues so that an auditor could again be willing to accept the audit engagement.

We recommend that the IAASB consider including a requirement that when new negative reports regarding serious matters related to a client, its management or its major shareholders, and which may have an impact on the audit, are published in the media, a review of the client's most recent acceptance/continuance assessment by the engagement partner should be triggered.

The engagement quality review process could also include a requirement to consider whether the most recent acceptance/continuance assessment decision should be revised, or additional safeguards should be put in place, if there are indicators that the acceptance/continuance decision may have either been incorrect or information is now available that would lead to a change in the decision.

Irish Auditing and Accounting Supervisory Authority

The language on non-relevance of requirements (paragraph 21) should be expanded to clarify to what extent it could occur. For instance, the fact that a firm is very small would not be an adequate reason for not performing periodic engagement inspections as part of its self-assessment of the quality management system. Such periodic engagement inspections can be performed by service organisations. The current language in the application material does not provide guidance on alternative ways for small firms to meet the quality objectives. Also, it should be stated that firms may need to refuse to accept certain engagements if they cannot meet public interest expectations regarding quality management. Pursuant to paragraphs 67(a) and (b), the firm shall document the work performed to achieve the quality objectives, we suggest also clarifying that the documentation should include an explanation of why requirements are not relevant under paragraph 21, unless that is self-evident.

3. National Auditing Standard Setters

AICPA

Paragraph 34

The overarching quality objective with regard to client acceptance and continuance is that the firm only accept and continue client relationships and specific engagements that are appropriate in the circumstances. Judgments are made in order to determine the firm's conclusion that it will, or will not, accept

or continue a client relationship or specific engagement, and it is that conclusion that must be appropriate. Accordingly, we suggest the following changes to paragraphs 34(a) and 34 (c):

(a) The firm obtains sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) and based on such information makes appropriate ~~judgments~~ **conclusions** about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A77–A82)

(c) The firm's financial and operational priorities do not lead to inappropriate ~~judgments~~ **conclusions** about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A85– A86)

Japanese Institute of CPAs

Paragraph A90

Paragraph A90 is referenced from the requirement when the firm is obligated by law or regulation to accept the client relationship or specific engagement (paragraph 35). However, paragraph A90 describes the principle of integrity in the IESBA Code and therefore is not relevant to paragraph 35. Therefore, we suggest that the IAASB reconsider the appropriateness of the reference.

4. Accounting Firms

Baker Tilly International

Acceptance and Continuance of client relationships and specific engagements

ED-ISQM1.34(c) – the wording of this objective is overly complex with “do lead to inappropriate judgments” and may be difficult, for example, to translate and explain. We would recommend simplifying this objective to something like “The firm’s financial and operational priorities do not override appropriate decisions about whether to accept....”.

ED-ISQM1.34(d) – is this objective necessary given that there are already requirements in relation to this objective in the ISA 220?

Acceptance and continuation of client relationships and specific engagements

Given that firms will be required to demonstrate compliance with the requirements of the standard, we struggle to see how any firm will be able to demonstrate that its “financial and operational priorities do not lead to inappropriate judgements whether to continue or accept...” (ED-ISQM1.34c). This difficulty is exaggerated by the lack of required responses developed by the IAASB in this area. It may only be possible to provide “negative assurance” in this regard, i.e. that no instances where inappropriate judgements were made have been identified.

BDO International

Unintended consequences

Paragraph 34 makes reference to a client’s ethical values and this is further expanded upon within the appendix. It should be made clearer that there is a distinction to be made between a client’s integrity and the ethical position adopted by a firm when deciding, for example, whether to audit a specific entity (perhaps because of concerns about the industry or sector within which a potential client operates). By not making

this distinction it could lead to a risk of codifying a requirement for firms to adopt a statement of ethical values above and beyond those required by the IESBA Code of Ethics.

EY Global Limited

We would recommend that the IAASB re-evaluate the application guidance for certain requirements such as 'Acceptance and Continuance of Client Relationships and Specific Engagements' in paragraphs A76 through A90 and the application material related to technological resources in paragraphs A124 through A131 because it is our view that there is an opportunity to further reduce the length by removing content that we don't believe is necessary to understand the requirements.

Grant Thornton International Limited

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

Nexia Smith & Williamson

We find some of the application guidance very difficult to understand as drafted. For example:

- The example in paragraph A87 could be usefully less wordy, as it is not dealing with a complex idea.

PriceWaterhouseCoopers

This appendix illustrates our vision of quality objectives and quality risk factors, as described in our response to question 6(b), for two components. The quality risk factors are illustrative only and not intended to represent a definitive or complete list.

Component: Acceptance and continuance of client relationships and specific engagements

Quality objective: The firm enters into engagements only when it is capable, permitted and willing to perform the engagement.

