

Thomas R. Seidenstein

IAASB Chair
International Auditing and Assurance Standards
Board
529 5th Avenue, 6th floor
10017, New York
US

Paris, 1st July 2019

Ref: JBO.BNB.CBO.20190241

Subject : IAASB Consultation on Proposed International Standard on Quality Management 2

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the proposed International Standard on Quality Management 2 (ED-ISQM2).


We support a separate standard for engagement quality reviews.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquot
President of CNCC


Charles-René Tandé
President of CSOEC

Questions

Question 1: Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

We support a separate standard for engagement quality reviews.

We also agree that ED-ISQM1 should deal with the engagements for which an engagement quality review is to be performed and ED-ISQM2 should deal with the remaining aspects of engagement quality review.

We have however, the following comments: paragraph 37 (e) (i) of ISQM1 that refers to ISQM2 and the scope for engagement quality review, should also mention the reviews of interim financial information in addition to the audits of financial statements of listed entities. As mentioned in paragraph 1 of ISQM1, this ISQM deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Question 2: Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

As far as the linkages between ISQM1 and ISQM2 are concerned, we suggest moving up footnote 7 into the text of the standard, i.e. *Proposed ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph 37(e)*.

Question 3: Do you support the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer?" Will there be any adverse consequences of changing the terminology in respondents' jurisdictions?

We support the change from "engagement quality control review /reviewer" to "engagement quality review/reviewer". We do not think that there will be any adverse consequences of changing the terminology in respondents' jurisdictions.

Question 4 - Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

- a) *What are your views on the need for the guidance in proposed ISQM 2 regarding a "cooling-off" period for that individual before being able to act as the engagement quality reviewer?*
- b) *If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?*

We support the eligibility requirements. We do not have any comments concerning the guidance in proposed ISQM2 regarding the "cooling-off" period for that individual before being able to act as the engagement quality reviewer.

We also agree that such guidance should be located in proposed ISQM2 as it is not dealt with in the IESBA Code.

However, we have the following comments on paragraph 17 that deals with the policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer:

- The first sentence of paragraph A18, i.e. "In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise", should be moved into paragraph 17.

- The IAASB should further clarify the role of individuals who can assist the engagement quality reviewer. We encourage the IAASB to ring-fence the tasks that can be performed by such individuals.

Question 5 - Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

We have the following comments concerning the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures:

- We suggest moving the last sentence of paragraph 6 (part of the Introduction) to the end of paragraph 11 (a) (definition of engagement quality review).
Paragraph 11 (a) would become:
"Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures."
- Moreover, concerning paragraph 22 that deals with the procedures that the engagement quality reviewer has to perform for the engagement quality review, we consider that the paragraph 22 (f), i.e. "for audits of financial statements, evaluate the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement", is too wide and goes beyond the role of EQR who has to focus on the significant judgments (cf. Paragraph 11(a))¹.

Question 6 - Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

We consider difficult to challenge professional skepticism on the basis of the audit documentation. We therefore suggest amending paragraph 22(d) as follows to further clarify the objective and the understandability of the paragraph:

"Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and ~~evaluate~~ ~~consider~~, based on the documentation reviewed:

- (i) The engagement team's basis for making the significant judgments, including ~~when applicable in case of assurance engagements~~, the appropriate exercise of professional skepticism;
- ~~(ii) Whether the engagement documentation supports the conclusions reached; and~~
- (iii) Whether the conclusions reached ~~on the significant judgment~~ are appropriate."

Moreover, we think that this is sufficient and that there is no need to further address the exercise of professional skepticism by the engagement quality reviewer.

¹ Paragraph 11(a) ISQM2: "Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report."

Question 7 - Do you agree with the enhanced documentation requirements?

Concerning the enhanced documentation requirements, we have the following comment. We consider that the term "completed" in the last sentence of paragraph A39² should be replaced by "assembled" or "gathered".

Question 8 - Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

Scalability is less of an issue as ED-ISQM2 is intended to be applied in listed entities or entities that are of significant public interest (cf. paragraph 37e ISQM1).

However, we have the following comments that should improve scalability. It would be relevant to create appendix to the proposed standard to include the tables of pages 14 and 15 of the exposure draft that deal with scalability for firms of different sizes and for engagements where nature and circumstances differ.

² Paragraph A39 of ISQM2: "Paragraph 21(b) requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. The documentation of the engagement quality review may be completed after the date of the engagement report, but before the assembly of the final engagement file."

