

July 1, 2019

International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Exposure Draft (ED): Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements*

Thank you for the opportunity to comment on this Exposure Draft (“ED”).

MNP LLP (“MNP”) is one of Canada’s largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of publicly traded entities. In addition, our client base includes small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. Our engagements for such entities include audits, reviews and other assurance and related services engagements. As such we believe that we are positioned well to provide commentary on the content of this ED.

We have reviewed the ED and have provided our responses to the overall and specific questions below. We support the International Auditing and Assurance Standards Board’s (the “IAASB”) project to adopt proposed International Standard on Quality Management 1 (“ISQM 1”) and overall, we agree with the proposed changes as set out in the ED and we have set out, in the responses below, areas where we believe additional guidance is required.

Proposed ISQM 1 Questions

Overall Questions

- 1) Does ED-ISQM1 substantially enhance firms’ management of engagement quality, and at the same time, improve the scalability of the standard? In particular:
Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?**

Yes, we support the new quality approach as employing a risk-based approach to quality management will assist firms in articulating their objectives with respect to quality as well as what the specific risks are that require mitigation.

- a) 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?**

In our view the approach as outlined in ED-ISQM1 will generate benefits for firms in understanding what their objectives and associated risks are with respect to overall quality. However, it remains to be seen how this will translate to engagement quality. We believe that by implementing a consistent approach to quality that is embedded and supported by the appropriate culture and tone at the top of the firm, this would have a positive impact on engagement quality.

b) Are the requirements and application material of proposed ED-ISQM1 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 further improve the scalability of the standard?

Yes, in our view the standard is scalable. It will be difficult however to determine at this point, how the scalability can be applied in practice and to what level of detail objectives, risks and responses need to be developed in order to be most impactful (and satisfy the requirements of the standard). It will also be difficult to determine the number of resources required to implement the standard within 18 months from approval date as firms may not understand and / or appreciate the full extent of implementation effort required (e.g. how many quality objectives, risks and responses will be identified). It is our view that firms may underestimate the effort needed. To support firms and provide them with a level of comfort that they are doing the correct things, more specific and practical examples would be helpful.

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?

The biggest challenge we see is that it will be difficult to determine when the firm has identified “all” quality objectives and “all” associated risks. The examples in the standard are helpful and we appreciate that the standard would not be able to include all potential quality objectives and risks, however, additional examples of common objectives and risks as they apply to the seven components would be helpful. The standard indicates that additional objectives, beyond those outlined in the standard, are required. Firms however, may not have full knowledge or an appreciation of what “additional” entails. The identification process may result in a further 1, 5, 10 or perhaps even more objectives, associated risks and responses. To fully grasp the effort, the level of detail to which firms need to identify quality objectives, risks and responses and the expected look and feel of the finished product is challenging.

As indicated earlier, additional guidance on the practical application of the risk assessment process would also be helpful.

In our view the standard is limited with respect to recommendations or guidance in support of the development of innovative monitoring techniques and we would welcome further guidance and practical examples.

3) Is the application material in ED-ISQM1 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?

Yes, the application material is helpful. The standard would be difficult to implement without the application material as presented. As mentioned in 2) above, more practical examples of quality objectives, quality risks and how to practically apply the risk assessment process would be beneficial.

In our view the standard is limited with respect to recommendations or guidance in support of the development of innovative monitoring techniques and we would welcome further guidance and practical examples.

Specific Questions

4) Do you support the eight components and the structure of ED-ISQM1?

Yes, we support the eight components and the structure of ED-ISQM1.

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?

Yes, we support the objective of the standard.

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? 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 that the firm's risk assessment process should be applied to most of the components. However, in our view, the "Resources" and "Information and Communication" and even "Monitoring and Remediation" components are supporting activities to the other four components and the required actions required will flow from the objectives and risks identified during the "Governance and Leadership", "Relevant Ethical Requirements", "Acceptance and Continuance" and "Engagement Performance" assessments. As such, in our view, it is not necessarily required to undertake a risk assessment on the supporting components.

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

i. Are the required quality objectives appropriate?

Yes, 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?

Yes, this is clear.

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

Yes, we support the process for the identification and assessment of quality risk. However, more guidance would be helpful to assist with the practical application of the risk assessment process.

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

We believe the approach to developing quality objectives and identifying and assessing quality risks, should theoretically result in firms designing tailored responses and

appropriately addressing assessed quality risks. However, there is a risk that the process and the sheer volume of quality objectives, risks and responses is of such magnitude that the firm may find it challenging to manage this amount of information. As a result, firms may be at risk of losing sight of the overall objective of the standard, which is to improve overall engagement quality.

- 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?**

Yes, this is clear.

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

Yes, the standard appropriately addresses firm governance.

- 8) **With respect to matters regarding relevant ethical requirements:**

- a) **Should ED-ISQM1 require firms to assign responsibility for 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?**

Yes, we agree that the responsibility for both ethical requirements as well as independence should be assigned to an individual in the firm.

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

Not applicable for our firm.

- 9) **Has ED-ISQM1 been appropriately modernized to address the use of technology by firms in the system of quality management?**

Yes, in our view, this is sufficiently addressed.

- 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?**

Based on the wording in the standard it does not appear that there is an explicit requirement for firms to communicate with external parties, in a transparency report or otherwise. Similarly, we do not believe that the standard will necessarily encourage firms to do so.

- 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?**

Yes, we agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review and we also believe that it will result in the proper identification of engagements to be subject to an engagement quality review.

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?**

The proposals will improve the firms' monitoring of the system of quality management as a whole. In our view the standard is limited with respect to recommendations or guidance in support of the development of innovative monitoring techniques and we would welcome further guidance and practical examples.

- 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?**

Yes, we agree.

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

The overall framework for evaluating findings and deficiencies is clear however in practice it might be difficult to distinguish between a finding and deficiency. In addition, if the framework is to be applied to each finding resulting from all internal and external monitoring activities, then we are concerned that the overall process will potentially become too complex to manage as the volume of information would be too large and onerous and the firm may lose sight of the overall objective of quality management.

- 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?**

In our view there is limited guidance to the nature, timing and extent of the procedures to investigate the root causes however, we are not sure there is a need to address this further as this may be where individual firms' customize their approach in a way that is most practical and beneficial.

- ii. Is the manner in which ED-ISQM1 addresses positive findings, including addressing the root cause of positive findings, appropriate?**

In our view the practice of identifying positive findings and their associated root causes is an important one. However, given the nature of quality management and the focus on deficiencies and generally negative findings and the robustness by which this is to take place, we believe this will be very limited in actual practice. It is unlikely that firms will have the time and resources to get this accomplished.

- iii. 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 acknowledge that it would be good practice to have this requirement, but in our view it is too early to determine what challenges may exist. It may also not be feasible to be able to provide reasonable assurance in the first year following implementation as it may take more than one year to implement the full requirements of the standard.

13) Do you support the proposals addressing networks?

This is not applicable to our firm.

14) Do you support the proposals addressing service providers?

In our view the term “service provider” is broad and to apply the requirements of the standard to all service providers may be too onerous. We agree that in the case that engagement quality reviews are performed by a service provider, that the requirements of the standard would apply. However, if the firm is, for example, using a fairly standard and “off the shelf” software solution, then we are not confident that applying the requirements of the standard would be that informative as the initial decision to select the particular software would have addressed most, if not all, qualitative requirements and if there were any concerns, they would have been addressed prior to implementation.

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?

Not applicable.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

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