Quality risk factors:

- Unclear or insufficient information for assessing client and/or engagement related risks
- Engagements are accepted or continued without required leadership consideration being evidenced by their approval
- Higher or specific risk engagements are accepted or continued without adequate quality controls in place to appropriately manage those risks to an acceptable level
- The firm does not have the resources or competence to undertake the engagement
- The firm does not have access to information to perform the engagement
- Financial and operational priorities lead to inappropriate acceptance or continuance judgements
- Engagements are terminated without appropriately managing regulatory and client relationship issues

Paragraph 35 - We suggest replacing “include” with “establish” to be consistent with other references to a firm’s policies and procedures.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

At a detailed level, regarding paragraph 34 (whereby “the firm shall obtain sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client, [...]”), the concept is useful, but the wording referring to the integrity of the client is so open ended that we do not believe it is appropriately used in a professional standard against which regulators will measure firms against.

Belgian Institute of Registered Auditors IBR-IRE

The following A-paragraphs could for example be removed: A12 to A16, A55, A83, A85, A86, A90, A91, A94 to A97, A100, A105, A114, A115, A116. In particular, A59 is a repetition of the requirement (par. 10 c). Par. A59 could be removed and A69 should be an A-paragraph linked to par. 10 (c).

IFAC Small and Medicum Practices Committee

In certain jurisdictions, professional accountants may be subject to legal requirements that require them to e.g., properly identify/ verify the identity of their clients (e.g., anti-money laundering legislation). The requirements proposed in para 34(a) require obtaining sufficient appropriate information about the integrity and ethical values of clients (management and those charged with governance) prior to engagement acceptance. We note that integrity and ethical values are soft characteristics that by their nature, usually do not lend themselves to corroboration (unless e.g., criminal records point to a court decision indicating a lack thereof of integrity and ethics). In this respect, the proposed requirement may pose practical challenges for firms with what is considered “sufficient appropriate information”. Again, more guidance from the IAASB will be helpful.

Institute of Chartered Accountants in England and Wales

The following comments are on paragraphs that are unnecessarily obvious, verbose, repetitive, circular or otherwise hard to understand (or apparently illogical) as a result of the clumsy use of language. They are simply those that have been brought to our attention and do not represent a comprehensive analysis.

- The last para in A87 (verbose)
- ...
- It might be unclear what is meant by 'ethical values' in the acceptance and continuance section. This is presumably related to maintaining a good business reputation. A definition would be helpful.
- ...
- Para 34(b): should be expanded to address competence and experience.

Institute of Independent Auditors of Brazil (IBRACON)

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

South African Institute of Chartered Accountants

Acceptance and Continuance of Client Relationships and Specific Engagements

Concerns were raised that the requirement for firms to consider the integrity of the client is not featured prominently enough. Extant ISQC 1 includes a separate requirement for the firm to consider the integrity of the client, while ED-ISQM 1 combines the requirements for the firm to consider the integrity of the client with the step relating to obtaining information about the nature and circumstances of the engagement. To this end, we recommend that ED-ISQM 1 includes a separate, specific requirement for the firm to consider the integrity of the client.

ED-ISQM 1 is not clear in terms of who is ultimately responsible for the final decision in relation to whether the firm should accept/continue an engagement or not. Is this the responsibility of the firm or the engagement partner and if it is the engagement partner, when there are different engagement partners servicing one client, who makes the ultimate call? In line with assigning responsibility and accountability more definitely, it is recommended that the standard clarify this.

Wirtschaftsprüferkammer

The quality objective mentioned in Para 34c (“The firm’s financial and operational priorities do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement”) is not a quality objective in our understanding but rather a circumstance that jeopardizes the achievement of a quality objective.

Documentation

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

Requirements for documentation need to be strengthened as to require policies and procedures to be in written format. Any policies stated in oral communications or implied through actions and decisions dilute potential enforceability.

The need for proper documentation is further strengthened in light of a continued and high amount of findings in this area.

It would seem relevant to consider adding to paragraph 67 specific requirements for documentation of actions and decisions in accordance with paragraph 31, 37 (d) and also requirements for documentation of assessment of the exercise of professional skepticism.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

17. The language on non-relevance of requirements (paragraph 21) should be expanded to clarify to what extent it could occur. For instance, the fact that a firm is very small would not be an adequate reason for not performing periodic engagement inspections as part of its self-assessment of the quality management system. Such periodic engagement inspections can be performed by service organizations. The current language in the application material does not provide guidance on alternative ways for small firms to meet the quality objectives. Also, it should be stated that firms may need to refuse to accept certain engagements if they cannot meet public interest expectations regarding quality management. Pursuant to paragraphs 67(a) and (b), the firm shall document the work performed to achieve the quality objectives, we suggest also clarifying that the documentation should include an explanation of why requirements are not relevant under paragraph 21, unless that is self-evident.

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

27. The documentation requirements in paragraph 66 should specify that the quality management documentation should be understandable by a reasonably informed third party.

Financial Reporting Council United Kingdom

ISQM1 Requirements

Editorial Suggestions

68... (a) The evaluation of the effect of the network requirements or network services in accordance with paragraph 59, and the conclusions reached, including the basis for determining that it is appropriate to use the network requirements or network services.

Independent Regulatory Board for Auditors (South Africa)

In the context of scalability, the extent of documentation requirements was also frequently mentioned. SMPs are challenged by the documentation requirements and would prefer more specificity and clarity on how certain measures can be documented in the environment of a small firm, where, for example, the demonstration of leadership actions may be more informal than at a large firm. Our expectation as a regulator is that all firms do work of the highest standard in the public interest, and that the evidence supporting the system of quality management must be sufficient and appropriate. The IAASB should guide SMPs more clearly on how this can be achieved.

