



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**

MINISTERO DELLA GIUSTIZIA


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e degli Esperti Contabili
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International Auditing and
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529 Fifth Avenue
New York, NY 10017

Ref.: CNDCEC comments on IAASB's Quality Management project

The *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (hereinafter CNDCEC) has the pleasure to provide its comments on IAASB's quality management project.

CNDCEC welcomes IAASB's initiative aimed at reviewing the current standards on quality control in order to improve their clarity and enhance consistent application.

We are available to discuss with you every aspect of the comments illustrated hereunder.

Yours Sincerely,

Massimo Miani



**Responses by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
to
Explanatory Memorandum, The IAASB's Exposure Drafts for Quality Management at the
Firm and Engagement Level, Including Engagement Quality Reviews**

Overall Questions

- 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?**

CNDCEC agrees with IAASB's proposed implementation period of approximately 18 months after the final approval of the three standards by the PIOB.

Given the extent of the proposed changes, that imply a modification of the approach and rationale of the quality system, a shorter period would not be appropriate. However, an earlier adoption should be permitted as long as it applies to all the new standards, since they are very closely interrelated with each other.

- 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?**

In CNDCEC's opinion a useful support to the implementation of the standards for SMPs would be the updated version of the Quality control guide developed by the SMPC of IFAC.

CNDCEC has taken inspiration from this IFAC guide (third edition) for the publication, in April 2018, of its own model of handbook of quality control procedures for auditors (*sindaco-revisore*), and especially from the models and samples included in the Appendix, including the samples tailored for sole practitioners operating with limited nonprofessional staff.

General Questions

CNDCEC, in its capacity as official translator of IFAC's handbooks and standards, has translated the existing standards on quality control (ISQC 1 and ISA 220) and has fostered their adoption into the Italian legislation that took place in 2015 with a Decision (*Determina*) of the Italian Ministry of Finance (*Ministero delle Finanze - MEF*). More recently, in January 2018, ISA 220 has been updated to implement the conforming amendments of IAASB's project on the audit report.

Based on previous experience, CNDCEC does not expect any significant difficulty from the translation and adoption of the new standards.

With reference to the public sector, paragraphs in ISAs and ISQC 1 that include specific considerations for public sector audits have not been adopted by the Ministry of Finance. We have no reason to think that this will change with the new quality management standards, which are then not expected to be applied to public sector audits.

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**Answers of Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
To the
Exposure Draft, International Standard on Quality Management 1 (Previously International
Standard on Quality Control 1), Quality Management for Firms that Perform Audits or
Reviews of Financial Statements, or Other Assurance or Related Services Engagements**

OVERALL QUESTIONS

- 1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:**
 - a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?**
 - b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?**
 - c) Are the requirements and application material of proposed ED_ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?**

CNDCEC believes that the proposed approach, though more structured compared to the current one, enhances efficiency in the management of engagement quality since it introduces significant aspects of self-evaluation by the auditor, with the purpose of focusing attention on the areas the auditors deems at risk, as it happens when planning and carrying out audit engagements.

The method based on the preliminary evaluation of risk has by now become of common use in auditing and has proved to have undeniable pros. The application of such method to quality management will surely be beneficial in relation to a quality system designed and maintained in response to the identified and assessed risks, rather than a system requiring the adoption of policies and procedures that disregard the actual characteristics relating to the organization and size of the auditor and to the type of engagement performed.

In ED-ISQM 1 the exercise of auditor's professional judgement in defining the size of his/her own quality management system is, therefore, significantly enhanced. As a result, there are evident benefits in terms of adaptability of the system to the nature and the circumstances in which auditors operate as well as to the characteristics of the engagements they perform.

- 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?**

In CNDCEC's opinion the main challenge will concern the implementation of the new standards in small and medium sized practices that have already adopted a quality control system in compliance with the ISQC 1 currently in force. To this regard, it is worth reminding that in Italy the application of the quality control system described in ISQC 1 is mandatory only for statutory audit engagements (this excludes review, assurance and related services).

These practices will be required to adapt their own quality control system to the new standards and will then need to be appropriately supported in this change.

- 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?**

In CNDCEC opinion, the application material included in ED-ISQM 1 provides useful explanations of the requirements of the standard as well as valuable guidance for their implementation.

As stated in the previous answer, it would be useful to further examine the comparison of the new system with the quality control system already implemented in small and medium practices based on the ISQC 1 currently in force.

Specific Questions

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

CNDCEC supports the eight components that form the quality management system (compared to the six elements provided for by the current ISQC 1).

The new element of the system concerning the risk assessment process is key to the new approach and, as such, cannot be eliminated.

The new element concerning the process of information and communication within the system and for the benefit of the engagement team and of the whole staff of the firm is likewise essential to the effective functioning of the system and to the performance of the engagement.

- 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?**

CNDCEC supports the objective of the standard (similar to the objective already provided in the ISQC 1 currently in force).

