



For the attention of Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

3 July 2019

Dear Mr. Botha,

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

IAASB Exposure Draft: 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

We¹ appreciate the opportunity to comment on the IAASB's Exposure Drafts (EDs).

We support the principle of a quality management approach. Refocusing the quality control standard to be based on an objective-driven and risk-based approach will encourage a more proactive focus on quality management. As a network, we are in the process of implementing such an approach and the experience and lessons we have learned to date have informed our recommendations in this response.

We believe the exposure draft presents a useful framework for implementing such an approach and we support many aspects of the proposals.

Flexibility in the design of the system of quality management (SoQM) is important and critical to the success of the standard. The structure of a firm's system will need to be designed to enable the firm to effectively manage and support quality based on its nature and circumstances. National standard setters that base their local standards on the International standards, or law or regulation, may also set out a different, or more prescriptive, approach that firms may also need to comply with. Therefore, we support the guidance in paragraph A5 of the standard that a firm may use different terminology or frameworks to describe its SoQM, which allows firms to design their SoQM in the way they believe will be the most effective. We would have significant concerns if this flexibility were to be removed.

However, to fully achieve the intended goals and avoid inconsistent interpretation and application, we believe certain aspects of the proposals need to be reconsidered:

- **Quality objectives and quality risks** - We recommend that the prescribed quality objectives within the standard be reshaped into higher level, less granular objectives in order to encourage firms to give greater thought to the potential risks in achieving those objectives.

¹ This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: + 44 (0)20 7583 5000, F: + 44 (0)20 7822 4652

The specificity of the proposed objectives can instead be retained by introducing “risk factors” that the firm is required to take into account in identifying and assessing quality risks. We believe this is a pragmatic compromise that avoids prescribing specific risks that may be viewed as incomplete, while providing useful direction for firms to assist in the determination of potential risks. We elaborate further in our response to question 6(c).

- **Information and communication component** - In our view, information and communication need to be considered throughout the firm’s system of quality management, due to their pervasive impact. For each component/functional area of the firm’s SoQM to function in the best interests of supporting quality, it is vital that effective communication and provision of information be embedded in the firm’s processes. We suggest, in our response to question 4, an approach to better integrate information and communication within each component within the standard.
- **Risk assessment process** - We find the proposed two-step approach to identifying and assessing risks to be confusing and recommend that the Board reconsider it. The standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome. We provide further details in our response to question 6(c). In addition, similar to our suggestion with respect to the information and communication component, we also suggest that the Monitoring and Remediation component needs to be considered differently. We offer an alternative approach to addressing this component in our response to question 6(a).
- **Communication with third parties** - We question whether an explicit quality objective related to communication with external parties is necessary. External reporting is an output of the system rather than a core component that supports managing and achieving quality on engagements. It is first and foremost a matter for jurisdictional regulators and, in fact, best addressed by them, taking into account the nature and circumstances of their capital markets and stakeholders. We are concerned that the criteria for a firm’s own determination of when it would be appropriate to report externally to third parties are too broadly defined. In our view, the requirements should be limited to addressing communication externally when required to do so by a jurisdictional requirement. Application material can provide relevant considerations for when a firm might otherwise choose to communicate externally, including *how* the firm may communicate and tailor its communication in such circumstances, which may include a transparency report. As we discuss in our response to question 10, we also suggest providing examples of the matters that may be relevant to communicate to various different third-party users.
- **Networks requirements and services and service providers** - We believe that the standard needs to explicitly clarify that regionally developed, or individual network firm-to-network firm, services are within the scope of the network services requirements in order to avoid inconsistent understanding. Similarly, with respect to service providers, further clarity and guidance are needed on the scope of services to which these requirements apply, and the extent of the firm’s required responses to quality risks. Otherwise, we fear that there will be inconsistent interpretation and practices emerging. Depending on the scope of application and, therefore, the potentially significant interactions required with external parties, we also believe, the potential costs and benefits of the service provider requirements need to be further assessed. For both these sections of the standard, clear implementation support



materials, addressing both audit and other non-audit services within the scope of this standard, will be important.

Scalability

Scalability is an important consideration and key challenge in all of the IAASB standards currently under revision. We note that the length of the ISQM may create perceptions of a lack of scalability.

We agree that the risk-based focus helps build scalability into the standard, allowing firms to appropriately tailor their system of quality management to the nature and circumstances of their business, including the nature and scale of engagements they undertake. It is equally important to recognise that a level of professional judgement is involved in determining the nature, timing and extent of actions to respond to risks.

However, to further demonstrate this scalability, we believe that additional FAQs and worked examples that illustrate relevant considerations in complying with ISQM 1 for smaller firms, and for firms that may only provide non-audit assurance or related service engagements, would be useful. Such examples could build on the existing proposed examples by addressing how a firm's risk assessment process may be applied to other components of the SoQM. That said, examples and FAQs should not be used to compensate for a lack of clarity in, or inconsistency in interpretation of, the requirements and application material. It is for that reason that we believe that addressing the matters described above is important.

In developing implementation support materials, the IAASB should give appropriate balance to audit and non-audit based examples. Given the broad scope of the standard, sufficient prominence and communication need to be given to the broader application of the standard to non-audit engagements.

In conclusion, we support adopting a quality management approach, focused on quality objectives, quality risks and responses and believe that building a firm's SoQM around such an approach is in the best interests of audit quality. Refining, and providing further clarity with respect to the matters outlined in this letter will, in our view, help firms establish a robust SoQM.

We provide further context to the above points in our responses to the detailed questions posed in the explanatory memorandum in appendix 1 to this letter.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at james.chalmers@pwc.com.

Yours sincerely,

A handwritten signature in black ink that reads 'James Chalmers'.

James Chalmers
Global Assurance Leader



Appendix 1 - Responses to specific questions - Covering Explanatory Memorandum

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?