We request that the extent of documentation required to provide evidence that the requirements have been met be clarified and expanded upon. Documentation requirements should not be onerous and prescriptive, i.e. a tick box approach of documenting for the sake of documenting should not be an outcome. Rather, guidance or a framework on how to decide on what needs to be documented could be provided. Paragraph 66 of ED-ISQM 1 provides the overarching principles for documentation requirements. However, these requirements are described at a very high level, and this has already created uncertainty. These challenges could be addressed meaningfully by considering minimum documentation requirements, with an explicit condition that these are only minimum requirements that must be complied with; and that further documentation may be required in order to comply with the standard and provide evidence of this compliance to the monitoring function. The standards need to be clear to firms regarding what the firms need to document in order to satisfy interested parties that the quality management system has been designed and implemented effectively by the firm. A possible solution is to strengthen paragraphs A211-A214 of ED-ISQM 1.

The firm should demonstrate compliance with and implementation of all the requirements of the standard. Documentation should provide sufficient and appropriate evidence of the genuine effort in ensuring compliance. In our experience, firms will state that they have considered certain matters, but they cannot prove that to external inspectors. The documentation requirement should also be established at a level that will ensure that the logic applied, the line of thinking and the reasons for conclusions on any decisions in terms of this standard have been recorded. A cross-reference to paragraph 8 of ISA 230, Audit

Documentation, could be included so that the exact process followed can be demonstrated through documented evidence, as this is all that external inspectors can look at to verify compliance with the standard.

The timing of the documentation requirements of paragraph 67 of ED-ISQM 1 need to be clarified.

The requirements for the application of professional judgment are not clear. Also, the requirements on how to document that professional judgment has been applied are not clear. Concerns have been raised that monitoring or inspections findings may result if the application of professional judgment has not been adequately documented. From a regulatory perspective, professional judgment will need to be inspected and, more than ever before, challenged by regulators during inspections, which will require more time and resources. Application material on the documentation of professional judgment could include the documentation of the basis of decisions, the logic applied, lines of thought, reasons, factors considered, “for and against” explanations and so on. If audit regulators discover a flaw in the logic, the appropriate application of professional judgment can be challenged.

Professional judgment is required at the identification of quality objectives and quality risks stages, particularly, and guidance could be provided as to how this would be evidenced. Documentation requirements should result in evidence that the spirit, not only the letter, of ISQM 1 has been achieved.

Paragraph 21 of ED-ISQM 1 states that the firm shall comply with each requirement of this ISQM, unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. We recommend that firms be required to document the reasons for concluding that certain requirements do not need to be complied with. This is a reasonable expectation for all those involved in quality management to have around the sufficiency and appropriateness of audit evidence.

Paragraph 31 of the explanatory memorandum mentions a “threshold” for identifying quality risks. The threshold for identifying quality risks includes those risks for which (a) there is a reasonable possibility of the risk occurring; and (b) if the risk were to occur, it may individually, or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s). More guidance is required to assist the firms in determining whether this threshold has been reached or not, how this would be documented, and whether further action would be required.

We suggest that guidance be provided regarding how to document the process for the identification and assessment of quality risks, and at what detail these should be documented. This guidance could possibly be included in the examples that will be provided as supporting material once the standards are issued. For example, this could be a risk matrix showing how risks can be rated (where formal ratings are used).

It is not clear in ED-ISQM 1 whether when an identified quality risk that does not have a reasonable possibility of occurring and if it were to occur, may not individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective (paragraph 28 of ED-ISQM 1), needs to be documented, with the above explanations and reasoning included, in order to demonstrate that a quality risk that needs to be responded to has not been identified. Paragraph A214 includes some guidance in this regard, but stakeholders have indicated that the extent of the documentation is not clear.

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

We recommend providing clarity on the extent of documentation evidencing compliance with the requirements when firms use service providers.

Irish Auditing and Accounting Supervisory Authority

The language on non-relevance of requirements (paragraph 21) should be expanded to clarify to what extent it could occur. For instance, the fact that a firm is very small would not be an adequate reason for not performing periodic engagement inspections as part of its self-assessment of the quality management system. Such periodic engagement inspections can be performed by service organisations. The current language in the application material does not provide guidance on alternative ways for small firms to meet the quality objectives. Also, it should be stated that firms may need to refuse to accept certain engagements if they cannot meet public interest expectations regarding quality management. Pursuant to paragraphs 67(a) and (b), the firm shall document the work performed to achieve the quality objectives, we suggest also clarifying that the documentation should include an explanation of why requirements are not relevant under paragraph 21, unless that is self-evident.

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

The documentation requirements in paragraph 66 should specify that the quality management documentation should be understandable by a reasonably informed third party.

