



## IAASB Exposure Draft

**Proposed International  
Standard on Quality  
Management 1, *Quality  
Management for Firms that  
perform Audits or Reviews of  
Financial Statements, or  
Other Assurance or Related  
Services Engagements***

Request for public comment

28 June 2019



### 1.1.1 General Comments on Proposed ISQM 1

We question the need for a standard of this scale and complexity to apply to non-audit engagements. We are not convinced that there is a public interest argument that justifies such an imposition. More simply explained quality management models already exist, for example that produced by the ICAEW in the UK.

### 1.1.2 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?

Response:

We agree that the overall effect of ED-ISQM 1 is to place a much greater requirement on firms to manage engagement quality. We agree with the underlying approach of identifying objectives, assessing risks and designing responses to those risks.

However, we are concerned that the length and complexity of the proposals will be a significant barrier to scalability in practice, as noted below.

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?

Response:

Yes, we support the overall approach of identifying risks and designing responses. It fits with existing practice and makes conceptual sense.

- (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?

Response:

Given that auditor competencies must be a key part of audit quality, we would encourage the IAASB to mention the the International Education Standards issued by the International Accounting Education Standards Board. We have found IES 8 hard to apply in practice, so there is an excellent opportunity here for collaborative work between the IAASB and IAESB to provide some practical guidance.

- (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?

Response:

The combined length and complexity of the standard makes it difficult to read and engage with. The language in many places could usefully be made simpler, sometimes by using plain English rather than sticking rigidly to the theoretical model. We give some examples in the "editorial comments" section below. It is particularly important that the requirements should be concise and clear, so that there is no ambiguity and it is easy to understand what is mandatory, in order for the standard's objectives to be achieved.

Flowcharts and diagrams are very helpful, and should be considered if the language itself cannot be simplified (though the need for diagrams is itself indicative of the complexity of the requirements).

The scalability of the standard could sometimes be improved by included further illustrations. For example:

- Paragraph A18 gives an example of using an IT application for obtaining confirmations of independence from staff. In a smaller firm, this would probably be done via email or a hard copy questionnaire, and this could usefully be acknowledged.
- Paragraph A69 could acknowledge that the “information and communication” component will be more straightforward in an SMP, and there is no need to create artificial processes if it can be demonstrated that more informal processes consistently achieve the quality objectives.
- In Appendix 1, paragraph 5 could be expanded to help SMPs. Part (a) talks about firms with a service delivery centre, and this could be contrasted with a smaller firm where everything is done by a few personnel, making it easier to direct and supervise work and thus decreasing the quality risk.

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?

Response:

We have already noted our concerns regarding the scope, length and complexity of the standard.

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?

Response:

We have already noted some instances above where further guidance or examples would be helpful.

By contrast, some of the examples given in ED-ISQM 1 appear to us to be so obvious as not to need stating:

- Paragraph A38 is perfectly understandable without the example.
- The expression “all personnel” in the final bullet of paragraph A119 is perfectly understandable without the following three lines of explanation.
- The final sentence of paragraph A189 would be more helpful if it talked about some of the factors that would help those assigned ultimate responsibility to draw conclusions, rather than simply stating the fact that the information presented to them needs to enable to draw a conclusion.

### 1.1.3 Specific Questions

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

Response:

Yes, we support these.

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?

Response:

Yes, we support the objective of the standard.

However, we believe that the introduction of the concept of "significant public interest" entities, with almost no discussion, is unhelpful as it stands. Whilst we understand the reasoning behind leaving it up to individual firms to decide which entities fall into this category, we are concerned that what will happen in practice is that national regulators will simply make their own decisions and impose these upon firms. If the IAASB wishes to create an additional tier of entity with specific requirements attached, we believe that it should provide further discussion and examples to promote some consistency between firms and regulators. At the very least the discussion in the draft application guidance should be signposted more prominently from paragraph 37(e).

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?

Response:

Yes, we agree.

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

In particular:

i. Are the required quality objectives appropriate?

Response:

Yes, we believe that these are appropriate.

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

Response:

Yes, we agree that this is clear.

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

Response:

Yes, we support this process.

(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?

Response:

Yes, we believe that this approach will produce tailored risk assessments and responses.

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?

Response:

Yes, we believe that this is clear.

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

Response:

We agree in general with the revisions to the standard.

We believe that it would be helpful to clarify the level of “firm leadership” to which the requirements apply in firms where the strategy and management of the audit business is delegated to a separate board or committee.

- 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?  
Response:  
Such responsibilities already rest with the ethics partner and the engagement partner under ethical standards. We see no need for this to be changed or duplicated in ED-ISQM 1 - a cross-reference would suffice.
- (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?  
Response:  
Again, we believe that this should be covered in ethical standards. We see no need for this to be duplicated in ED-ISQM 1 - a cross-reference would suffice.
- 9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?  
Response:  
Given the fast-changing nature of technology, and the different levels of usage by different sizes of firm, we understand the IAASB’s desire not to be too specific in this area. However, as currently worded, some of the application guidance is too general to be of any use (we discuss some examples in the “editorial comments” section below).
- 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?  
Response:  
We agree that it should be up to individual firms to determine the nature and extent of non-mandatory communication about quality management, and therefore support the current drafting.
- 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?  
Response:  
Paragraph A104 lists examples of the kinds of engagements that “may” require an engagement quality review to respond to assessed risks. It would be helpful if the standard also talked about other possible responses that might be acceptable.
- 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?  
Response:  
Yes, we think that the proposals will improve monitoring and promote proactivity.
- (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?