From our own perspective, PwC Network member firms are well advanced in implementing our own quality management approach into their system of quality management (SoQM). Nevertheless, potentially significant further changes are likely to be needed to align with the final standard.

Based on our experience, it requires a significant investment of time and effort to implement a new, robust and effective quality management system. We also recognise that other firms, and especially smaller practitioners, may not be as far down the path. Firms that also make use of an external service provider in supporting their SoQM may also require additional time.

Therefore, while recognising the importance of driving this change in approach in a timely manner, a longer implementation period of, for example, 24 months is likely to be necessary to allow firms to effect robust and effective implementation in line with the Board's objectives.

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?

We support the proposed FAQs. Additional FAQs and worked examples that illustrate relevant considerations in complying with ISQM 1 for firms that may only provide non-audit assurance or related service engagements would be useful. Such examples could build on the existing examples by addressing how the firm's risk assessment process may be applied to other components of the SoQM. These are likely to be most useful to smaller firms, in emphasising the standard's scalable application.

That said, examples and FAQs should not be used to compensate for a lack of clarity in, or inconsistency in interpretation of, the requirements and application material. The principles and guidance should be sufficiently clear in their own right. Before issuing the FAQs, we encourage the Board to consider whether the application material to which they relate is sufficiently clear in the first instance.

The new sections of ISQM 1 addressing network services and use of service providers may prove most challenging for firms, both in understanding their respective scope and what is expected in complying with those requirements. Scalability should be achievable based on the nature and extent of the use of such services by firms. However, in our view, additional guidance to clarify the nature and extent of "network services", perhaps through a (non-exhaustive) illustrative list, together with worked examples addressing both network services and services from service providers, would help to illustrate their application.

3. 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.**
- 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.

- 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.**

No specific comments.

Appendix 2 - Responses to specific questions - International Standard on Quality Management 1

- 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?**

We support the principle of a quality management approach. Refocusing the quality control standard to be based on an objective-driven and risk-based approach, will encourage a more proactive focus on quality management. In our view, this model is more reflective of how firms should be managing quality, and more aligned to risk management frameworks used by other organisations.

The exposure draft presents a useful framework for establishing this approach and we support many aspects of the proposals. We describe in our cover letter the specific areas where clarifications and refinements are, in our view, necessary to fully achieve the intended goals.

- 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?**

A robust System of Quality Management (SoQM) and focus on proactive quality management, particularly when demonstrated through a firm's culture and leadership, create an environment that supports quality and reinforces the importance of professional scepticism.

However, in our view, the intended benefits to quality will be dependent upon:

- effective implementation by firms, including at the engagement level; and
- addressing the matters we have identified in our cover letter.

Other actions

We suggest that ISQM 1 could highlight the importance of the IAESB's proposed education standards, in particular IES 8, in supporting competencies, including the application of professional scepticism. Emphasising the role and responsibility of experienced team members in setting the tone within the engagement team, and in coaching and mentoring junior engagement team members, through this linkage to IES 8, is important as this underpins the behaviours that support professional scepticism.

We note that IES 8 explicitly references extant ISQC 1 and ISA 220, and includes a relationship diagram. It would be helpful to see this relationship mirrored consistently in the IAASB standards.

- 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?**

Scalability is an important consideration and key challenge in all of the IAASB standards currently under revision. We note that the length of the ISQM may create perceptions of a lack of scalability.

We agree that the risk-based focus should help build in scalability of the standard, allowing firms to appropriately tailor their SoQM to the nature and circumstances of their business, including the nature and scale of engagements they undertake. However, see also our response to question 2 in appendix 1 with respect to network services and service providers.

There is a risk of misunderstanding arising from the statement in paragraph 10(c) that the responses required by the ISQM alone are not sufficient. We think this is fuelling concerns around scalability. One of the primary reasons why the responses specified in the standard will not be sufficient is due to the fact that not all components have prescribed responses, rather than each component requiring perhaps many additional responses to those prescribed. Making this point explicitly may help address scalability misperceptions related to this paragraph.

Application to non-audit engagements

ISQM 1 applies to all engagements conducted in accordance with the IAASBs standards. Much of the focus throughout the standard, and in discussions about the standard by stakeholders, naturally gravitates towards audit. For example, in considering network requirements and services there is a risk of too narrow a focus by firms on audit services.

In developing implementation support materials, it will be important that the IAASB give appropriate balance to audit and non-audit based examples and also ensure sufficient prominence and communication is given to the broader application of the standard to non-audit engagements.

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?

The Network Services and Service Providers sections of the ED are likely to be most challenging to implement. Refer to our comments in response to questions 1(c), 13 and 14 within this appendix.

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?

We have provided substantive and editorial comments on the application material within appendix 4 of this letter.

In addition to the points raised in appendix 4, we also think that it may be useful to provide further examples in the application material to the monitoring and remediation component of ongoing monitoring activities that a firm may perform. For example, a central quality function might perform reviews of an acceptance decision when certain risk factors are present, or a central learning and education function might perform reviews to monitor that relevant partners and staff have attended mandatory training and, when applicable, assess the reason for non-attendance and actions that need to be taken.

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

We support the matters addressed within each of the eight components described in the ED. However, we make two observations on structure.

Maintaining flexibility

Flexibility in the design of the SoQM is important and critical to the success of the standard. The structure of a firm's system will need to be designed to enable the firm to effectively manage and support quality based on its nature and circumstances. National standard setters that base their local standards on the International standards, or law or regulation, may also set out a different, or more prescriptive, approach that firms may also need to comply with. Therefore, we support the guidance in paragraph A5 of the standard that a firm may use different terminology or frameworks to describe its SoQM, which allows firms to design their SoQM in the most effective way. We would have significant concerns if this flexibility were to be removed.