3. National Auditing Standard Setters

AICPA

We found the current Draft Examples confusing. For instance, the likelihood of occurrence of the quality risks seems to be assessed twice. This appears to result in a ranking of the risks, which is not required by the Proposed Standards. The examples do not demonstrate how to correlate the risk, the ranking of the risk, and the response. We note that example 2 focuses on only one sub-objective and identifies three quality risks "among the quality risks identified". This example is quite long. Extrapolating to the entire system of quality management could and probably would be interpreted to indicate that firms should produce hundreds of pages of detailed documentation.

Implementation support material providing examples of documentation and training on how to test a system of quality management would be very helpful, particularly to SMPs.

Guidance is needed about the degree of specificity that would be appropriate in documentation with regard to the requirements in paragraphs 27 and 28, so that firms do not think they need to document every condition, event, circumstance, action or inaction that may adversely affect the achievement of its quality objectives, no matter how insignificant.

Australian Auditing and Assurance Standards Board

The AUASB notes that the application material in relation to networks provides examples of the types of inquiries and documentation that the firm may consider, but it provides little or no guidance on the extent of the assessment that the firm should perform, nor the extent of the documentation required to evidence such an assessment.

Documentation

Stakeholders consider that the requirement to document the quality objectives, quality risks and associated responses is onerous and time consuming. There are 8 components to the standard. If each component has multiple quality objectives and each quality objective may have multiple risks associated, and each risk requires a response to address that risk, the AUASB is concerned that meeting this documentation requirement may not have any benefit on quality, rather just become a compliance exercise.

The AUASB encourages the IAASB to provide examples of documentation which are likely to satisfy the needs of those reviewing a firm's system of quality control in these areas to assist with implementation and consistency of application.

Canadian Auditing and Assurance Standards Board

It is also unclear what documentation, if any, is needed when the firm concludes that there are no additional quality objectives.

Hong Kong Institute of Certified Public Accountants

In addition, firms are requesting IAASB to provide more documentation guidance and education on quality management in form of webcast, workshop or case study.

We understand that firms are concerned with the documentation expectation required for the quality management system as the requirements set out in ED-ISQM 1 are principles based. They have expressed concerns on whether the amount of documentation would meet regulator's expectations.

We consider it would be helpful for the IAASB to provide more guidance on documentation and education in form of webcast, workshop or case study. We understand that regulators would have influence over the level of documentation required and hence the IAASB encourages firms to have early discussions with their regulators.

Institut Der Wirtschaftsprüfer

In particular, the way the draft is written with such granular quality objectives, SMPs would need to document why certain objectives and responses are not relevant to their firm's quality management.

The problem with the top down approach taken in the draft is that every practitioner will need to understand the entire standard, determine what is not applicable in their circumstances, and then potentially need to document their justification for not applying a non-relevant requirement. This would lead to excessive documentation

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

paragraphs 21 states that "the firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements".

The above is certainly viewed as a provision to enhance the scalability of this standard. However, in its implementation, when compliance of this standard is being regulated by various authorities, question arises regarding how a firm may be challenged about the sufficiency of evidence that the "nature and circumstances" of the firm does not require certain requirements to be complied. Additionally, more guidance needs to be provided on the form of documentation that is required and what is considered sufficient documentation. Without clear guidance, firms with similar situations may deal with them differently.

New Zealand Auditing and Assurance Standards Board

We raise with the IAASB for consideration the benefit of developing a tool such as a “thinking list” of common quality risks (in the form of a generic list of common risks that practitioners can consider as applicable to their circumstances when undertaking the risk assessment and add to as appropriate) within the standard and/or develop illustrative documentation to assist practitioners to implement the proposals. We consider this may help to mitigate the large cost and resourcing burden without detracting from the benefits of a risk-based approach.

In addition, the NZAuASB considers the documentation requirements may be overly onerous. More guidance on what and how to document may help to alleviate concerns and improve documentation to better demonstrate the application of professional judgement. For example, the proposals recognise that SMPs especially may have a less formal system of quality management. However, it is unclear how less formal approaches will be documented to demonstrate compliance to the regulators. The IAASB should be mindful that the purpose of enhanced documentation should focus on improving quality in the public interest, and providing clarity for both firms and regulators to guide the approach to file review.

the NZAuASB considers there are three aspects that create significant challenges for implementation: ... The requirement to document the quality objectives and then map the quality risk and responses to those risks. ...

The targeted outreach also identified the requirement to document the objective, risk and response as likely to be onerous and time consuming. We were told that implementation guidance to illustrate how such documentation could be prepared would be well received, noting the need for flexibility in the approach, and recognising that the guidance may have to demonstrate a multiple of ways that this could be achieved.

Practitioners raised concern that meeting this documentation requirement may not have any benefit for quality, and instead just become a compliance exercise. We consider there is a balance between the benefit of documentation, and evidencing what has been done, against the cost to do so. Where documentation can assist the firm in developing and confirming the risk assessment, we consider the discipline of documentation may add to the robustness of a firm’s system. However, we are concerned that documenting this “spiderweb” of objective, risk and response will be resource-intensive – both when initially implementing the requirements and on an ongoing basis.

Mapping this “spiderweb” of objective, risk and response may be time consuming and challenging in practice. We encourage the use of implementation guidance to illustrate how such documentation could be prepared, and from our outreach we consider this would be well received and reinforce the need for flexibility in the approach (i.e., any guidance may have to demonstrate a multiple of ways that this could be achieved).

