

## **ED-ISQM 1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or other Assurance or Related Services Engagements**

### ***Overall Questions***

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?

Yes.

(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?

Yes. In our view, exercising professional skepticism with respect to the possibility of fraud and corruption and lack of compliance with rules and regulations is very important.

(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?

Yes. In addition, we believe that a Quality Management Performance Measurement Framework for Large Firms and Small Firms could be developed in addition to the Standards for self review in the same manner as the Supreme Audit Institution Performance Measurement Framework developed by the International Organisation of Supreme Audit Institutions.

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?

Two major changes to the standard may require additional resources to implement – i.e. the implementation of the risk assessment process – the establishment of quality objectives, the identification and assessment of quality risks – and the design and implementation of responses – as well as the identification of the root causes of the deficiencies identified. Perhaps a comprehensive case study of how to apply this standard in its entirety could be developed.

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?

Agreed. Perhaps a section could be included in the standard on the preparation of the Quality Management Review Report that would be prepared as a result of the review of its quality management system.

### *Specific Questions*

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

Yes.

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?

Objective of the standard agreed with. We believe that the relationship between achieving the objective of the standard and the firm's acting in the public interest could be more clearly explained.

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?

Yes.

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

i. Are the required quality objectives appropriate?

Yes.

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

Yes.

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

Yes.

(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?

Yes.

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.

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.

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?

Yes. It would be better to assign particular individuals to fulfil both roles.

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

Yes.

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

The effective operation of an audit quality management system could include ensuring the proper use of Data Analytics, Artificial Intelligence and Robotics in auditing, where applicable.

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?

Yes.

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.

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?

Yes.

(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.

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

Yes.

(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?

Yes.

ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?

Yes.

(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?

- One of the challenges would be to allocate adequate resources for such individual to perform an annual evaluation of the system of quality management. The scope of work performed by an audit firm may be very wide and it might be difficult to assess quality management in all major audit engagements in one year.
- Another challenge would be to appoint a suitable individual with the necessary competences, experience and ethical conduct to carry out this task.
- The review may also be initially resisted by staff – adequate training is to be provided to highlight the benefits of a high quality audit management system.

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?

Yes. The Standard rightly requires the audit firm to retain responsibility for its system of quality management. However, the benefits of forming part of a network can be reaped; for instance, an individual audit firm may replicate a best practice adopted throughout the network.

14) Do you support the proposals addressing service providers?

Yes.

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

No.

## **ED-ISQM 2 Engagement Quality Reviews**

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?

Yes.

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

Yes.

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?

Yes, we support this change and do not envisage any adverse consequences of this change in terminology.

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?

Yes.

(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?

Agreed.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Yes.

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)?

Yes. If the engagement partner performs his duties well, the engagement quality reviewer may decrease the amount of testing.

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?

Yes. We believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. In particular, professional skepticism is to be exercised by the engagement quality reviewer as regards the engagement team's assessment of the risk of material misstatement in the financial statements, non-compliance with rules and regulations and the risk of fraud and corruption.

7) Do you agree with the enhanced documentation requirements?

Yes. A sample engagement quality review report and proposed related contents may be provided in an Annex to the Statement.

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?

Yes.

## **ED ISA 220 (Revised) – Quality Management for an Audit of Financial Statements**

- 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?

The engagement partner has the ultimate responsibility for ensuring quality and so the focus on the sufficient and appropriate involvement of the engagement partner is correct. However, we believe that the ISA does not clearly reflect the role of other senior members of the engagement team, including other partners.

- 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?

Yes.

- 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)

Yes. The exercise of professional skepticism with respect to the risk of material misstatement of the financial statements, risk of lack of compliance with rules and regulations, and the risk of fraud and corruption could also be included.

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

The review of the proper use of Data Analytics, Artificial Intelligence and Robotics in auditing could also be explored.



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

Yes.

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

The standard may discuss the issue of a formal report following the review.

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?

Yes.

## 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?

Yes.

- 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?

Perhaps a comprehensive case study may be developed on how to establish quality objectives, identify and assess quality risks, and design and implement responses, and how to draw up a report following the undertaking of a quality review. In addition, A Quality Management Measurement Framework may be developed similar to the International Organisation of Supreme Audit Institutions (INTOSAI) Supreme Audit Institution Performance Measurement Framework (SAI PMF).

## 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.

N/A

- (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.

Supreme Audit Institutions perform various types of public sector audits including financial and compliance audits, performance audits, investigations and IT audits. Perhaps a quality management standard applicable to public sector audits could be developed in conjunction with INTOSAI.

- (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.

N/A