

International Auditing and Assurance Standards Board
529 5th Avenue
New York,
New York 10017

Submitted via IAASB website.

27 June 2019

Dear sirs,

The IAASB's Exposure Drafts for Quality management at the the Firm and Engagement Level, Including Engagement Quality reviews.

The Audit and Assurance Committee of Chartered Accountants Ireland ('the Institute') welcomes the opportunity to respond to the IAASB's public consultation on the above proposed standards.

Set out in the attached are the Institute's responses to the questions raised in the three consultation papers.

Below are our responses the Overall Questions raised in the Consultation Paper.

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?

The proposed adoption of a Quality Management Framework is likely to require significant investment by firms. Lead in time for the new standard will be an important issue for firms and therefore we believe that a longer implementation period should be provided to allow for planning and rolling out new approaches, updating methodologies and software and staff training to be carried out. Lead-in time is also essential for local regulators to develop review procedures and train staff. We would support a minimum of a three year implementation period.

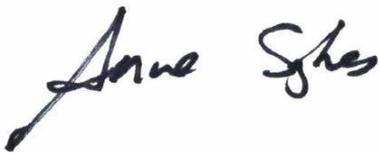
2. In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

As discussed below in our responses to the questions posed we would welcome the timely issue of application guidance and case studies/FAQs. The scope and authority of any such material needs to be clearly defined

Thank you for the opportunity to provide input for your consideration, we look forward to seeing the finalised standards.

Please feel free to contact the Institute by email at anne.sykes@charteredaccountants.ie or by phone on +353 1-6377313 if you wish to discuss any of our comments in more detail.

Yours Sincerely



Anne Sykes
Secretary to the Audit and Assurance Committee of Chartered Accountants Ireland

Attached:

- Response to Proposed International Standard on Quality Management 1
- Response to Proposed International Standard on Quality Management 2
- Response to Proposed International Standard on Auditing 220 (Revised)

**Chartered Accountants Ireland
Reponses to Proposed International Standard on Quality Management 1**

OVERALL COMMENT

We support the focus on quality management at the firms. ISQM1 is a substantial revision to the extant standard, including a more risk-based focus and increased focus on applying professional judgement, which may assist in the scalability of the standard. Although the additional guidance to the standard is welcomed, it should be noted that the standard is significantly larger than the extant standard, which firms may find challenging to implement. In addition, the standard introduces new components, for example, under monitoring activities. It is crucial that timely guidance to assist firms in implementing the new requirements of ISQM1 is provided. The IAASB staff may play a significant role in the issuance of such timely guidance.

As previously stated, the focus on risk and the application of professional judgement may likely lead to a wide range of varying policies and procedures across all firms, even in cases where firms are of a similar size. The impact of the new standard may be far reaching, for example, in cases where firms are subject to benchmarking exercises by regulators. Again, timely issuance of guidance would be welcomed to promote consistency in applying the standard. Guidance in the form of questions and answers which are updated as appropriate are particularly helpful to practitioners and greatly aid consistency in application.

	Questions ISQM 1	Response
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:	Yes we believe that the new standard has the potential to substantively enhance firms' management of engagement quality. The risk-based focus of the standard may assist with its scalability and application guidance and examples will be needed in particular to assist in implementing the standard in smaller firms and in smaller firms within networks.
	(a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?	Yes, we support the new quality management approach
	(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?	If adopted appropriately then the quality of individual engagements should improve. The increased focus on professional scepticism at the firm level in the standard, including, paragraphs A94 – A96 is welcomed. The same focus on professional scepticism should be reflected in the ISAs at an engagement level with additional application guidance as is in the draft ISA 220.