In practice, we think it may also be challenging to document the culture of the firm in order to meet the documentation requirements of the standard.

4. Accounting Firms

Baker Tilly International

ID-ISQM1.52 requires that the individuals assigned operational responsibility communicate certain matters on a timely basis to the individual assigned ultimate responsibility and accountability for the SOQM. However, the standard does not describe or explain what should happen in instances, typically in smaller firms, where the two roles are undertaken by the same individual. To what extent is documentation required in this instance?

BDO International

Effectiveness of the proposed approach: the proposed quality management framework may inadvertently provide false comfort about a system of quality by over-emphasising documented processes and controls (which can be more easily designed, observed and monitored directly by firms) but providing less focus on the ‘softer’ (and arguably more impactful) behavioural outcomes associated with quality systems. Areas such as coping with the pace of change, ongoing automation, continuing to meet stakeholder needs and reflecting how people actually apply these quality management systems, may need an increased emphasis within the quality management framework and implementation materials. While the proposed framework may lead to an improved flow of documentation, it could also result in excessive documentation which may detract from other more effective ways to boost audit quality.

Yes, on balance, and subject to our comments below, we found the application guidance to be helpful to support a consistent understanding of the requirements in ED-ISQM 1. The significant increase in the application guidance sections of ED-ISQM 1 versus extant ISQC 1 may of itself be indicative of an overly complex proposed set of requirements. That being said, we do support: ... Providing clarity about what is meant in paragraph 67 (c) (i) about ‘evidence of the monitoring activities performed...’ and the extent of the required documentation

Risk Identification: Risk identification is fundamental to the effectiveness of this process and is a process that could be easily challenged; therefore, further insights with respect to the extent of risk identification, including documentation expectations, would be helpful to ensure that firms and regulators of firms will be more commonly aligned in their views of the requirements.

EY Global Limited

Paragraph A214

The application material in paragraph A214 states that “In some circumstances, it may be appropriate for the firm to document its processes and analysis for establishing the quality objectives, identifying and assessing quality risks and designing responses to such risks to provide a history of the basis for decisions.” It is unclear what circumstances the application material is referring to and we have concern that by including such a statement in the standard, it will be expected that such documentation is done. We recommend A214 be clarified on regarding what the “circumstances” are.

Grant Thornton International Limited

There are areas in ED-ISQM 1 where further guidance is needed for firms to understand the boundaries of the requirement; the extent of the evidence firms need to gather; and the documentation needed to be in compliance with ED-ISQM 1. This is especially relevant in the areas of network requirements and service providers.

In respect of the two-step process, we are of the view that whilst this may be a conceptual way to determine the risks for which a firm may need to develop a response, it is not clear how this would be practically applied, or if there is a substantive difference between the identification requirement and assessment requirement, other than a more detailed consideration of the risks. It is also unclear what documentation would therefore be required to reflect this two-step process.

We are also concerned that the requirements in this area may create an onerous documentation exercise and would recommend that consideration be given to providing implementation guidance on the type and extent of documentation required by the proposed requirements.

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

KPMG IFRG Limited

We believe the ED is not sufficiently clear as to the level or extent of documentation required to evidence that the controls designed to respond to quality risks are operating effectively, which could lead to inconsistencies in interpretation and application by audit firms. We view this as potentially driving inconsistent levels of documentation which brings a risk that the standard has the opposite effect to that intended, i.e. it is viewed as more compliance-based approach rather than a risk-based approach to quality management.

We are supportive of paragraph A.211 that states “it is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management”, however, we believe audit firms will benefit from clarification in this regard. A helpful counter balance to this statement might also be to include, in the Application Guidance, the concept within the COSO framework that states, “it is important to keep in mind that controls, such as those embedded within monitoring activities or risk assessments, cannot be performed entirely within the minds of senior management without some documentation of management’s thought process and analyses”.

As technological resources is a new component of the SoQM we would welcome more clarity in paragraph 33(e), or within the Application Guidance, with respect to the nature and extent of technological resources that would be within the scope of the standard. The ED should clearly state the extent to which technological resources that are to be documented as part of the SoQM are those that are specifically designed to enable the performance of engagements as well as the overarching SoQM – which would therefore include independence tools, performance management tools, audit delivery tools, etc.

We agree with the inclusion of service providers into the scope of the ED. However, we would welcome further examples on what service providers are expected to be in scope. For example, if an audit firm purchases “off the shelf” software and the vendor supplying the software and maintaining is considered a service provider (e.g. the software is supported and managed by a third party and not in-house for the audit firm), we would welcome further guidance and examples on the requirements for testing and documenting the controls around such software.

Mazars

It would also be useful to develop a tool to assist smaller firms to document quality objectives and risk assessments. This could be in a simplified framework checklist providing the quality objectives and areas for a firm to record specific responses in relation to risks and responses. This would reduce the documentation burden on smaller firms, while ensuring the key requirements of the standard are met by all firms.