Information and communication

In our view, information and communication may best be addressed by incorporating relevant considerations directly into the other components of the SoQM due to their pervasive importance to the effective functioning of those other components. As the ED notes, the information and communication component is an "integral part" of the effective operation of the other components. For example, paragraph A69 gives examples of how responses within the information and communication component also address assessed quality risks in the relevant ethical requirements component. In our view, information and communication needs to be considered throughout the firm's SoQM. For each component/functional area of the firm's SoQM to function in the best interests of supporting quality, it is vital that effective communication and provision of information be embedded in the firm's processes.

In that context, we recommend that the matters addressed in the information and communication component could be more appropriately addressed within the standard through:

- establishing overarching objectives addressing information and communication, potentially as part of the governance and leadership component;
- identifying risk factors (see our comments in response to question 6 on the design of the firm's risk assessment process) within each component linked to the critical role and purpose of effective information and communication in the successful functioning of that component;
- relocating and/or repositioning any required responses to better integrate with the purpose of those other components and the potential risks to be addressed.

In the event that this remains as a separate component, it will be important that this interrelationship - this pervasive foundational element to the effective operation of other components (as described in paragraph A135) - be reinforced, both within the standard and also through implementation support materials. As part of applying the firm's risk assessment process to the other components, it is important to think about the risks that may arise in relation to information and communication, rather than thinking about information and communication in isolation.

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?

We support the objective of the standard.

Comparing the proposed objective with that proposed in ISA 220 (Revised) with respect to quality at the

engagement level, we note one element of inconsistency. ISA 220 (Revised) states that *“the objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved, such that.....”*. Although implicit in the proposed ISQM 1 objective, a similar construct could be applied here, to bring consistency between these two interrelated standards, by amending the objective thus:

“The objective of the firm is to manage quality at the firm and engagement levels, through designing, implementing and operating a system of quality management.....”

While we support the overall objective of the standard, we have concerns with the proposed quality objectives within each component (see our response to question 6).

We consider the description within the standard that “the public interest is served by the consistent performance of quality engagements” to be appropriate. The interpretation of the term “public interest”, as with the term “public interest entity” varies across jurisdictions and we do not believe ISQM 1 is the vehicle to seek to address a definition.

- 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?**

The manner in which the risk assessment process is applied to each component may differ depending on the nature of the component.

Further to our comments in response to question 4, the information and communication and monitoring and remediation components should not, in our view, be subject to the firm’s risk assessment process, in the same manner as other components.

For example, while the risks associated with ineffective provision of information or communication need to be assessed, such risks should be identified (and responded to) through each of the other relevant components, due to the pervasive nature of information and communication, as described in our response to question 4.

In addition, given the unique nature of the monitoring and remediation component, it is less well-suited to defining specific quality objectives, risks and responses. As the many detailed requirements illustrate, this component represents activities a firm has to put in place and execute (similar to responses). Because of the level of specificity of the responses in the standard, we do not consider it necessary to specifically identify quality risks arising from this component and believe that doing so will result in a level of circularity with the prescribed responses - the primary risk being that the required response has not been put in place or executed appropriately. Many specific monitoring activities, to us, also represent responses to risks that may have been identified in other components. To subject those to a further level of risk assessment does not seem logical.

We suggest that it would be more appropriate to:

- Describe an overall objective for what monitoring and remediation activities as a whole are trying to achieve;

- Identify higher-level risk factors to be assessed, focused on the design and completeness of monitoring and remediation activities and resources needed (see our responses to questions 6(b) and (c) below on risk factors). This would include risk factors that address some of the requirements identified in the ED, including making sure individuals who are competent, capable, and that have sufficient time to perform the monitoring activity, are assigned to those activities;
- Not require a more granular risk assessment related to the execution of the specific monitoring activities; and
- Include consideration of whether certain monitoring activities, for example, engagement level reviews, have been appropriately designed and implemented to meet the overall objective.

By way of example, a firm may have in place a monitoring activity that monitors whether training has been completed by the required target audience. This monitoring activity is also a response to an assessed quality risk around having competent and capable personnel within the Resources component. In our view, it does not make sense to assess the risk that this monitoring activity is not effective separately from what that response is trying to achieve.

- 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?**

We agree that firms should establish quality objectives as part of their SoQM. The quality objectives set the context for appropriately identifying and assessing the risks to achieving them.

However, in our view, the prescribed quality objectives, as articulated in the ED, are too granular and that they reflect or incorporate detailed risk considerations. The overlap between the language used to describe many of the quality objectives and the language of the prescribed responses within certain components highlight this.

We recommend that a more appropriate approach is to establish broader, less granular objectives that, together with our recommendations on risk assessment in part (c) below, will encourage firms to give greater thought to the potential risks to achieving such quality objectives, resulting in a more robust and tailored risk assessment. Broader, higher level objectives will also, in our view, better encourage firms to identify additional quality objectives tailored to the nature and circumstances of the firm. We provide an illustration of this concept for two components in appendix 3.

We think it is sufficiently clear that the firm is expected to establish additional quality objectives beyond those required by the standard, based on the nature and circumstances of the firm and its engagements, to achieve the overall objective of the standard.

- c. Do you support the process for the identification and assessment of quality risks?**

We support the concept of having a process for identifying and assessing quality risks. As noted in our response to part (b) above, we suggest that a more robust risk assessment may be encouraged through defining broader quality objectives. To complement those quality objectives, we propose introducing a requirement that describes risk factors (or "considerations") that the firm is required to take into account in identifying and assessing the quality risks related to achieving the quality objectives for that component, in accordance with the firm's risk assessment process.



We believe the incorporation of risk factors that a firm is required to take into account in identifying and assessing quality risks represents a pragmatic compromise between the views expressed by some stakeholders that the standard should prescribe quality risks that would be expected to be common for all firms, and the objective of requiring a firm to tailor its risks to the nature and circumstances of the firm. The standard can make clear that the required risk factors are not a definitive list, and a firm may identify additional risk factors in identifying and assessing its quality risks. Appendix 3 illustrates example risk considerations.

