

May 24, 2021

**IFAC Small and Medium Practices Advisory Group (SMPAG) Response to the International Auditing and Assurance Standards Board (IAASB) Exposure Draft: *Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards***

**INTRODUCTION**

The IFAC SMP Advisory Group (SMPAG) is pleased to respond to the IAASB (the Board) on this Exposure Draft (ED). The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMPAG are small-and medium-sized practices (SMPs) who provide accounting, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMPAG have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member organizations representing 23 countries from all regions of the world.

**GENERAL COMMENTS**

The SMPAG closely followed the development of the new and revised Quality Management (QM) Standards and provided multiple comment letters and feedback. This included highlighting the importance that the standards can be operationalized for firms of all sizes and being applicable to all types and nature of engagements. We therefore support the IAASB Exposure Draft to make necessary conforming and consequential amendments to address inconsistencies between the IAASB's Other Standards and Framework with the new and revised QM standards.

In our [response](#) to the IAASB Exposure Draft *Proposed ISA 220 (Revised): Quality Management for an Audit of Financial Statements*, we highlighted concerns with the changes to the engagement team definition, including the potentially significant practical difficulties when the component auditors are not from the same firm, or even the same network, as the group engagement team.

We are also concerned about the potential practical implications and impact of the change in definition of engagement team on certain other assurance and related services being provided. For example, for SMPs who perform assurance procedures on sustainability related supply chain information (under ISAE 3000 or ISAE 3410) when the practitioner performing an assurance engagement of the entire supply chain is unable to "use" them to perform engagement procedures since they would (under the new definitions of engagement teams) have to be subject to direction supervision and review by that auditor. The situation may be very different from that in a group audit as entities in the supply chain will most likely not be in a position to require cooperation in line with the needs of the practitioner "heading" an assurance engagement on supply chain-related information to the aforementioned necessary extent. Before transferring the new definition of engagement team in ISAE 3000 and ISAE 3410, the IAASB should thoroughly consider these implications, as it may have a disproportionate impact on SMPs performing other engagements.



## SPECIFIC COMMENTS

We have outlined our responses to each question (*in italics*) in the ED below.

1. *Do respondents believe the proposed conforming and consequential amendments are sufficient to resolve actual or perceived inconsistencies between the IAASB's Other Standards and Framework, and the changes made by the IAASB in developing and approving the new and revised QM standards?*

Other than as explained above relating to the proposed transposition of the definition of engagement team to ISAE 3000 and ISAE 3410, we generally agree that the proposed conforming and consequential amendments are sufficient to resolve inconsistencies between the IAASB Other Standards and Framework.

However, we are concerned about the potential impact from some of the proposed changes which are not strictly necessary to remove inconsistencies with ISQM 1 and have been included to emphasize responsibilities of the engagement partner or engagement team regarding quality management, which could require further consideration:

- The added requirements relating to EQR in these standards runs counter to the original standards, for which we understand a specific decision was made to not reference EQCR because many of the engagements set forth in certain standards (in particular, ISRE 2400 paragraph 92A and ISAE 3402 paragraph 53 (n) (ii)) would never or seldom have an EQR (i.e., this does not meet the threshold of requirements being applicable in virtually all engagement circumstances).
- ISRE 2400, paragraph 92 now includes *“When an engagement quality review is required in accordance with ISQM 1, the practitioner shall not date the report until the completion of the engagement quality review.”* We question whether it is necessary to include this requirement as it adds unnecessary length and repetition. If, in rare circumstances, an EQR is performed then paragraph 24 (b) of ISQM 2 would adequately address this issues. No such requirement is added to ISA 700, and therefore it should logically not be necessary to add it in this standard.
- ISRS 4400 (Revised), paragraph 19 has been expanded in response to ISQM 1 and ISA 220 (Revised). We are concerned that the engagement partner’s responsibilities are now far more granular than the extant standard, which could result into more admin work being imposed on the engagement partner – adding costs. This may be potentially disproportionate in small engagement teams.

In addition, ISRE 2400 paragraph 4 proposes a change to remove the reference to ‘professional accountants’ in the sentence *“ISQM 1 applies to firms of ~~professional accountants~~ in respect of a firm’s engagements to review financial statements”*. In ISQM 1 the definition of ‘Firm’ states “...of professional accountants”, so it is not clear why this edit is needed.



2. *Do respondents support the proposed effective date?*

We support the approach of ensuring that the IAASB's Other Standards and Framework can continue to be applied together with the new quality management standards and therefore understand the logic of proposing the effective date being the same.

However, as noted in our [response](#) to the IAASB Exposure Draft for *Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews (EQR)*, we are concerned that the volume of international standards requiring adoption and implementation support by jurisdictions (including PAOs) is already causing significant challenges and affecting application of international standards.

The proposed timeframe will add further difficulties given the need for jurisdictions to translate the revisions and for firms to invest the necessary resources to update methodologies, guidance, and train staff etc. This is already challenging for firms given the work also required for implementation of the new QM standards and recently revised ISAs for audits.

**CONCLUDING COMMENTS**

We hope the IAASB finds this letter helpful in informing the Board's deliberations on the conforming and consequential amendments to the IAASB's other standards as a result of the new and revised Quality Management standards. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in blue ink that reads "Monica Foerster".

Monica Foerster  
Chair, IFAC SMP Advisory Group