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

Global Office
New Bridge Street House
30-34 New Bridge Street
London, EC4V 6BJ
United Kingdom

T: +44 (0)20 3882 2000

info@bakertilly.global
www.bakertilly.global

Dear Sirs,

Exposure drafts for Quality Management

We are pleased to have the opportunity to respond to the proposals laid out in the IAASB Group Consultation on ED-ISQM2. We set out below our overall comments on the consultation, followed by detailed responses to each question raised. In so doing, we are keen to distinguish between where we have comments or concerns in relation to the proposals and our suggestions that you may wish to consider.

Overall Questions

- 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?

Response: We understand the rationale presented for the 18 months period, and fully understand the pressures facing the profession to improve audit quality, and to be seen to be taking action. Given that the explanatory memorandum states that "...the proposals would result in a significant change in practice", a timeframe of less than the proposed 18 months would not be appropriate. We believe that the proposed implementation timetable of only 18 months after approval of the three standards will be extremely challenging and potentially difficult to achieve, for both smaller firms with smaller, or non-existent, central technical functions to support implementation and also larger more complex firms where more significant effort will be required to meet the new standards. Further the impacts on networks referred to in Para.24 will likely be exacerbated in the mid-tier networks which are typically more resource constrained than the largest networks.

We believe that there is a greater risk to quality through ineffective implementation of such significant changes and a more appropriate timetable for implementation would be at least 24 months after approval.

- 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?

Response: The IAASB has produced illustrative materials with practical examples of the application of the new standard to firms of different size/nature. We believe that such illustrative examples have the potential to be extremely useful. Whilst the examples produced to date are a good start, such illustrative examples would be extremely helpful for most, if not all, sections of the revised ISQM1 particularly if the implementation timeline referred to above remains at 18 months.

The illustrative examples include only three scenarios which do not include small firms which provide audit services. The illustrative examples would benefit hugely by including a wider range of firm types, for example incorporating a typical mid-sized, mid-tier network member firm which provides a range of audit and other assurance services as well as tax and advisory services.

General Questions

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

- (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.

Response: In our view firms in developing nations, particularly those which are in the process of adopting (or have recently adopted) international standards are likely to find the enhanced requirements of ISQM1 and related standards particularly difficult to achieve. It may be appropriate for such jurisdictions to be given longer implementation periods although it is difficult to see how this can be achieved in practice. Given the additional challenges in the new standards, it is possible that full adoption of international standards in some jurisdictions may be delayed.

- (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.

Response: Given the emphasis on the public interest in recent standard setting and related activities, it is very difficult to argue that the requirements in the suite of quality standards should not be applied equally to those undertaking public sector engagements. In our view, the revised standards should apply to public sector auditors, regardless of whether they are public sector bodies themselves, or whether the audits are performed by private sector firms.

- (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.

Response: We have no comments on translation.

Yours faithfully,



Dr Paul Winrow

Director of Professional Standards

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