The proposed drafting of the prescribed quality objectives and responses implies the nature of the risks that a firm should identify. A list of factors may encourage a firm to think more broadly than only the risks implied by the prescribed responses.

We also believe this approach will provide a better bridge between the quality objectives, risks and responses.

Two-step approach to identification and assessment of risks

We find the proposed two-step process for identifying and assessing risks - making a “preliminary consideration of the possibility of the quality risks occurring and their effect on the achievement of the quality objectives”, based on a “reasonable possibility” threshold, to be both confusing and problematic to implement. The reasonably possible threshold concept, which has also been adopted in the proposed revisions to ISA 315, blurs the identification and assessment of risks by requiring an assessment of the risk for the purposes of determining whether the risk should in fact be “identified”. We think this will give rise to confusion and inconsistency in approach and documentation.

In our view, the standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome. Additional guidance could be included to explain how the firm may consider the potential likelihood and magnitude of quality risks that may occur to assist in the determination of which risks could potentially have a significant effect on the achievement of a quality objective, based on the firm’s facts and circumstances and views on how the risk factors may affect the firm.

In practice, as the explanatory memorandum states, firms are likely to identify and assess risks through a combined process. It is unclear what incremental assessment is anticipated from the “more detailed assessment” as described in the explanatory memorandum.

- 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?**

We support the approach of requiring firms to design and implement responses to address the assessed quality risks. The ED prescribes many responses, which for a number of firms will represent the majority of their responses.

It is reasonably clear that a firm will need to design and implement additional responses beyond those prescribed by the standard. But, see our response to question 1(c) with respect to the risk of misunderstanding arising from the statement in paragraph 10(c).

We suggest our recommendations in response to parts (b) and (c) above, would further reinforce the development of tailored responses by a firm, based on a more robust quality risk assessment.

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

The ED appropriately recognises the importance of governance and leadership, including establishing an appropriate tone at the top, and responsibility for delivering key messaging relating to quality to staff.

The requirements strike an appropriate balance between setting out principles and expectations of firm leadership, and detailed requirements, recognising that different jurisdiction legal or regulatory requirements may exist relating to audit firm governance.

As a matter of providing a logical flow to the standard, it may be more appropriate to include the firm's risk assessment process, which explains the role of quality objectives, risks and responses, prior to the governance and leadership component. While we recognise the importance of the role of the governance and leadership component with respect to the oversight of the SoQM, in our view reordering these components may aid understanding.

With respect to paragraph 24(a), we agree that an individual with ultimate responsibility for the SoQM needs to be appointed and that in many cases this may be the firm's senior partner or managing board.

In many firms, there may be a senior Assurance partner, or Assurance Board, that, in light of the firm's structure, might be assigned ultimate responsibility for the firm's SoQM in accordance with ISQM 1. It would be useful to reflect this in the language of paragraph 24(a) and paragraph A36.

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?

We agree that responsibility for compliance with independence requirements can be assigned to a single individual within a firm. However, we recognise that relevant ethical requirements is a far broader topic, and perhaps too broad to assign responsibility for compliance with such requirements to a single individual.

If the Board were to adopt a requirement addressed at relevant ethical requirements, rather than independence, we suggest it would be necessary to allow for a further level of assignment, such that that individual could assign, for example, operational responsibility for independence to another individual who reported to them.

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



The Standard sets appropriate principles and guidance that reflects the fact that the specific applicability of relevant ethical requirements to the firm, the firm's network, and to others outside of the firm's network, will be determined by the requirements that apply in the firm's jurisdiction.

While we consider the requirements in the standard to be appropriate, we note that we have concerns about the practical implications of the potential change in the definition of the engagement team in proposed ISA 220 (Revised), when applied to individuals outside the firm, including outside a firm's network. The impact of that change will need to be assessed by a firm in complying with the requirements in ISQM 1, which may prove significant. See our related response letter on the exposure draft of ISA 220 (Revised).

We provide a number of other observations on specific paragraphs within this component in appendix 4.

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

The addition of technological resources is a worthwhile addition to the standard. We note the criticality of the word "appropriate" when describing technological and intellectual resources. In some jurisdictions or smaller sized practitioners, technology may not be as advanced or widely used. Therefore, it is important that the standard does not mandate the use of technology in too broad a sense.

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?

We observe that paragraph 40(e) of the standard seems out of place. ISQM 1 addresses the establishment and operation of a SoQM and paragraph 40 states in its lead in that the quality objectives are to "enable the design, implementation and operation of the system of quality management". This specific paragraph addresses external reporting - it has no bearing on the firm's system or impact on quality. It is therefore an output of the system rather than an element of a component of the system. We, therefore, question whether this requirement is necessary in this standard. This is first and foremost a matter for jurisdictional regulators and, in fact, best addressed by them, taking into account the nature and circumstances of their capital markets and stakeholders.

We also make the following observations on paragraph 41(c)(iv), which addresses the firm's policies and procedures with respect to communication with external parties:

- The requirement to take into account "whether there are external parties who may use such information" sets a low bar. We find it difficult to envisage any circumstances where there would typically not be some external party that "may" use such information, even for small firms, thereby implying it is always appropriate to communicate. In our view, this represents a significant scalability concern.
- We consider it inappropriate to specifically refer to a transparency report as a means of communicating to external parties within the requirement. That is one example of how

information may be communicated and, in our view, examples such as this should be included within application material. We do not consider this to represent “essential explanatory material” and therefore does not warrant inclusion in the requirement.

Publication of detailed quality information could also be harmful in some specific circumstances. For example, jurisdictions with emerging markets may have less sophisticated investors and/or governance requirements generally, and disclosure of detailed information may in fact lead to lesser, rather than improved, trust in audit if the information is not understood in context.

Taking into account the above points, we recommend that the standard could better address this matter by amending paragraph 40(e) to be conditional upon a jurisdictional requirement:

“When required by law, regulation or professional standards, the firm communicates relevant and reliable information to external parties regarding the firm’s system of quality management.”