Response:

Yes, we agree.

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

Response:

Yes, we believe that the framework is clear and we 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?

Response:

Yes, we believe that these are sufficiently flexible.

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

Response:

Whilst we understand the need to focus on responding to negative findings, we think that more emphasis should be placed on the identification, understanding and communication of positive findings. It is of course right that negative findings should be dealt with appropriately; however, quality monitoring and regulation that is framed almost wholly in negative terms drives a compliance mentality that is anathema to the exercise of professional judgement and scepticism. It also decreases the attractiveness of the audit profession if people are constantly told what they are doing wrong and nothing about what they are doing right.

We think it would be helpful if paragraph A177 was expanded to place more emphasis (without necessarily being prescriptive) on understanding and rewarding what's going right as well as wrong.

(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?

Response:

We have no comments.

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?

Response:

Whilst we understand the need for the proposals, we question how the requirement in paragraph 63(b) would work in practice. It is difficult to see how an individual firm can understand whether the network's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s), unless they were provided with full detail about how the network arrived at its conclusions. This would place a significant additional time and cost burden on individual firms and on the network. It should also be borne in mind that some networks do not impose common audit methodologies upon their members.

We would also encourage the IAASB not to impose requirements on networks via the "back door" of individual firms. If the requirement in paragraph 63(b) is kept, it should be imposed on the networks directly, with suitable application guidance.

14) Do you support the proposals addressing service providers?

Response:

We would encourage the IAASB to develop suitable application guidance aimed directly at service providers, to assist firms in explaining what is required.

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?

Response:

We do not anticipate any.

#### 1.1.4 Editorial Comments on Proposed ISQM 1

**Repetition:** we note some unnecessary repetition between the main standard and the application guidance, which simply increases the overall length of the material. For example, most of paragraph 4(b) is repeated in paragraph A23, and Appendix 1 is mostly a repeat of the main standard.

**Language:** in many places we consider the language to be wordy and over-complicated, for example:

- Paragraph 10, in particular (c).
- The definition of “quality objectives” in paragraph 19(p) seems circular - objectives providing assurance that objectives are achieved.
- The definition of “system of quality management” in paragraph 19(v) seems almost to repeat the firm’s objective in paragraph 18. There is also repetition of paragraph 19(p).
- Paragraph 28(a) refers to quality risks that have a reasonable possibility of occurring and cross-refers to paragraph A55, which then says: “There is a reasonable possibility of a quality risk occurring when the likelihood of the occurrence is more than remote.” It would seem simpler to us to change paragraph 28(a) to refer to risks that are not remote and delete paragraph A55.
- We find the presentation of paragraph 38(a)(i) and (ii) as “either/or” confusing. It implies that (ii) doesn’t require knowledge or experience.
- We find some of the application guidance very difficult to understand as drafted. For example:
  - Paragraph A51 seems to be trying to express an idea in terms of the theoretical framework which would be much more clearly expressed in plain English - the “information and communication” component requires you to communicate information in a timely manner, and this could be relevant to ethical matters too.
  - The example in paragraph A87 could be usefully less wordy, as it is not dealing with a complex idea.
  - The requirement in paragraph A113 that “Given the nature of financial resources, the quality objectives and responses in governance and leadership, such as those that address financial and operational priorities, address financial resources” is opaque - is it simply saying that appropriate resource planning must include financial resources?
  - We do not understand the overall point that paragraph A157 is trying to make.
- Sometimes, we consider the use of “may” to be inappropriate. For example:
  - Paragraph A109: “The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without the appropriate authorization to do

so, or if it is permanently lost or damaged.” It is hard to see how it could not be compromised in most of these circumstances.

- Paragraph A123: we do not consider it appropriate for a quality management standard to say that a firm “may” take action where personnel demonstrate poor quality, and that the actions “may” depend on severity and frequency. We believe that this should be a required response.
- Paragraph A129:
  - In our view, the use of IT applications or other aspects in the IT environment **will** give rise to quality risks.
  - Similarly, we believe that the nature and significance of these quality risks **will be** based on whether, and the extent to which, the firm relies on IT.
  - We also believe that general IT controls **must** be part of the responses.
- Paragraph A131: again, we do not consider it appropriate for a quality management standard to imply that it would be acceptable for engagement teams not to receive training on how to use IT applications appropriately.
- Paragraph A134 implies that engagement teams do not have to follow the firm’s methodology where one exists, which we assume is not the intention.
- Paragraph A160: we cannot envisage why the nature, timing and extent of the firm’s monitoring activities would not be more robust where the risks are greater.