Mazars USA LLP

Resource constraints and a compressed implementation period could further impact adoption effectiveness in:

- Planning and proper identification of quality objectives
- Risk assessment and responses

- Documentation requirements for quality objectives, identified risks, and responses

PKF International Limited

Consequently, in order to promote consistent interpretation and to help achieve scalability, we believe the IAASB should revise the wording on the initial stage of identifying quality risks, to provide a clearer, less ambiguous explanation on the design of this stage of the overall risk assessment process, and the related documentation requirements.

PKF South Africa

Consequently, we believe the IAASB should revise the wording applied to the initial stage of identifying quality risks, to ensure that the requirements for the initial stages of the risk assessment processes, and specifically documentation requirements, are less ambiguous to interpret and that the final wording helps to promote the scalability of the standard.

PriceWaterhouseCoopers

Paragraph 7 - We suggest the first comma in this paragraph is not required. We also suggest referring to “the objective stated in paragraph 18” rather than “objectives stated in paragraphs 18(a) and (b)” for consistency with paragraphs 13, 16 and 18, which refer to “the objective of” this ISQM/the firm i.e., singular.

Paragraph 67(c)(v) - See paragraph 7 editorial suggestion with respect to objectives.

5. Public Sector Organizations

Australasian Council of Auditors General

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

Office of the Auditor General New Zealand

We consider that some thought should be given to how to document the exercise of professional scepticism. While the investigation of root causes may assist with assessing if professional scepticism has been adequately exercised, there is a dependence on the level of sophistication of the root cause analysis.

We also consider for SMPs there is a need for more guidance about the minimum documentation requirements of the firm’s quality objectives and assessed quality risks, to avoid this being onerous and viewed as a compliance exercise.

6. Member Bodies and Other Professional Organizations

Accountancy Europe

Additionally, we suspect ISQM 1 as drafted may create a significant amount of additional documentation, especially in documenting what has not been done and why; partly as a result of the levels of prescription and detail, noted above. Documentation is important but this aspect of it looks like a compliance exercise and we are sceptical that it would help enhance quality. Overall, we think that the IAASB needs to provide more guidance on what need to be documented. The mix of requirements and guidance leads to confusion when it comes to documentation.

Australian Accounting Professional and Ethics Standards Board

Even assuming certain quality objectives may be irrelevant, and responses may address two or more assessed quality risks, the cascading impact could be substantial. The IAASB's example for a small firm relates to 1 quality objective, providing potential quality risks and responses, which results in 3 pages of documentation. Extrapolating this to the 33 required objectives could result in 100 or more pages of tailored documentation for a small firm, which would be time-consuming and an extensive exercise. During our webinars, 76% of stakeholders estimated that it would take them 5 days or more to implement the risk assessment process.

Further, firms may need to evaluate all potential quality objectives, quality risks, and responses to determine if any requirements are not applicable. This will also add to the compliance burden, particularly for sole practitioners and SMPs, in understanding all requirements, establishing an SQM and documenting why certain requirements were not relevant to justify to a regulator, professional body or another monitoring body.

Belgian Institute of Registered Auditors IBR-IRE

At first sight the proposed standard seems to address scalability. However, we believe this is quite theoretical as the amount of documentation (policies and procedures) to provide for in order to comply with the standard seems rather extensive.

Regarding the documentation, additional guidance should be provided because a lot now in small firms happens informally and it is not clear for small firm how documentation is to be completed. An example focusing on SPs and SMPs would be needed but we need to make sure this example could not be considered as "best practice" and thus imposed by the regulator.

CA Ireland

In addition, the standard does not set out the level of documentation required to demonstrate compliance with the standard's requirements and in particular relating to the area of controls, this may result in a voluminous amount of documentation which may hinder scalability and result in a compliance based approach to the standard.

Additional guidance with regard to the extent of risk identification and the documentation expected in this regard would be helpful to firms and regulators to ensure that their views are aligned in this regard.

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

Chartered Accountants Australian and New Zealand and ACCA

There will be a need for guidance on documentation for SMPs, particularly around the risk assessment process, with clear examples to reduce the time and resources required for these entities to implement any changes.

We have concerns over the documentation of the risk assessment and how this will be undertaken in practice when some objectives will have one risk and some risks will match to multiple objectives, and the same with the responses. The assessment process is not a linear construction and therefore will be complicated to map and document. SMPs will need additional supporting materials. There is some support for the idea of having guidance with examples of common risks (particularly for SMPs who may have quite similar risks) mapped to objectives and example responses. The documentation needs to be flexible to meet the needs of firms and networks of a wide range of sizes and level of complexity and examples of how this

can be achieved will be needed. There also needs to be an explanation of what should a practitioner should do if a required response does not link to any of the risks.

We would therefore expect to see more guidance on what is expected in regards to the additional quality objectives but also what practitioners should document when no additional quality objectives are legitimately identified.

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

European Federation of Accountants and Auditors for SMEs

The proposed ISQM 1 risks creating a significant increase in documentation, especially in documenting what has not been done and why, as a result of the highly prescriptive nature of the standard. This burden will fall disproportionately on SMPs. We therefore welcome more guidance on what need to be documented and show how succinct this can be.

EXPERTsuisse

Regarding the scalability of the requirements and application material of proposed ISQM 1, in our opinion scalability is principally embedded but we would like to point out that the requirement to document the reasons why certain elements of the quality management system are not adopted means an additional (maybe not useful) effort for audit firms.