With respect to the required responses, we suggest:

- paragraph 41(c)(i) be amended to directly address communication with regulators or oversight bodies, for example *“Communication with regulatory or professional oversight bodies”*; and
- paragraph 41 (c)(iv) be amended in line with our suggested quality objective above, as follows:

“When required by law, regulation or professional standards, other communication to external parties about the firm’s system of quality management [remainder deleted].”

We suggest that application material can provide relevant considerations for *how* a firm may communicate in such circumstances, which may include through a transparency report, and provide examples of the matters that may be relevant to communicate to various different third-party users e.g., investors, those charged with governance etc.

Recognising the IAASB’s intent in including these requirements, we propose that the application material could address that, when not required to communicate such information, a firm may nevertheless determine it is appropriate to communicate and provide relevant considerations as to why such communication may be of value to such third parties.

Structuring the requirements and application material in this manner will, in our view, properly reflect the primacy of the role of jurisdictional law and regulation in this area, while still promoting the overall message intended by the Board.

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?

We support the scope as articulated in the requirement. In particular, we agree that for engagements other than audits of listed entities or those for which law or regulation prescribes an EQR, it is appropriate that the firm determines, based on the nature and circumstances of the engagement, whether an EQR is an appropriate response, either due to the significant public interest in the engagement or as a response to an assessed quality risk.

We note that the term “significant public interest” is subjective and believe further guidance is needed in illustrating the concept. For example, additional factors could be provided that could, for example, include entities that provide important public services or services that, should the company fail, would likely have an adverse impact on a large cross-section of the population e.g., travel companies. Any such list would not be exhaustive and can present illustrative considerations only. However, in the interests of more consistent interpretation and application of the requirement, we consider this to be warranted.

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?**

Real-time reviews, or “in flight” reviews, of engagements are, in our view, an effective response to drive quality and we welcome their recognition within the standard. Overall, the proposals should encourage a more proactive approach to monitoring. The extent of development will depend on the extent to which firms already have innovative monitoring techniques in place.

- 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?**

As noted above, we support the additional focus on other types of reviews. Over time, the practice of “real-time” or “in-flight” reviews will likely supersede the need for inspection of completed engagements. However, until such time as all firms have an established real-time monitoring process, we agree that it is appropriate to retain the requirement for the inspection of completed engagements on a cyclical basis. This is an area that we propose the Board keeps under review and potentially revisits as part of the post-implementation review.

With respect to paragraph 45, we suggest the language be clarified. In our experience, the primary purpose of inspections is to assess compliance by engagement teams with the relevant engagement standards e.g., ISAs, as well as firm policies and procedures. Describing the purpose of inspections as “to determine whether the responses that are required to be implemented at the engagement level have been implemented” may confuse or under-represent the nature and purpose of inspections.

- c. Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?**

We suggest further clarity is needed around the concept of “findings” and the expectations of the standard in addressing whether a finding constitutes a deficiency, as defined in the standard. Paragraph A172 describes a finding as “information accumulated” from monitoring activities. This is a broad concept that, without further clarification, could result in an unstructured and potentially infinite exercise. Our understanding in relation to “negative findings” is that the concept is focussed on findings that give rise to indicators of potential non-compliance or of a deficiency in the SoQM. We suggest this be clarified within paragraph A172. Similarly, we suggest “positive findings” (paragraph A173) be described in the context of best practices that demonstrated/supported a high quality engagement.

In determining whether a finding (as clarified above) gives rise to a deficiency, we agree that the policies, procedures and processes for undertaking this exercise need to be determined by the firm, based on the nature of the firm and how it operates.

In our view, the definition of “deficiency” itself may also create some challenges in consistency of interpretation and application. In particular, part (ii) of the definition may prove challenging to apply in practice without further clarification. The fact that a quality risk may not have been appropriately identified or assessed will likely only be identifiable as a result of a missing or ineffective response being identified, and from which the firm’s root-cause process concluded was as a result of a missing/incorrectly assessed quality risk. In effect, part (ii) may be a root-cause of part (iii), but this is not clear.

We recommend the definition would be better articulated by explaining that a deficiency exists when a matter (finding) gives rise to a determination that:

- a response needed to address a quality risk is either missing, or is not properly designed, implemented or operating effectively. The omission or improper design of a response may be due to a quality risk being omitted or incorrectly assessed; or
- when a quality objective required to achieve the objective of the ISQM is not established.

- 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?**

We agree it is important that the root-cause of identified deficiencies be established such that appropriate remedial actions specifically tailored to the underlying root-cause can be put in place. A thorough root cause analysis completed using robust methodology results in valuable insight into deficiencies that can then be used to refine a firm’s SoQM.

The proposed requirements provide appropriate flexibility in how a firm develops its policies and procedures around root-cause analysis, in particular that the nature and extent of activities be responsive to the assessed severity of the identified deficiency. For example, firms may have more detailed processes for audits of listed entities as compared to agreed-upon-procedures engagements.

We support, subject to our suggestion in response to part (c), the inclusion of references to positive findings, including the application material describing the potential benefits of considering root-cause analysis of such findings. Where an example demonstrating best practice is identified as part of a firm’s monitoring procedures, it is beneficial to understand how this best practice was achieved, and how the SoQM can be further enhanced in order to drive such practices as being “business as usual” within the firm. This thought could be described in paragraph A178.

- 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?**



We do not believe this requirement will cause significant challenges.

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?

The proposal on networks are reasonable. Given the wide range of network structures and differing laws and regulation that exist globally, it would be impracticable to establish requirements directly applicable to networks. We, therefore, support the proposed approach adopted in addressing the use of network requirements and services such that a member firm of a network is responsible for evaluating the use of requirements or services provided to it by the network and whether they need to be amended or supplemented to be appropriate for use in the firm's SoQM. In our view, this strikes an appropriate balance between preventing undue reliance and recognizing the potential benefits to quality of a firm being part of a network with a strong quality management focus and consistent policies and procedures.

