



International Auditing and Assurance Standards Board  
International Federation of Accountants  
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Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Quality Management suite of Exposure Drafts.

Overall, we are supportive of the development of a suite of quality management standards. We see this as a positive step towards improving the quality of firms' systems of quality management leading to higher quality engagements performed by firms. We are cognizant that the proposed requirements for a system of quality management are a large step change for most firms but are of the view that this will solidify changes that some firms have been progressing over the past few years. For example, many firms have already implemented policies and procedures including those related to performing root cause analysis, developing an appropriate firm culture and developing mechanisms to handle complaints and allegations. The development of the proposed standards will expand such best practices into other firms that have not commenced this process and will provide a mechanism by which firms can more proactively manage quality rather than reactively control quality.

We do however have several concerns, highlighted below, on which we elaborate further in our detailed responses.

*Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews*

We are significantly concerned that the proposed effective date of the suite of quality management standards of 18 months from approval will not allow sufficient time for the standards to be properly implemented and will lead to firms not being able to take the time to properly address the new requirements. Such a short implementation period may lead to policies and procedures being implemented that do not fully address the proposed new requirements and may be detrimental to quality in the short term.

#### *ED-ISQM 1*

We are supportive of the introduction of a quality management approach for firms in developing their processes, policies and procedures. Overall, we are of the view that the proposed standard has been developed in a scalable manner, however, there are a few areas that we believe warrant further consideration from a scalability perspective. Specifically, we believe that the requirements may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements and have recommended further consideration of this area; including whether the proposed standard should apply at all to these firms, or whether consideration should be given to identifying a subset of requirements with which these firms are required to comply. We are also of the view that the requirements in relation to service providers and to firms that are part of a network could prove to be burdensome absent more defined boundaries to these requirements.

We have highlighted a number of areas in our detailed response where we are of the view that further application material is warranted. In particular, we would highlight the requirement for firms to identify and assess risk. Specifically, how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a "significant effect" should be measured or determined would be helpful. Absent this additional application material, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting their risk assessments should they be subject to challenge by regulators or through other inspection mechanisms.

We would also like to highlight the requirement for an annual evaluation of the system of quality management. As explained in our response to question 12, we are of the view that such an evaluation is redundant in a properly developed system of quality management, as such a system should promote continuous improvement.

#### *ED-ISQM 2*

We are of the view that the ED-ISQM 2 should not include a requirement for firms to develop a 'cooling off' period between an individual acting as an engagement partner and subsequently an engagement quality reviewer on the same engagement. We are of the view that this is in the purview of the International Ethics Standards Board for Accountants (IESBA) not the IAASB and accordingly should be addressed by IESBA.

In respect of the scalability of the proposed new standard, we have highlighted concerns in relation to the practical operation for smaller firms of the requirement for the person appointing the engagement quality reviewer to always be independent of the engagement team and in relation to the extent of the procedures listed as required to be performed by the engagement quality reviewer.

#### *ED-220*

We have significant concerns regarding the extent of the engagement partners responsibilities proposed by the amendments, specifically in their application to large single entity engagements and to multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Absent further guidance on how to practically apply these responsibilities in such engagements, we are of the view that these proposed amendments could be detrimental to quality. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

We are also concerned with the proposed definition of an engagement team. We have heard conflicting views on whether the definition of engagement team includes the component auditor and secondly, we are unclear about what constitutes an 'audit procedure' in this definition. An incorrect interpretation of this could result in individuals based at off-shore centres or those engaged in data mining activities being incorrectly included or excluded. Absent further clarity of these issues, we are of the view that this may have unintended consequences on who is considered a member of the engagement team and for the procedures that become required in relation to those individuals.

We respectfully submit our detailed responses to the Quality Management Exposure Drafts, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +1 646 825 8468.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

Antony Nettleton  
Global Leader – Quality and Risk Management  
Grant Thornton International Ltd

Enc: Appendix A: Response to Exposure Drafts for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews

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

The following provides our detailed response to the IAASB's request for comments on the IAASB's Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews

### OVERALL QUESTIONS

**Q1. 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?**

Whilst we understand the desire for the suite of quality management standards to be implemented as soon as possible, we are concerned that an 18-month effective date from Public Interest Oversight Board approval may not give firms sufficient time to properly implement the standards in an effective manner that will result in enhanced quality.

