



IAASB Explanatory Memorandum

**Exposure drafts for quality
management at the firm and
engagement level, including
engagement quality reviews**

Request for public comment

28 June 2019



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:

Our assessment of the potential new requirements is that we will need a minimum of 18 months to transition fully. This will allow time to ensure that all of the requirements are implemented and documented to the required standard, and that the person responsible for quality management will be able to approve a full year's cycle of the new procedures.

- 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:

ISQM 1 in particular is long and complex. Length in and of itself is not necessarily a problem if that length is a result of relevant application material and guidance being provided, but in too many places it is a result of poor drafting. The standard could be made simpler in many places through the use of plain English (we have given some examples in the comments on specific standards). Flowcharts, diagrams and other pictorial aids would also be welcome to provide a summary of the processes described.

As presented, the requirements of the standards are supplemented by explanatory memoranda, introductions, application guidance, FAQs and examples. This makes it difficult for a reader to know where to look, especially as the distinction as to what is included where appears inconsistent (see below). It would seem more logical for the application guidance to contain all that is needed to support the application of the standard.

There are inconsistencies in the content of the draft FAQs. For example:

- Question 1 makes what appears to us to be an important point deserving more prominence.
- Question 6 is putting more flesh on the application guidance, and would seem more logically placed there.
- On the other hand, Questions 2, 3 and 4 are covered in the application guidance already, whilst some of the bullets in Question 7 aren't in the standard or the application guidance at all.
- Question 9 gives an example and then cross-refers to the examples for a further example.

Overall, we believe that more thought should be given as to what the purpose of the various supporting documents is and therefore what their content should be. This should then be made clear to assist navigation.

In the draft examples:

- Whilst we appreciate that Scenario 1 is designed with scalability in mind, it feels as though a lot of words are being used to make quite an obvious point.
- In Scenario 2:
 - The sub-objective in the "quality objective" box repeats the main objective almost word-for-word, and the main objective already specifically requires independence to be considered.

- In the “quality risk” box, we would encourage the IAASB to give an example of how the firm establishes that there is a reasonable possibility of the risk occurring, or determines that the effects of all the quality risks are approximately the same.
- We are unclear as to the meaning of point 3 in the “response” box as drafted: “The firm identifies that the only individuals who are expected to comply with the relevant ethical requirements are personnel within the firm.” Perhaps it might make the point clearer if the thought was continued by contrasting which people outside the firm might need to comply with relevant ethical requirements, and in what circumstances.

The first two bullets apply equally to scenario 3.