There are circumstances, however, where there may be requirements or services provided, not by a central network function, but by a regional function or individual member firm within a network that are used by other member firms within the network. We suggest the standard needs to more explicitly clarify that such requirements or services are within the scope of this section of the ISQM in order to avoid inconsistent understanding. In our view, there is greater risk of quality risks arising from such arrangements than services provided "directly" by a dedicated global network function. It would be useful for the application material to highlight such scenarios.

As noted in our responses to questions 1(c) and 2, this area of the standard will benefit from implementation support materials, given this is an entirely new concept. Providing examples, for both audit and other non-audit services within the scope of this standard, that illustrate relevant considerations for how such network requirements or services may interact with the firm's risk assessment process related to components of the firm's SoQM, how a firm may think about evaluating the effect of those requirements and services, and examples of the types of matters that might be communicated, will in our view be helpful.

14. Do you support the proposals addressing service providers?

We support including consideration of the use of service providers within the standard. However, we believe further clarity and guidance are needed on the scope of services to which these requirements apply, and the extent of the firm's required responses to quality risks, to avoid inconsistent interpretation and practice.

For example, while paragraph A205 provides some examples to illustrate the statement in the requirement in paragraph 64 ("when the firm intends to obtain or use resources provided by a service provider in its system of quality management"), the boundaries remain unclear to us. There are examples of service providers for which arguments could be constructed both in support of, or against, whether those services have a bearing on the firm's SoQM.

In our view, there are likely three types of service providers:

1. Those whose services are used to directly support the delivery of engagements

The existing application guidance lists several examples of service providers that directly support the engagement, including human resources used to provide consultation on technical

matters, and IT applications used to perform engagements. These should fall within the scope.

2. *Those whose services directly support the design or operation of the firm's SoQM*

These service providers have a direct impact of the SoQM, and may include providers of IT applications that are used to fulfil responses to the firm's identified and assessed quality risks e.g., software to deliver and monitor training. Again, these should fall within the scope.

3. *Those whose services for which it is unclear whether they interact, or that may only indirectly interact, with the SoQM*

There is a wide range of services that may be provided by third-party service providers for which it is currently unclear to us if they fall within the scope based on the current drafting. For example, email and cloud services may involve storage of documents that are relevant to the engagements or host databases that capture a firm's policies and procedures, or an HR system may be used to capture and document completion of performance objectives and appraisals that are required by the firm's policies and procedures. We suggest the standard provides additional criteria or guidelines on whether, and to what extent, services of the type described here are within the scope.

With respect to the matters in paragraph 64, we note that further clarity around what is expected in terms of determining reputation and competence would be helpful. Reputation can be a fluid concept, in particular for technological service providers. Are the matters in paragraph 64 expected to be continuously assessed or assessed only periodically, i.e., annually? In addition, technological providers may be unwilling to provide detailed information around their design, implementation and operation of the resource, including, for example, where they may have used subcontractors. In such cases, highlighting relevant considerations for a firm in how it might address an evaluation of the resource may be helpful e.g., through user-acceptance/scenario testing or other safeguards.

We also recommend that any clarified definition be included within the definitions section so that there is absolute clarity that service providers are external to the firm and network, as explained in A205.

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 specific comments. This matter will need to be addressed on a jurisdiction-by-jurisdiction basis with reference to each territory's local law and regulation by national standard setters and other regulatory authorities.



Appendix 3 - Illustrative quality objectives and risk factor considerations

This appendix illustrates our vision of quality objectives and quality risk factors, as described in our response to question 6(b), for two components. The quality risk factors are illustrative only and not intended to represent a definitive or complete list.

Component: Acceptance and continuance of client relationships and specific engagements

Quality objective: The firm enters into engagements only when it is capable, permitted and willing to perform the engagement.

Quality risk factors:

- Unclear or insufficient information for assessing client and/or engagement related risks
- Engagements are accepted or continued without required leadership consideration being evidenced by their approval
- Higher or specific risk engagements are accepted or continued without adequate quality controls in place to appropriately manage those risks to an acceptable level
- The firm does not have the resources or competence to undertake the engagement
- The firm does not have access to information to perform the engagement
- Financial and operational priorities lead to inappropriate acceptance or continuance judgements
- Engagements are terminated without appropriately managing regulatory and client relationship issues

Component: Resources

Quality objective: The firm recruits, develops, and retains appropriate personnel to deliver quality engagements and/or to support the firm's system of quality management.

Quality risk factors:

- Leadership has insufficient information to assess risks related to recruiting, developing and retaining personnel and to take action as necessary
- The human capital function does not have sufficient capabilities for effective recruitment, development and retention of staff and partners
- Qualified people cannot be retained
- The recruitment plan does not meet resource needs

Quality objective: The firm assigns sufficient and appropriate personnel to each engagement

Quality risk factors:

- Engagement partners and team members do not have the appropriate competence, capabilities, and sufficient time to perform quality engagements
- Resource needs are not identified by engagement leaders on a timely basis
- Qualifications of team members do not match resource requests in terms of competencies, capabilities or sufficient availability of time
- Workloads of partners and staff are not appropriately managed
- Insufficient information is available to assign personnel to engagements

Quality objective: The firm evaluates, compensates, and promotes personnel in a fair and transparent manner for their performance in demonstrating their commitment to quality.

Quality risk factors:

- The human capital function does not have sufficient capabilities to effectively manage the objective setting, evaluation and compensation process
- Roles and responsibilities of personnel are not clearly defined or communicated to enable a fair performance evaluation
- Evaluation criteria are not consistent with defined objectives and expectations
- Evaluation criteria were not communicated to personnel
- Insufficient/ineffective coaching and feedback received from engagement leaders
- Personnel perceive rewards and recognition for their performance as unfair or insufficient

Quality objective: The firm obtains or develops, implements and maintains IT systems and tools that meet users' needs and are accessible, reliable and secure and are appropriately used by personnel.