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529 5th Avenue, 6th floor
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Paris, 1st July 2019

Ref: JBO.BNB.CBO.20190242

Subject : IAASB Consultation on Proposed International Standard on Auditing 220

Dear Sir,

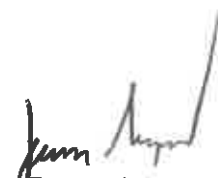
The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB consultation on Proposed International Standard on Auditing 220 (Revised).


We are very concerned about the amendments done on the definition of the engagement team. We strongly recommend the IAASB to revert to the current definition of engagement team.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquot
President of CNCC


Charles-René Tandé
President of CSOEC

Questions

Overall Questions

We have a real concern with the definition of the engagement team (cf. paragraph 10 d), i.e. "Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. (...)"

We consider that the added words "including individuals engaged by the firm or a network firm" in the definition leads to confusion and inconsistencies with the provisions of ISA 600 regarding the Component auditor¹ and the Group engagement team². This change in the definition could imply that the component auditor is part of the engagement team, since the term "including" does not limit exclusively to the individuals engaged by the firm and the network firm. That would have significant impacts in terms of independence obligations for the component auditor, as currently the component auditor may not be independent from the group, but has to be independent from the component. With the revised definition of engagement team, the component auditor would have to be independent from the group.

We also consider that it is unpracticable for the group auditor to impose to the component auditor the application of the same policies and procedures (including firm policies and tools) than the group auditor, especially when the component auditor is not a member of the group auditor's network.

We therefore consider that the wording should be revised to better reflect the fact that components auditors are not part of the engagement team. We strongly recommend the IAASB to

- come back to the current definition, i.e. "All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement (...)" and
- develop specific paragraphs in the application and other explanatory material to deal with offshoring (part of the engagement team) and component auditor (not part of the engagement team).

We also believe that the title of the proposed standard, i.e. quality management for an audit of financial statement, should be changed to "the role of the engagement partner".

Specific Questions

Question 1: Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?

We consider that paragraphs 1 to 19 relate more to behaviors than to performance requirements. In that context, ethics becomes embedded in an ISA and we are wondering if this is the role of the ISAs. We consider that these matters may not pertain to ISA 220. They may already be embedded in ISQM1 requirements.

Moreover, although we support the reinforcement of the requirements about the engagement partner, we note that the ED quasi exclusively focuses on the requirements of the engagement partner and no other members of the engagement team.

Finally, we have the additional comments on the following paragraphs:

- Paragraph 12(b): the term "reinforcing" appears too infantilizing. Another term would be more appropriate;
- Paragraphs A78: we suggest removing the end of the sentence "but may do so".

¹ ISA 600 paragraph 9 (b) Component auditor – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.

² ISA 600 paragraph 9 (l) Group engagement team – Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.

Question 2: Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?

The linkages between ED-220 and the ISQMs are complex and not easy to describe. For example, we consider that the link with ISQM1 should be done in paragraphs 14 to 19.

Question 3: Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

We do not have any critical comments on this material.

Question 4: Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

The engagement partner is responsible for the resources used, including technological resources. However, the engagement partner relies on the technological resources provided by the firm and, where appropriate, the network. This may create a gap between responsibility and authority when not all the technological resources are approved or available. It is stated in paragraph A58 that the engagement partner may apply professional judgement. We consider that this potential tension should be properly acknowledged in the standard.

What has been included in ED-220 about the use of different audit delivery models and technology is light. These are increasingly important aspects of delivering audits and will become even more widespread in the years to come. If these suites of standards are going to be fit for tomorrow then these aspects need to be more fully considered by the IAASB.

We also acknowledge the ongoing work of the technology working group and the audit evidence project that would complement what will have been done in the remit of this specific project.

Question 5: Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

We have the following comments concerning paragraph A79 that deals with significant judgments in relation to the audit engagement:

- The fifth bullet point “the engagement team’s risk assessment process” is too wide and should be restricted;
- The ninth bullet point that deals with the group audit situations, we consider that the principle of delegation is not well treated.

Question 6: Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

We consider that ED-220, together with the overarching documentation requirements in ISA 230, includes sufficient requirements and guidance on documentation.