If properly implemented, ISQM 1 will require the dedication of a significant amount of firm resources to put into place a risk assessment process. In addition, resources will be needed to update firms' methodologies for the two other quality management standards that will become effective simultaneously. Many firms will find it difficult to allocate additional resources with the ability to commit the necessary time to the simultaneous implementation of the suite of quality management standards, especially, as noted below, if other standards nearing finalisation become effective at the same time. If insufficient time is given for firms to implement ED-ISQM 1 in particular, there is the risk that firms will take the system they have in place today and make only minor adjustments to map the existing processes to the new requirements, rather than taking the necessary time to redesign the existing system to align with the fundamentally revised standards.

We are of the view that firms will find it difficult to implement a number of the changes proposed by ED-ISQM 1 within an 18-month period. For example:

- ED-ISQM 1 includes a requirement in respect of a firm establishing a specific culture. For larger firms that may not necessarily have the culture required under ED-ISQM 1, it may take more than 18 months for this culture to cascade through the whole firm and for it to become ingrained in its personnel.
- In situations where the firm is a member of a network of firms, the network may be responsible for developing certain parts of the system of quality management, which will then need to be tailored by the individual firms to address their specific facts and circumstances.

For the above noted parts of the system of quality management to be designed, tailored, effectively implemented and tested in an 18-month period would be a tall order for many firms. As such, there is a danger, that despite best efforts, firms will not be in a position to be in full compliance with the proposed standard by the proposed effective date.

ED-ISQM 1 also requires the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate whether that system provides reasonable assurance that the objectives of the system have been fulfilled. It is unclear whether the expectation is that the system of quality management is fully implemented, including the monitoring process and the assessment as to whether reasonable assurance has been achieved, by the effective date to be in compliance with the proposed standard. Even if the expectation is something less than this, the underlying processes required to put in place a

system of quality management to fulfil such a significant new requirement would necessitate a period of more than 18 months.

Additionally, there are two additional exposure drafts, which are currently being finalised for approval as a final standard, proposed ISA 315 (Revised)<sup>1</sup> and proposed ISRS 4400 (Revised).<sup>2</sup> Whilst, ISA 315 (Revised) has an effective date of periods beginning on or after December 21, 2020, we note that the timetable for approval of this standard has already slipped by three months to September 2019 and the effective date of ISRS 4400 has yet to be determined. In addition, firms are also implementing changes to their methodologies for the recently published ISA 540 (Revised). For a number of firms, the same pool of resources will be responsible for the implementation of all of these standards, their incorporation into firm methodology and the development of necessary accompanying training. For firms to implement changes in respect of 5 standards, 4 of which represent significant changes, practically simultaneously may actually have an adverse impact on quality.

In conclusion, because of the matters outlined above, we are of the view that the effective date of the standard should be no less than 24 months from its approval. We are further of the view that this effective date should be as of January 1, rather than a mid-year date such as June 30<sup>th</sup>.

**Q2. 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 general, implementation material, such as FAQs and specific examples addressing scalability of the requirements would be useful. A number of our specific responses below indicate the need for additional guidance for firms to understand the boundaries of the requirements and the depth of understanding and evidence required not only to fulfil the requirements of ED-ISQM 1, but to be able to demonstrate that fulfilment when being inspected against such requirements.

Consideration could be given to developing materials that facilitate more practical workshops on the implementation of the more problematic requirements of the proposed standard that are identified by the feedback received from respondents to these exposure drafts. National standard setters could be used in this respect.

We are, however, concerned that implementation materials, although helpful, will not be available in time to support implementation of the suite of standards if an effective date of 18 months is retained.

**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 no specific comments on this question.

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

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<sup>1</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

<sup>2</sup> ISRS 4400, *Agreed-Upon Procedures Engagements*

Public sector engagements encompass a large range of diverse organizations both in terms of the size of the organization and the nature of their activities. We are concerned that, absent a more robust definition or description of what is meant by “entities of significant public interest,” there may be a number of public sector engagements that become subject to an engagement quality review where such a review is not warranted; that there will be inconsistent application of this requirement by individual firms; that national public sector standard setters will have different interpretations of the requirement both within the same jurisdiction and across jurisdictions; or that regulators may interpret this differently to firms, resulting in increased inspection findings.

- 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 no specific comments on translation.