

IAASB Quality Project

Request for Comments

Duncan & Toplis Limited

Launch February 2019

Respond by 1 July 2019

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Comments

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?

R1: Yes. 18 months gives entities the time required to trial and implement the required systems. Equally, 18 months is not too long. Too long a period may encourage firms to put the implementation back and end up actually spending a shorter period of time reviewing their processes.

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?

R2: Help sheets provided clear, step-by-step instructions as to how to achieve full compliance with the new standards will be key. There has been a great deal of material provided relating to the new standards and a clear focussed response will be required from entities that must comply. To assist and to ensure time and costs are focussed in the correct way clear guidance is required.

IAASB Proposed ISQM1

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Q1: 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?**
- (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?**
- (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?**

R1:

- (a) Yes. A proactive approach to quality is essential and follows a trend across many areas of the audit industry to move to a proactive understanding and assessment of risk, from the existing reactive approach.
- (b) Again, yes. The requirements of ISQM1 (and associated standards) requires firms to sit down and spend time assessing quality objectives and risks (in a clear and structured manor) relevant to them. The standard also requires firms to then clearly document their responses to those risks and, vitally, to monitor the process. The standard clearly includes assessment of the appropriate level of use of professional scepticism in engagements.
- (c) Again, we feel that yes, they are. This is a risk-based approach and therefore the level of assessment, number of risks faced and suitable responses to those risks will all be based upon the size and complexity of the entity they are related to. Therefore, they are scalable.

Q2: 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?

R2: At this early stage, we cannot identify any aspects that are clearly a challenge. Work will be required to ensure that (and document) all of the stated quality objectives have been assessed and that any additional quality objectives have been identified, but none of this is thought to create a significant challenge.

Q3: 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?

R3: Yes, at this stage, the application material is thorough and numerous examples have been provided. To further this perhaps online training / webinars would be beneficial, with someone talking through the key factors for implementation?

A more detailed response can be given to this question once time is spent actually following the guidance and implementing the changes.

Q4: Do you support the eight components and the structure of ED-ISQM 1?

R4: Yes. Splitting the requirement into 8 clear components helps to focus firm's risk assessment to the different quality objectives.

Q5: 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?

R5: We agree with the objective. It clearly states the quality management objective and how this will improve and maintain the quality of firms using it.

Again yes, the standard clearly demonstrates how the objective supports the firm's role relating to the public interest. Higher quality audits – correct reports being issued – public has more confidence in the outcome of an audit.

Q6: 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?
- (b) Do you support the approach for establishing quality objectives? In particular: i. Are the required quality objectives appropriate? ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?
- (c) Do you support the process for the identification and assessment of quality risks?
- (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? 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?

R6:

- (a) Yes, it should (at least could) be applied to all 8 components identified and any other quality management objectives identified.
- (b) Yes, to all three questions. Establishing quality objectives leads to a focussed approach of establishing the objectives, assessing the objectives for risks, then responding to those risks. From earlier answers we clearly understood that additional objectives are expected to be established.
- (c) Again, yes.
- (d) Yes, the standard clearly requires firms to design and implement responses to the assessed quality risks. Again, yes, it is clear that the firm should implement responses in addition to those required by the standard.

Q7: Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

R7: There are numerous references to the firm's management being those that have to understand the standard and take the lead / responsibility for the standard being implemented and maintained. There are no further enhancements suggested at this stage.

Q8: 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?

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

R8:

- (a) Achieving an ethical culture (by hitting the ethical requirements) can only be achieved through collaboration. Although assigning overall responsibility to an individual may be applicable, the emphasis should be on those that control the firm, as a group. Therefore, if there really is only an individual that has control and no others (small firm), then ok, but if there is a management board structure in place, then it should fall on that board, as a body to be responsible. That is not to say that there cannot be an individual to lead this process or be the firm's representative.
- (b) Yes. Networks are addressed where appropriate, throughout the standard.

Q9: Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

R9: Yes, the requirement to assess quality objectives and associated risks relating to changing technology is clear throughout the standard.

Q10: 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?

R10: Yes, the standard specifically addresses external communication. Assuming adherence to the standard, this will in turn encourage the distribution of understanding of their quality management system with stakeholders, be it through a transparency report or otherwise.

Q11: 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?

R11: Yes. We agree that simply using the term 'PIE' may well create wide variances throughout the world in the differing interpretation of the term, but it is also correct to expand the definition to a greater level than simply listed entities.

The application material assists users to decide on their firm's policy in this area.