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	Questions ISQM 1	Response
	(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?	As mentioned above the development of guidance material, such as Frequently Asked Questions and other illustrations of “best practice” will greatly aid the firms implementing this new standard.
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?	<p>A challenge for firms will be the need to invest time and resources in setting up a QMF appropriate to the nature and circumstances of each firm. Further, the standard incorporates new components and additional requirements in contrast to extant ISQC1. Firms are also required to identify quality risks, assess whether they have a “<i>reasonable possibility of occurring</i>” and their impact on the quality objectives. The above will require significant professional judgement and the use of tools such as root cause analysis which is something which some smaller firms may not have previously had to perform. Although, the risk based nature of ISQM1 should assist scalability, there are challenges for firms to adopt new practices, for example, monitoring activities, including the application of root cause analysis. It is crucial that firms are provided with timely guidance to assist in the implementation of the new standard.</p> <p>Also we find the standard’s approach to prescribing required responses in the absence of prescribed risk counterintuitive and will hinder the standard’s scalability. We believe the pre-determined responses in the standard implicitly means a response is needed regardless of whether a risk is present.</p>
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	Yes, in general, the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. Given the length of the standard we are reluctant to require the application guidance to be expanded. However, additional guidance would be useful, for example, in relation to identifying and

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	Questions ISQM 1	Response
	where the application material could be reduced?	<p>addressing quality risks.</p> <p>Practical material such as Frequently Asked Questions and other illustrations of “best practice” will greatly aid the firms implementing this new standard. The “Draft Examples: How the Nature and Circumstances of the Firm and the Engagements it Performs Affect the Implementation of Proposed ISQM 1” are useful however, we would suggest that additional examples would be helpful.</p> <p>We believe the standard should provide a framework for the determination of findings and deficiencies and assessing the severity of deficiencies.</p> <p>In addition, the standard does not set out the level of documentation required to demonstrate compliance with the standard’s requirements and in particular relating to the area of controls, this may result in a voluminous amount of documentation which may hinder scalability and result in a compliance based approach to the standard.</p>
4.	Do you support the eight components and the structure of ED-ISQM 1?	Yes, we support the eight components and the structure of ED-ISQM 1
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?	<p>Yes, we support the objective of the standard, which includes the objective of the system of quality management.</p> <p>We are concerned that there is no common interpretation of the term ‘public interest’ in the context of the standard and therefore there is a risk the standard will be inconsistently applied. The absence of clarity in this regard may diminish the scalability of the standard.</p>
6.	Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such	Yes, we believe that appropriate 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.

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	Questions ISQM 1	Response
	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?	Yes, this approach provides firms with a methodology to work within to ensure that quality objectives, quality risks and responses have been identified. Further guidance could be provided through the publication of more questions and answers which should be regularly updated. We would support the development of guidance material similar to the FRC Staff Education Notes. The scope and authority of all guidance material need to be clearly defined.
	(b) Do you support the approach for establishing quality objectives? In particular:	
	i. Are the required quality objectives appropriate?	Yes. the quality standards set out under each of the components appear appropriate.
	ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?	Yes. Paragraph 26 clearly indicates that a firm shall establish additional quality objectives beyond those set out in the standard when those objectives are required to achieve the objective of the standard. However, it needs to be emphasised, in particular for smaller firms (including smaller firms within a network) that there is not a requirement to always go beyond the standard, we would welcome the recognition of this in the standard,
	(c) Do you support the process for the identification and assessment of quality risks?	The requirement to identify quality risks is logical in the context of designing and implementing appropriate controls to address the quality risks. However, this will require a significant amount of professional judgement on the part of firms as it will require firstly the identification of the quality risk, the assessment of the possibility of the risk occurring and the effect on the achievement of the quality objectives. This is an area which may take a considerable amount of time and effort for

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	Questions ISQM 1	Response
		<p>firms. The length of the implementation period and the availability of guidance will be of great importance.</p> <p>Additional guidance with regard to the extent of risk identification and the documentation expected in this regard would be helpful to firms and regulators to ensure that their views are aligned in this regard.</p>
	d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:	Yes.
	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?	The requirement for firms to design their own responses may result in a significant divergence within the profession therefore we would support additional guidance through Q&A and case studies to assist firms.
	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?	Yes. Paragraph 10 sets out the risk assessment process, which includes “(c) <i>Designing and implementing responses to address the assessed quality risks</i> ”. Guidance will be needed in this area.
7.	Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?	Yes, we believe that the standard appropriately addresses firm governance and the responsibilities of firm leadership.
8.	With respect to matters regarding relevant ethical requirements:	
	(a) Should ED-ISQM 1 require firms to assign	Yes the standard should require that a firm assign responsibility for relevant