IFAC Small and Medium Practices Committee

We are also concerned that the complexity of the QM Standards taken together may drive a compliance mindset, especially amongst smaller firms who become subject to proportionately greater documentation burdens to “explain/ prove” their compliance.

For many firms, the initial assessment of risk in particular is likely to be challenging. Assessments are likely to vary and firms might need extensive documentation to demonstrate why they have assessed risk in a particular way. This will be exacerbated as the firm reacts to changing circumstances etc. on an ongoing basis. In our view, the IAASB needs to better explain the extent of documentation it expects in this area.

We do have two significant concerns with this new requirement for root cause analysis (para 48). This term is defined differently in different jurisdictions and may not be consistently understood across or even within the same jurisdiction. Therefore, it may not be clear what is intended or how it should be documented. Hence, an SMP with only a few deficiencies could spend a disproportionate amount of time performing and recording this analysis.

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

Institute of Singapore Chartered Accountants

Overall, more guidance and examples will be needed for implementation, especially for small firms. It may be useful to develop a toolkit to assist small firms to document quality objectives and risk assessments.

Instituto Mexicano de Contadores Públicos

The term “scalability” is not clear, we suggest explaining the meaning of it within the document. Additionally, it may be a good practice providing examples of how the small and medium firms could be documenting their compliance with the Standard.

Malaysian Institute of CPAs

Provide clarity about what is the required documentation to evidence monitoring activities performed

Nordic Federation of Public Accountants

We are concerned about the time spent and the amount of documentation that implementing the standard will take. A212 states: “In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.” In order to feel safe with external inspection, the firms might feel a need to document out of a “comply or explain approach” and hence document more than is necessary.

South African Institute of Chartered Accountants

In the design and implementation of the system of quality management (SOQM), the firm is required to apply professional judgement at various stages of the process. From a monitoring point of view, significant concerns were noted around how an individual will exercise oversight in relation to the application of professional judgement in the design and implementation of the SOQM and what the firm is required to document to demonstrate compliance with the requirements.

While we understand the reason for the inclusion of paragraph A211, specifically as it indicates that it is neither necessary nor practicable for the firm to document every matter considered, or judgement made about the SOQM, guidance in terms of minimum documentation requirements will be most welcome. Specific areas where this is seen as being of practical importance have been highlighted as such within the applicable section.

To echo the point noted in Response Template: Quality Management Covering Explanatory Memorandum, strong calls for a framework or a model relating to how SMPs could comply with the requirements were heard. Such a framework or model should include guidance that can be used in documenting the outcome of the risk assessment process. To this end, we recommend that the IAASB consider whether it is possible to develop such a framework or model to support firms in implementing the standards as intended.

The view is that for the larger firms, how to demonstrate compliance is less of a concern because the SOQM and documented policies or procedures are such that it is less likely for requirements of ED-ISQM 1 not to apply. From a SMP point of view, it appears to be onerous for them to assess whether each aspect of ED-ISQM 1 has at least been considered. Therefore, in further addressing concerns around scalability, it is our view that the inclusion of a framework that either prescribes or illustrates the minimum documentation requirements will significantly contribute to the scalability of ED-ISQM 1. This way, firms can focus their attention on designing, implementing and operating a reliable risk assessment process that is appropriate and the need for ticking every box required by the standard will be mitigated.

It is SAICA's recommendation that the IAASB engage the International Forum of Independent Audit Regulators (IFIAR) in understanding how they intend regulating compliance with the requirements of the QM-EDs. The IAASB can then use input obtained through this engagement to develop the requested illustrative framework or model, thereby providing clarity on the minimum that is expected to be documented on an engagement file.

The following views in relation to the documentation requirements were noted:

- One view in this regard stemmed from the requirements contained in paragraph A54 of ED-ISQM 1, which states:

Under this ISQM, not every quality risk needs to be identified and further assessed. The firm identifies which quality risks need to be further assessed based on a preliminary consideration of the possibility of the quality risks occurring and the effect of the achievement of the quality objectives. Only those quality risks that meet both of the criteria in paragraph 28(a) and (b) need to be identified and further assessed.

In line with the spirit of a risk assessment process, only risks that have the potential to impact the achievement of audit quality should be considered.

The conclusion reached here in relation to documentation is that the firm can think of many quality risks (i.e. the whole population) but is only required to document quality risks that have a more than remote possibility of occurring and effect may that may cause a quality objective not to be met. All other quality risks are not within the scope of the EM-ISQM 1 and therefore no documentation is required around these. A concern in relation to the monitoring of this was however noted.

- In contrast to the view expressed above, the risk assessment process as contained in ED-ISQM 1 was compared to the risk identification and assessment process followed by the auditor during the performance of an audit where a risk matrix is used. Here, all identified risks are documented and then assessed in terms of being significant or not. If a similar approach is not followed in the performance and documentation of the quality management risk assessment process, the firm may experience difficulty in demonstrating that certain risks were identified but not documented because they were not considered to be quality risks within the scope of the ED-ISQM 1.