Q12: 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?**
- (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?**
- (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?**
- (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? ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?**
- (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?**

R12:

- (a) Yes, we feel this is the case. The proposal moves firms towards the monitoring and remediation phase of quality management, being an ongoing process. This is opposed to previous activities that may well have been a one-off effort. Firms must now actively review the policies and procedures in place and focus the specific monitoring activities to fit their business.
- (b) Yes. It is seen as a key requirement that each engagement partner is reviewed on a regular basis, to ensure that standards are being maintained. Increased flexibility, not determining exactly what the length of the cycle must be and including other types of review in the scope of the reviews ensures that high level standards of quality would be maintained across different types of audit assignments.
- (c) Yes. The definitions are clear and appropriate and the framework, splitting the two types of 'result' is considered beneficial to gaining the required information from the monitoring process. The definition of a deficiency clearly covers the three main stages of the QM process covered by the standard.
- (d) i. Yes. RCA is becoming increasingly appropriate across numerous different areas of business, not just auditing. It is a useful tool to clearly ID what is at the root of an issue. ii. As noted, it would be very difficult to clearly define what a positive outcome is and therefore although many firms may choose to use RCA to look at positive outcomes it would be very difficult to establish specific criteria where RCA was required for positive outcomes.
- (e) This will be a significant undertaking on an annual basis and dependent upon the size of the entity may be difficult to ensure that every required aspect is covered. This annual process will require collaboration with others and careful planning.

Q13: 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?

R13: The standard is clear that the responsibility for compliance lies at the firm level and therefore should address the over-reliance issue.

Q14: Do you support the proposals addressing service providers?

R14: Again, yes, the proposals are clear and ensure that a firm considers the impact on their quality management system of any involvement of service providers.

Q15: 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?

R15: We don't see why this would be an issue.

IAASB Proposed ISQM2

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Q1: 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?

R1: A separate standard does give EQRs prominence. However, the content could be incorporated into ISQM1. Splitting out which entities should have an EQR into a separate standard could cause confusion and may be either better placed in ISQM2 also, or bring in the contents of ISQM2 into ISQM1, even if it is in a clearly separate section.

Q2: Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

R2: Yes, they appear clear, although differences may not become apparent until using the standards.

Q3: 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?

R3: We do not believe that this makes a significant difference and would probably prefer to leave the terminology as it is. However, we do not believe that there will be any adverse consequences of changing the terminology.

Q4: 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?

(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?

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

R4: We do not feel that ISQM2 is clear enough in terms of who is eligible to be appointed as an EQR and feels like it is up to the firm to demonstrate certain requirements, rather than clearly stating rules, which would be preferable. For example, we do not feel it is reasonable for someone to perform an EQR if they, themselves are not in a position to sign an audit opinion, but this does not appear to be specifically excluded.

(a) We agree that a cooling-off period is required, and we feel this requirement should be strengthened. Our proposal would be to include some sort of ‘third-party’ rule, much like the UK’s FRC ethical standard on independence. An EQR, we feel, should be as

independent as reasonable to be able to give an objective view of significant judgements and matters.

(b) Agreed that it should appear in ISQM2 (or ISQM1 if it is decided to just have the one standard).

Q5: 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)?

R5: Yes, it is vitally important that the EQR is involved at the appropriate stage of the audit and can address significant matters and judgements at an appropriate point in the process, to allow the engagement team to appropriately respond to any matters raised by the EQR.

Q6: 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 scepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

R6: Absolutely. An engagement team cannot make suitable significant judgements concerning significant matters unless they have exercised professional scepticism and therefore this must be a requirement of the EQR to evaluate this.

The requirements for the exercising of professional scepticism by the EQR themselves could be made more explicit and perhaps the standard could include application material suggestion activities that would demonstrate this.

Q7: Do you agree with the enhanced documentation requirements?

R7: Yes, we agree with this requirement. It seems like common sense to clearly document the work performed by the EQR and to ensure that it is on the file and the standard clearly notes this.

Q8: 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?

R8: Yes, we believe that they are. Smaller, less complex firms will have fewer clients that require an EQR (per ISQM1) and the standard not being prescriptive in many areas means that entities can appropriately tailor the requirements to their size and complexity.

Revised ISA 220

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Q1: 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?

R1: Yes. Given recent, high-profile corporate collapses (BHS for example) where it was proven that the engagement partner evidenced very little time spent in the audit file this is absolutely key to the performance of high quality audits.

The engagement partner must lead the engagement and it is vital that the ISAs reflect this.

Yes, the ISA references where and how other partners play a role in the engagement team. It is now clear that the role of the EQR, for example, is to be covered by ISQM2.

Q2: 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?

R2: Yes. There are clear links to the ISQMs and it is clear where and when the engagement partner may use the firm's policies and procedures and also that the firm's policies and procedures must be considered on each assignment to ensure that they are applicable to the specific circumstances of a given engagement, rather than blindly assuming that the firm's policies will ensure compliance.

Q3: Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

R3: Yes, we support this. Professional scepticism is a key focus running through the core of audit and therefore is applicable here.

The application material is clear and provides some interesting and positive reminders/points of consideration.

Q4: Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

R4: Yes. The wording has been significantly updated to adequately reflect the number of different delivery models and technology now used.

Q5: Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

R5: Yes. As per the response to question one, given the recent, high-profile corporate collapses, these elements must be made absolutely clear, especially with regards to the role played by the engagement partner. This is now the case.

Q6: Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

R6: Yes. Documentation requirements are clear.

Q7: 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?

R7: Yes. As per ISQM1 & 2 it is clear that the depth of the response to the requirements of the updated standard shall be applied on a risk basis, dependent upon the size and complexity of the engagement.