Question 7: Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

We do not think there is any overall issue linked to scalability in ED-220. In the case of a sole practitioner or a very small audit team, the requirements with regard to guidance on direction, supervision and review are not really relevant or partly only. As SMPs or very small audit teams will not easily navigate the standard, we consider it would be preferable if the requirements in question would be reworded in such a way that it is clear that they are conditional.

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529 5th Avenue, 6th floor
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US

Paris, 1st July 2019

Ref: JBO.BNB.CBO.20190243

Subject : IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews


Dear Sir,


The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews.

Responses to the specific questions raised in the Exposure Drafts are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquot
President of CNCC


Charles-René Tandé
President of CSOEC

Questions

Overall Questions

Question 1: Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

We are concerned about the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board. We consider the period too short and unrealistic whatever the size of the firms (large or smaller firms). We suggest providing 6 months more to implement the new quality management standards, i.e. a period of 24 months after the approval of the standards.

Question 2: In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

In terms of supporting material for implementation, we consider that the proposed

- Frequently Asked Questions regarding proposed ISQM1 and
- Examples regarding how the nature and circumstances of the firm and the engagements it performs affect the implementation of proposed ISQM1

are useful and could be incorporated to the standards as appendices.

General Questions

(a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

We have nothing to report.

(b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

We have nothing to report.

(c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

We have a concern with the translation of the terms "reasonable possibility". Please refer to our comment letter on the ED-ISQM1 (Question 6 c).

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Paris, 1st July 2019

Ref: JBO.BNB.CBO.20190244

Subject : IAASB's Exposure Draft – Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1) – Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the proposed International Standard on Quality Management 1 (ED-ISQM1).

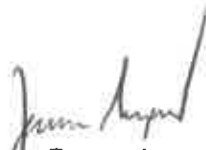
We support the work done by the IAASB to enhance quality management and are in favor of the risk assessment approach to drive quality.

However, we are concerned about the length of the proposed standard, the requirements relating to the transparency report, the networks and the services providers.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquot
President of CNCC


Charles-René Tandé
President of CSOEC

Envoier obligatoirement toute correspondance aux deux adresses ci-dessous :

Questions

Overall Questions

Question 1: Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:

- a) *Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?*
- b) *In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?*
- c) *Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?*

We support the work done by the IAASB to enhance quality management and are in favor of the risk assessment approach to drive quality.

However, we are concerned about the length of the proposed standard. We consider that the standard is too long compared to ISQM2. This forced the IAASB to develop:

- Specific FAQ regarding proposed ISQM1 and;
- Examples to explain how the nature and circumstances of the firm and the engagements it performs affect the implementation of proposed ISQM1.

We would have preferred the following option: an implementation guide and a shorter standard.

Question 2: Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

As mentioned hereafter, we are concerned about the following matters (introduction of PCAOB terminology in the ISAs, scalability of the proposed standard, the need of universal KPIs for the evaluation of the firm's system of quality management) and the requirements relating to:

- Transparency report
- Networks and
- Service providers.

Please refer specifically to our comments to questions 6, 9, 10, 12, 13 and 14.

Question 3: Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

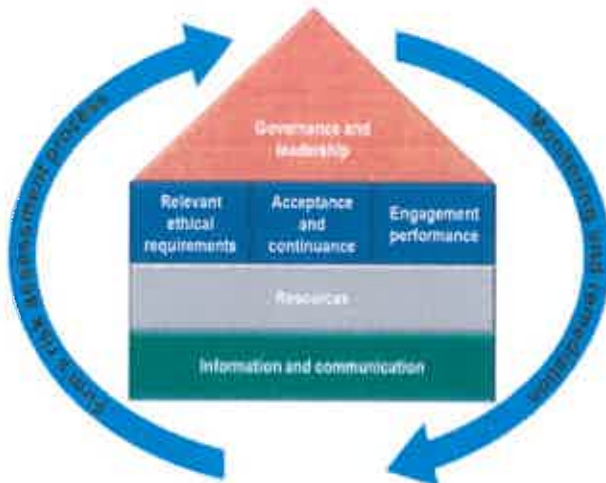
Even if we consider that the application material in ED-ISQM1 is helpful in supporting a consistent understanding of the requirements, we have specific comments. Please refer to comments on questions 4 and 14.

Specific Questions

Question 4 - Do you support the eight components and the structure of ED-ISQM 1?

We broadly support the eight components and the structure of ED-ISQM1. However, we consider that the scheme of paragraph 11 (Page 7) of the ED-ISQM1 should be included in the application material of or in an appendix to the standard for further clarification.