Quality risk factors:

- The IT function does not have the capability to support the development and maintenance of IT applications used in quality management or in the delivery of engagements
- IT applications are not properly implemented
- IT applications used are not reliable
- Process for granting, monitoring and revoking user access to IT applications is inappropriate
- IT applications do not identify, capture, process and maintain relevant and reliable information

Quality objective: The firm provides, and personnel make use of, relevant intellectual resources that enable consistent performance of quality engagements.

Quality risk factors:

- Human resources responsible for the development of intellectual resources do not have sufficient capabilities to provide efficient and effective support
- Intellectual resources provided to personnel do not meet professional standards
- Leadership has insufficient information to assess the effectiveness and efficiency of intellectual resources and their use by personnel and to take action as necessary
- Engagement leaders do not use available intellectual resources on their engagements
- Tools and guidance do not adequately support personnel for effective and efficient engagement planning, execution, reporting and documentation

Appendix 4 - Detailed comments

Section 1 presents a summary of our substantive comments, while Section 2 includes comments of an editorial nature. Section 3 addresses editorial comments on the conforming amendments as set out in the covering explanatory memorandum.

Section 1 – Substantive comments

Paragraph 5 *Significant public interest*:

- We note that the IESBA has removed references to “significant” public interest within the Code of Ethics. In the interests of consistency of interpretation, we recommend further discussion with the IESBA on the use of the term and potential implications of differing interpretations as to its meaning.

Paragraph 10(c) *Introduction* (refer to our response to question 1(c)):

- We recommend making explicit that the responses to risks specified in the standard will not be sufficient due to the fact that not all components have prescribed responses.

Paragraph 18 *Objective* (refer to our response to question 5):

- We recommend the standard’s objective be made consistent with the objective in proposed ISA 220 (Revised) by adding reference to managing and achieving quality.

Paragraph 19 *Definitions*:

- **Paragraph 19(a) *Deficiency*** (refer to our response to question 12(c)): We propose a simplified version of the definition.
- ***Service Providers*** (refer to our response to question 14): We propose a definition of “service provider” be added.

Paragraphs 24 *Governance and Leadership* (refer to our response to question 7):

- We recommend recognising that in many firms’ structures there may be a senior Assurance partner or Assurance Board that, in light of the firm’s structure, might be assigned ultimate responsibility for the firm’s SoQM in accordance with ISQM 1.

Paragraphs 26-31 *Firm’s risk assessment process*:

- ***Information and communication and monitoring and remediation*** (refer to our response to question 6(a)): We do not believe these components should be subject to the full risk assessment process and have suggested an alternative approach.
- ***Quality objectives*** (refer to our response to question 6(b) and appendix 3): We find the objectives, as articulated in the ED, to be too granular and that they have been drafted to reflect or incorporate relevant risk considerations. We recommend establishing broader, less granular, objectives.

- **Quality risks** (refer to our response to question 6(c) and appendix 3): We recommend the incorporation of risk factors in each component that a firm is required to take into account in identifying and assessing quality risks related to achieving the quality objectives for that component.
- **Paragraph 28 & A54-A57 Two-step process** (refer to our response to question 6(c): We do not support the proposed two-step approach. We suggest the standard should focus on the outcome - the identification of risks that, were they to occur, may result in the firm not achieving its quality objectives - and not seek to define a specific thought process or methodology for achieving that outcome.

Paragraphs 40-41 Information and Communication:

- **Structure** (refer to our response to question 4): We recommend the matters addressed in the information and communication component could be more appropriately addressed within the standard through:
 - establishing overarching objectives addressing information and communication, potentially as part of the governance and leadership component;
 - identifying risks factors within each component linked to the critical role and purpose of effective information and communication in the successful functioning of that component; and
 - relocating and/or repositioning any required responses to better integrate with the purpose of those other components and the potential risks to be addressed.
- **Paragraphs 40(e) and 41(c)(iv) Communication to external third parties** (refer to our response to question 10): We recommend further consideration of the proposed inclusion of these paragraphs is warranted. We also consider the proposed threshold for the firm's determination of whether to report to be too broad. We provide a recommendation for how to amend the requirements. We also suggest that reference to transparency reporting be moved to the application material as this represents an example only and is not essential explanatory material.

Paragraphs 42-57 Monitoring and Remediation:

- **Paragraph 45 Inspections** (refer to our response to question 12(b)): We suggest amending the lead-in language to also address compliance with professional standards in addition to implementation of responses required at the engagement level.
- **Paragraph 47 Findings** (refer to our response to question 12(c)): We suggest further clarity is needed around the concept of "findings" and the expectations of the standard in addressing whether a finding constitutes a deficiency, as defined in the standard.

Paragraphs 58-63 Network Requirements or Network Services:

- **Paragraph 58 Scope** (refer to our response to question 13): We suggest the standard needs to explicitly clarify that regional developed or individual firm-to-firm services are within the scope of these requirements, to avoid inconsistent understanding. Implementation support materials, for both audit and other non-audit services within the scope of this standard, will be important in this area.

Paragraphs 64-65 Service Providers:

- **Paragraph 64 Scope:** (refer to our response to question 14): We suggest further clarity and guidance are needed on the scope of services to which these requirements apply, and the extent of the firm's required responses to quality risks, to avoid inconsistent interpretation and practices. We suggest addressing different categories of service provider in the application material. We note that further clarity around what is expected in terms of determining reputation and competence would also be helpful.

Paragraph A42 Performance Evaluations:

- We suggest adding that the performance evaluation of the individual assigned ultimate responsibility for the firm's system of quality management may also be a network service in some networks.

Paragraph A68 Relevant Ethical Requirements:

- Although we acknowledge the items listed are examples, we believe they set expectations that not all stakeholders may agree with. We recommend deleting the bulleted examples.