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	Questions ISQM 1	Response
	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?	<p>ethical requirements to an individual to ensure that appropriate systems and procedures are in place so that the firm complies with its ethical obligations. However, the standard should also reaffirm that compliance with applicable ethical standards is also an individual responsibility.</p> <p>As stated above, the firm should assign responsibility for relevant ethical requirements to an individual however, as independence would be covered under relevant ethical requirements, assigning responsibility for compliance with independence requirements should be optional for the firm, further enhancing the scalability of the standard. Firms should be allowed to assess whether the extent and complexities of their activities require the assignment of compliance with independence requirements to an individual.</p>
	(b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?	Paragraphs 33 (a) and A70 –A71 articulate the necessary requirements.
9.	Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?	Yes the application guidance contains several paragraphs setting out requirements around the use of technology. In particular, paragraph 38(e) provides sufficient flexibility for firms of all sizes in this regard.
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?	<p>Yes, we believe that the requirements for communication with external parties may promote the exchange of valuable and insightful information about the firm’s system of quality management with the firm’s stakeholders. In Europe, PIE audit firms are legally required to publish annual Transparency Reports however, it is unclear whether the standard will encourage other firms to start to use transparency reporting.</p> <p>Any reports issued under ISQM1 need to be clearly differentiated from the Transparency Reports required by law. When a Transparency Report</p>

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	Questions ISQM 1	Response
		requirement is already established under law we believe the standard should allow the local legal requirements to meet the requirements of ISQM1?
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 believe that the definition in paragraph 36 (e) is too broad. The standard should set out the principles behind the definition and the application notes should give further examples of the application of those principles. Paragraph 37 (e) sets out the engagements which require an engagement quality review including audits of financial statements of entities that the firm determines are of significant public interest. Paragraph A102 provides guidance on what a significant public interest is but this needs to be further expanded.
12.	In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:	Yes, we believe that the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation.
	(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?	We believe that the proposals, if properly implemented, should improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities. However, it is difficult to predict that the standard will result in the development of more innovative monitoring techniques especially for firms who do not use technology in the execution of their audit engagements.
	(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?	Yes, such reviews are required in order to ensure a continued focus on quality, compliance with and improvement of the firms' systems and procedures. However, in the context of more in-process engagements, we believe that paragraph A169 establishes a 'de facto' requirement for a 3-year cycle for monitoring closed engagements. In the broader context of the enhanced monitoring requirements under the standard we believe it should be for firms to determine the appropriate frequency of monitoring completed engagements

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	Questions ISQM 1	Response
		in light of the amount of in-process monitoring taking place.
	(c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?	<p>We support the definition of deficiencies but the terms “significant” and “findings” are not defined.</p> <p>The ITC (paragraph 63(d) refers to the requirements having been clarified to differentiate between findings and deficiencies.</p> <p>Paragraph A172 gives further discussion on what findings might be, this should be brought into the standard to clarify what is meant by the term.</p> <p>“Significant” needs to be clarified as it could refer to a client, an engagement, a firm or a network. We believe the standard would be enhanced if these matters are clarified in particular the difference between a deficiency and a significant deficiency.</p>
	(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?	<p>Yes</p> <p>There is flexibility needed and scalability needs to be borne in mind.</p>
	ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?	Yes – there should be a mechanism for good practice on an engagement to be highlighted as they provide valuable insights which should be expanded to further engagements.
	(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	By its nature there will be lots of challenges for the individual with ultimate responsibility to conclude on this, for example, if a number of deficiencies have been identified and root cause analysis is required or further assessment is needed to ascertain how pervasive the issues are then this process may not be completed before the annual assessment must be made. There will also need to be a lot of data accumulated, analysed and reported up to this individual.