Furthermore, in performing the risk assessment process, the firm is applying professional judgement and unless this process is clearly documented, the firm may again find it difficult to demonstrate compliance with ED-ISQM 1.

In assimilating this to an area where there is current ambiguity, reference is made to paragraph 26 of ISA 240 and the requirement relating to revenue recognition. The confusion in practice relates to whether the presumed significant risk is per individual assertion that is identified or is this for all assertions and the auditor is then required to document why certain assertions are not considered to be significant risks. It is envisaged that firms may experience similar confusion based on the requirements contained in ED-ISQM 1 in relation to the risk identification process.

It is our view that as ED-ISQM 1 is currently written, the acceptable approach in relation to documentation; particularly as it relates to risk identification and assessment is not clear and is an area that requires further clarification.

In taking this a step further, the monitoring of the risk assessment process, particularly as it relates to the assessment of the identified quality risk in determining whether a response is required will be challenging and a difficult assessment to make (your assessment of my assessment). This may give rise to boiler plate risks emerging.

It will be particularly useful for the application material to expand on the documentation requirements in relation to the criteria considered.

This is also an area where minimum documentation requirements is seen as being welcomed; specifically with relation to what the firm is required to document for quality risks that may form part of the whole population but the nature of these quality risks is such that the firm does not believe that any further consideration with respect to the likelihood or impact is required.

The Finnish Association of Authorised Public Accountants

It is not clear how much needs to be documented about the reasons why a particular detail is not relevant for a SMP.

We support the risk approach of the standard. However, the number of different objectives and responses makes the standard quite long and we are concerned that the quality management process and also the documentation requirements hence are too heavy for the SMPs.

Wirtschaftsprüferkammer

The requirements regarding the documentation are partly vague.

According to proposed Para 66 the firm shall prepare documentation of its system of quality management that is sufficient to:

- (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the firm's system of quality management;
- (b) Support the consistent implementation and operation of the responses; and
- (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management

These requirements will not necessarily have a positive impact on quality (especially in documenting what has not been done and why). More guidance would be helpful here, especially regarding the minimum requirements for a quality management.

Another Challenge for SMPs is the documentation of their informal processes in order to reach such reasonable conclusion without being challenged. A staff publication could be helpful in this respect as well.

Editorial Comments

3. National Auditing Standard Setters

AICPA

Paragraph 10

The distinction between “will” and “may” is not always clear to users of the Proposed Standards. We suggest the following change to paragraph 10(a) to clarify that it is a fact that the nature, timing and extent of responses are based on the reasons underlying the risk assessed.

- (a) Designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the firm's responses to address the assessed quality risks ~~will be~~ **are** based on, and responsive to, the reasons for the assessments given to the quality risks. ...

We believe that paragraph A52 of ISQC 1 provides valuable guidance that is particularly helpful when differences of opinion arise between the engagement partner and the engagement quality reviewer. We suggest that it be incorporated into paragraph A100 of ED-ISQM 1 as follows:

A100. The policies or procedures addressing differences of opinion may be established in a manner that encourages identification of differences of opinion at an early stage, **provides clear guidelines about the successive steps to be taken thereafter, and requires documentation regarding the resolution of the differences and the implementation of the conclusions reached.** Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

4. Accounting Firms

Nexia Smith & Williamson

We find some of the application guidance very difficult to understand as drafted. For example: ... Paragraph A51 seems to be trying to express an idea in terms of the theoretical framework which would be much more clearly expressed in plain English – the “information and communication” component requires you to communicate information in a timely manner, and this could be relevant to ethical matters too.

We do not understand the overall point that paragraph A157 is trying to make.

PriceWaterhouseCoopers

Section 3 - Conforming amendments

ISA 230 Paragraph 3, Bullet 5 - We suggest replacing “under” with “as part of”:

ISA 250 Paragraph A25 - We believe the appropriate reference is paragraph A48 of ED-ISA 220 (Revised), rather than A49.

ISA 620 Paragraph A13 - Please refer to our response letter to ED-220 in relation to the auditor’s ability to depend on the firm’s policies and procedures.

5. Public Sector Organizations

Office of the Auditor General of Alberta

Paragraph 51(a) states “Take appropriate action to comply with ~~relevant~~ professional standards and applicable legal and regulatory requirements; and.” The word “relevant” should be removed. All engagements should comply with professional standards. The challenge with including “relevant” is some standards are “relevant” at a point in time. For example, ISA 260, if a practice review identifies that the audit team failed to communicate an audit plan to those charged with governance, it will be argued that it is no longer relevant; however, the communication of the audit plan during the planning of the audit is of significant importance and “relevant” during the planning stage of the audit. Removing the work “relevant” eliminates these future debates.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants in England and Wales

The following comments are on paragraphs that are unnecessarily obvious, verbose, repetitive, circular or otherwise hard to understand (or apparently illogical) as a result of the clumsy use of language. They are simply those that have been brought to our attention and do not represent a comprehensive analysis.

- The use of the term 'may' is simply inappropriate in some of the application material. IAASB needs to find a middle way between this and the use of the present tense to deal with this problem. For example:
- Para A109: the integrity of engagement documentation will (not may) be compromised if it is permanently lost or damaged - and it is a statement of the obvious.