Paragraph A193 Network Requirements or Network Services:

- We think it would be useful to provide an example of a service provided by one firm within a network to another firm in the network to more explicitly illustrate that such services are also within the scope of the requirements related to network services.

Section 2 - Other editorial comments

Paragraph 1 - The second sentence should refer to the "*responsibilities*" of the firm and engagement quality control reviewers, rather than "*responsibility*".

Paragraph 7 - We suggest the first comma in this paragraph is not required. We also suggest referring to "*the objective stated in paragraph 18*" rather than "*objectives stated in paragraphs 18(a) and (b)*" for consistency with paragraphs 13, 16 and 18, which refer to "the objective of" this ISQM/the firm i.e., singular.

Paragraph 8 - We suggest the word "*process*" does not reflect the nature of a system of quality management and recommend remaining with the term "*system*". We further suggest amending "*and is responsive*" to instead state "*that is responsive*".

Paragraph 10(a) - We suggest the following clarification: "*The firm is required to establish the quality objectives set out in this ISQM and additional quality objectives beyond those required by this ISQM, when those objectives are determined by the firm to be necessary to achieve the objective of this ISQM.*"

Paragraph 12(c) - We suggest aligning more closely with paragraph 49: *Designing and implementing remedial actions. ~~Remediating the identified deficiencies responsive to the root causes~~*. See also paragraph 7 editorial suggestion with respect to objectives.

Paragraph 15 - We suggest the principle established in paragraph 14 that the firm remains responsible for its system of quality management is also relevant here and is consistent with paragraph 64: *“This ISQM also includes requirements for circumstances when the firm intends to obtain or use resources provided by a service provider in its system of quality management. Notwithstanding the firm’s use of a service provider(s), the firm remains responsible for its system of quality management”.*

Paragraph 19(r) - The words *“In the context of the ISQMs”* are not necessary given the lead in to paragraph 19.

Paragraph 23 - We suggest that the clauses in the lead-in paragraph be rearranged as follows for better clarity: *“The firm shall establish the following quality objectives that address the aspects of the firm’s environment, including the firm’s culture, decision-making process, actions, organizational structure and leadership, that support the design, implementation and operation of the other components of the system of quality management; ~~including the firm’s culture, decision-making process, actions, organizational structure and leadership.~~”*

Paragraph 26 - See editorial suggestion on paragraph 10(a).

Paragraph 32 - To remove repetition we suggest this could be collapsed into one objective:

“The firm shall establish the following quality objectives that addresses the fulfillment of responsibilities in accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics:

(a) *The firm, its personnel and others subject to relevant ethical requirements:*

- (i) *understand the relevant ethical requirements, including those related to independence;*
- (ii) ~~*(b) The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements, including those related to independence;*~~
- (iii) ~~*(c) The firm, its personnel and others subject to relevant ethical requirements identify and appropriately respond to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.”*~~

Paragraph 35 - We suggest replacing *“include”* with *“establish”* to be consistent with other references to a firm’s policies and procedures.

Paragraph 41(a) & (c) - We suggest that *“with”* in these paragraphs should be replaced with *“to”*. The same change would also apply to the heading above paragraph A142.

Paragraph 42(c) - See paragraph 7 editorial suggestion with respect to objectives.

Paragraph 44 - We suggest that *“the appropriate combination”* be replaced with *“an appropriate combination”*, in order to remove the inference that there is only a single appropriate combination.

Paragraph 54 - Notwithstanding our comments in relation to paragraph 41(c), we suggest this requirement should use the same construct as paragraph 57(b)(ii) to reflect that paragraph 41(c) is subject the firm’s policies and procedures in determining whether to communicate: *“The firm shall communicate to external parties, in accordance with the firm’s policies or procedures required by*

paragraph 41(c), information about the results of the firm's monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 41(c)."

Paragraphs 55-57 - See paragraph 7 editorial suggestion with respect to objectives.

Paragraph 61 - The comma after "network" should be deleted.

Paragraph 67(c)(v) - See paragraph 7 editorial suggestion with respect to objectives.

Paragraph A3 - We suggest that "reality" is not necessary in this sentence. See also paragraph 7 editorial suggestion with respect objectives.

Paragraph A4 - Bullet 2 - See editorial suggestion on paragraph 10(a). Bullet 6 - see editorial suggestion on paragraph 7.

Paragraph A21 - See paragraph 7 editorial suggestion with respect to objectives.

Paragraph A67 - We suggest ending the final sentence after "independence". Reference to privacy laws feels out of context.

Paragraph A69 - We suggest that the fifth bullet in this list be revised as follows:

- *Establishing policies or procedures for effective communication of personnel to ~~communicate~~ relevant information to appropriate parties within the firm or to the engagement partner related to:*
 - *Personal or firm interests or relationships ~~situations~~ that may create threats to independence, for example, financial interests, loans, employment relationships, business relationships, long association with engagements or personal appointments.*
 - *Clients and client engagements, including non-assurance engagements. For example, this may include details of proposed engagements and related fees. ~~the scope of services, fees or information about long association.~~*
 - ~~*Business relationships.*~~
 - *Any breaches of the relevant ethical requirements, including those related to independence.*

Paragraph A119 - We suggest the following addition to the final bullet: "[...], and for the individual(s) assigned operational responsibility for the firm's system of quality management [...]."

Paragraph A190 - See paragraph 7 editorial suggestion with respect to objectives.

Paragraph A191 - We suggest the following addition to the second bullet to make clear that it is the firm's determination: "When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed." See also paragraph 7 editorial suggestion on objectives with respect to the lead-in wording.

Section 3 - Conforming amendments

ISA 230 Paragraph 3, Bullet 5 - We suggest replacing "under" with "as part of":



ISA 250 Paragraph A25 - We believe the appropriate reference is paragraph A48 of ED-ISA 220 (Revised), rather than A49.

ISA 620 Paragraph A13 - Please refer to our response letter to ED-220 in relation to the auditor's ability to depend on the firm's policies and procedures.