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	Questions ISQM 1	Response
	the objectives of the system have been achieved?	<p>There should be a risk-based approach adopted. The same professional judgement that is required elsewhere should be applied.</p> <p>It would not be appropriate for example for a small firm to have to cover all aspects annually, a cyclical review so that all areas are covered over a (say) three year period would be more appropriate.</p> <p>We believe that it is unrealistic for a firm to carry out the level of investigation and follow up and documentation set out in paragraph 63 (b).</p>
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?	<p>Paragraph 14 clearly states that the firm remains responsible for its system of quality management even if part of a network. In practice it is likely that networks will develop standard material to be applied by member firms and as a consequence this may result in member firms defaulting to material developed centrally.</p> <p>Paragraph 61, and the Application Guidance A195-202, set out requirements that may result in users misinterpreting the extent of information needed to sufficiently perform monitoring and remediation activities across the Network or Network Firms. More clarity on the likely extent of these requirements would be helpful, for example, through the expansion of different scenarios in the “<i>Draft Examples</i>” or FAQs provided by the IAASB.</p>
14.	Do you support the proposals addressing service providers?	Yes, we support the proposals addressing service providers. As it is common for firms to use service providers the inclusion of such parties as part of the system of quality management is appropriate.
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

**Chartered Accountants Ireland
Reponses to Proposed International Standard on Quality Management 1**

Chartered Accountants Ireland
Reponses to Proposed International Standard on Quality Management 2

	Question ISQM 2	Response
1.	Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?	We agree with the principle of having a separate standard for engagement quality reviews. ISQM1 deals with firm level policies and procedures and it makes sense to have the engagement quality reviewer role dealt with in a separate standard.
2.	Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?	Yes the linkages between the documents are sufficiently clear.
3.	Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?	In this jurisdiction there has been no evidence of any confusion over the terminology and we see no issues arising from the change.
4.	Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?	Overall we support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as set out in the ED. However, we do note that this could present a challenge for smaller firms and in sectors where specialist knowledge may be confined to a few individuals and may result in an increased need for smaller firms to use external review resources.
a.	What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?	The Ethical Standard for auditors in Ireland currently mandates a two year cooling off period for engagement partners before they can act in as an engagement quality reviewer role therefore we concur with the guidance as set out in the proposed ISQM 2.
b.	If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?	We are of the view that any guidance issued should be in the IESBA code and cross-referenced in ISQM2 as the IESBA code is the primary document dealing with threats to integrity, objectivity and independence.
5.	Do you agree with the requirements relating to the nature, timing	Yes, we agree with the proposed requirements. The additional

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Reponses to Proposed International Standard on Quality Management 2

	Question ISQM 2	Response
	and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?	details in ISQM2 on what an engagement quality review should include will be a useful guide for firms. .
6.	Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?	We agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgements should include evaluation of the audit team’s exercise of professional scepticism that the engagement quality reviewer having considered other significant judgements is uniquely placed to consider the audit team’s exercise of professional scepticism. . .
7.	Do you agree with the enhanced documentation requirements?	The documentation requirements strike a good balance and we do not think that they are overly onerous.
8.	Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?	We consider the requirements laid out in the ED ISQM2 are scalable..

Chartered Accountants Ireland
Reponses to Proposed International Standard on Auditing 220 (Revised)

	Question ISA 220	Response
1.	Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?	Yes. We agree with the focus on the role of the engagement partner and the responsibilities of the other team members.
2.	Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?	Yes, we believe ED-220 has appropriate linkages with the ISQMs. It is useful to have clear linkage with the other relevant standards. The references to the overall culture and quality control processes in the firm and to the IESBA Code of Ethics is a useful reminder of the context of this standard.
3.	Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)	Yes, it is a further reminder of the importance of quality at the engagement level.
4.	Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?	Yes the ED does adequately deal the modern auditing environment,, the application material contains a number of paragraphs addressing the issues of the use of technological resources.
5.	Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)	Yes we support the revised requirements set out in the ED.
6.	Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?	Yes ED ISA 220 does include sufficient requirements and guidance on documentation.
7.	Is ED-220 appropriately scalable to engagements of different sizes and	We feel that requirements of ED ISA 220 are scalable to audit

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Reponses to Proposed International Standard on Auditing 220 (Revised)

	Question ISA 220	Response
	complexity, including through the focus on the nature and circumstances of the engagement in the requirements?	engagements of less complex/smaller entities.