The scheme is shown here below.



Question 5 - Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?

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

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

Question 6 - Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved?

We believe that application of a risk assessment process has the potential to drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved.

In particular:

a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?

We agree with this statement. We consider that the paragraphs 10 (c) and A59 are clear.

"However, the responses required by this ISQM alone will not be sufficient to address all of the firm's assessed quality risks, as explained in paragraph 10 (c). Accordingly, the firm is required to design and implement responses in addition to those required by this ISQM." (cf § A59 of the proposed standard)

b) Do you support the approach for establishing quality objectives? In particular:

i. Are the required quality objectives appropriate?

We support the approach for establishing quality objectives. In particular, we consider that the required quality objectives are appropriate.

ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

It appears clear in the ED-ISQM1 that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances. We refer to paragraphs 26 and A50.

(c) Do you support the process for the identification and assessment of quality risks?

We have a concern with the introduction of PCAOB terminology that we find inappropriate in an ISA environment, especially the terms "reasonable possibility" in paragraph 28. Even if the notion of "reasonable possibility" could be helpful to explain the level of likelihood, we consider that a different term should be used because of its connotations with standards issued by PCAOB. Moreover, associating this notion with the wording "more than remote" in paragraph A55 is confusion in an ISA environment. It implies a lower threshold than the ISA term "acceptably low level" and will confuse practitioners. Moreover, there will also be a translation issue.

We therefore recommend the IAASB to remove the notion of "reasonable possibility" from the proposed standard.

(d): Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

We consider that this approach will result in a firm designing and implementing responses that are tailored to appropriately address the assessed quality risks.

ii. *Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?*

We consider that it is not clear enough that in all circumstances the firm is expected to design and implement responses in addition to those required by the proposed standard. As a matter of fact:

- Paragraph 30¹ is not clear enough and does not include such requirement;
- There is an embedded requirement in paragraph A59² and indications are in Paragraph 10 c) but these paragraphs are non-authoritative. In particular, paragraph 10 is part of the introduction and does not specify "in all circumstances".

Question 7 - Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

We agree that the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership. We refer to paragraphs 23 to 25.

Question 8 - With respect to matters regarding relevant ethical requirements:

(a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

(b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

We agree that ED-ISQM1 deals with matters regarding relevant ethical requirements.

We have no comment regarding paragraph 33 (a) that states "In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the relevant ethical requirements quality objectives, the firm shall include the following responses:

(a) Identifying the relevant ethical requirements and determining the applicability of the relevant ethical requirements to the firm, its personnel and others, including, as applicable, the network, network firms, personnel in the network or network firms, or service providers. (...)"

Question 9 - Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

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

Question 10 - 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?

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 not usual for other firms to publish transparency report (e.g. firms auditing non PIEs or performing non-audit services). Based on paragraphs A148 and A149, we understand that there is no obligation for all practitioners to issue a transparency report.

¹ Paragraph 30 states "The firm shall design and implement responses to address the assessed quality risks, including the responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks.

² Paragraph A59: "(...) However, the responses required by this ISQM alone will not be sufficient to address all of the firm's assessed quality risks, as explained in paragraph 10(c). Accordingly the firm is required to design and implement responses in addition to those required by this ISQM.

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 Council³ 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. (...)"

Question 11 - Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

Please refer to our comment letter on the ED-ISQM2.

³ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

Question 12 - In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:

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

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

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

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

- c) *Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?*

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

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

- d) *Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:*

- i. *Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?*
- ii. *Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?*

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

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

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

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

Question 13 - Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

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

Question 14 - Do you support the proposals addressing service providers?

We support the proposals addressing service providers. However, we consider that it would be relevant to move paragraph 22 of the draft frequently asked questions regarding ISQM1 into the application and other explanatory material of the proposed standard. This paragraph deals with service provider and address especially the following question: Are all IT applications that are obtained from service providers subject to the requirements of paragraphs 64-65 of ED-ISQM1?

Specific attention must be paid on the reference to paragraph 65-65 in paragraph 22 of the FAQ. This has to be amended for paragraph 64-65.

Finally, we have a concern of proportionality for smaller firms that use a lot of service providers. The risk is that such requirements are totally counterproductive.

Question 15 - With respect to national standard setters and regulators, will the change in title to "ISQM" create significant difficulties in adopting the standard at a jurisdictional level?

We have no specific comment concerning the change in title to "ISQM".