Moreover, CNDCEC agrees with the considerations relating to the public interest in developing and maintaining the system of quality management.

- 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?

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

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

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

(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

- i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?**
- ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?**

CNDCEC deems that the preliminary risk assessment process allows the development of appropriate quality objectives, the identification and assessment of the risks for the quality and the development of appropriate responses to address those risks. The same rationale should be applied to the other components of the system of quality management. However, in CNDCEC's opinion, for each of the other components of the quality system, the quality objectives identified in the ED-ISQM 1 could be summarized and reduced, since they are too detailed.

It seems sufficiently clear that the firm must establish some further quality objectives (besides those foreseen in the ED-ISQM 1 for all the firms) in relation to the nature and circumstances of the firm and the type of engagement performed.

The other aspects addressed by the question are also sufficiently clear.

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

According to CNDCEC, ISQC 1 revisions on responsibilities of firm leadership are appropriate to strengthen the importance of this key element within the new system of quality management.

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

CNDCEC deems appropriate that ED-ISQM 1 requires to assign the responsibility for compliance with applicable ethical requirements to an individual within the firm. The same individual should have the responsibility for the compliance with independence requirements. Attributing those responsibilities to the same individual is particularly important in small and medium-sized practices.

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

CNDCEC deems that introducing the specific requirement to have technological resources for the performance of engagements but also to manage its quality system is too burdensome for small and medium- sized practices, in particular with reference to the quality system.

CNDCEC obviously recognizes the usefulness of technological resources, judging them essential to the performance of the engagement, however it doesn't deem appropriate to introduce the obligation of developing, implementing and maintaining appropriate technology resources also with reference to the system of quality management (see paragraph 38 e) of ED-ISQM 1).

CNDCEC has developed its own method to perform audit engagements in small sized enterprises, also providing several examples of working material and a model for a handbook of quality control procedures. Furthermore, CNDCEC has strongly recommended using a software to perform audit engagements without however imposing its adoption.

- 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?**

CNDCEC agrees with IAASB's opinion, expressed in the Explanatory memorandum of ED-ISQM, that the publication of the transparency report is not a real need for auditors who do not carry out audit engagements in PIEs. Therefore, the transparency report should not be mandatory for them.

In Italy, as well as in the other EU member States, auditors carrying out audit engagements in PIEs are required to issue a transparency report, whose content is illustrated in art. 13 of Regulation (EU) no. 537/2014. The auditor is therefore required to comply with these provisions rather than with those included in ED-ISQM 1.

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?

CNDCEC agrees with the proposal.

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?

(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 cycle basis, with enhancements to improve the flexibility of the requirement and the focus on other types of review?

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

(d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:

i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?

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

(e) Are 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?

CNDCEC believes that the obligation to evaluate the system of quality management every year would be too burdensome for small and medium sized practices, while an evaluation every three years would be sufficient.

- 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?**

CNDCEC agrees with the proposal.

- 14) Do you support the proposals addressing service providers?**

See the views expressed in answer no. 9 above.

- 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?**

According to CNDCEC the change in title would not create significant difficulties in adopting the new standard, since in the Italian legislation there is no explicit reference to ISQC 1.

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**Risposte del Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
al
Exposure Draft, Proposed International Standard on Auditing 220 (Revised), Quality
Management for an Audit of Financial Statements**

- 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?**
- 2) Does ED-220 have appropriate linkages with the ISQM 1? 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 and procedures?**

CNDCEC deems that the issue of the roles and responsibilities of the different parties involved in the system of quality management (firm, network, engagement partner, engagement team, engagement quality reviewer) is more relevant to audit firms other than the sole practitioner.

In consideration of the above, CNDCEC shares IAASB’s approach, aimed at avoiding the risk that the engagement partner entirely and uncritically relies on the firm’s system of quality management, without considering whether this is appropriate to the specific circumstances of the engagement. However, there is need for a further clarification of the circumstances in which the engagement partner is required to act directly, as compared to those in which he/she may depend on the firm’s policies and procedures. The alternate use of the two wordings “shall be satisfied” and “shall

determine” to indicate the two different circumstances, may not be sufficient without a clear explanation.

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)

CNDCEC agrees with the proposal.

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

CNDCEC agrees with the proposal. However, reference should be made to the answer to question no. 9 of ED-ISQM 1 relating to the obligation to have technological resources for the performance of engagements but also to manage its quality system, an obligation that could be too burdensome for small and medium sized professional practices.

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

CNDCEC agrees with the proposal.

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

CNDCEC agrees with the proposal.

7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

CNDCEC appreciates the efforts done to introduce in ED-220 specific considerations for smaller firms, not contained in the ISA 220 version currently in force. However, in CNDCEC’s opinion some further efforts in this direction are still possible. For example, with reference to the direction, supervision and review of the work, the guidance could foresee some specific considerations for small and medium sized practices (often consisting of a sole practitioner operating without professional staff) where these aspects are not relevant.