



Crowe Global  
488 Madison Avenue, Suite 1200  
New York  
NY 10022-5734  
USA  
+1.212.808.2000  
+1.212.808.2020 Fax  
[www.crowe.com/global](http://www.crowe.com/global)  
[david.chitty@crowe.org](mailto:david.chitty@crowe.org)

1 July 2019

Professional Arnold Schilder,  
Chairman,  
International Auditing and Assurance Standards Board,  
529 Fifth Avenue, 6<sup>th</sup> Floor,  
New York,  
NY 10017,  
USA.

Dear Arnold

**Proposed 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***  
**Proposed International Standard on Quality Management 2 *Engagement Quality Reviews***  
**Proposed International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements***

Crowe Global is delighted to present a comment letter on the IAASB's proposed suite of quality management standards. Crowe Global is a leading global network of audit and advisory firms, with members in some 130 countries.

We welcome the proposed suite of quality management standards. They represent a much-needed modernisation of the approach in the extant standards. The evolution from "quality control" to "quality management" is consistent with trends in risk management. It is right that the standards place an emphasis upon leadership, governance, and objective setting and risk management.

Rigorous implementation support will be essential as the standards contain new approaches and use terminology that will not be familiar to many practitioners. It is important that the implementation support is practical, but also avoids encouraging "standardised", "checklist" or "compliance" solutions. We encourage the IAASB to collaborate with national oversight bodies, standard setters and professional accountancy organisations to develop the support and share ideas. Scalability has been much discussed. The proposed standards are scalable and applicable to all firms, but practical implementation support is needed to illustrate how the standards can be scaled in practice.

Proposed ISQM 1 includes a section on networks, particularly addressing the way that member firms rely on services and support provided by their network. As these are new requirements, implementation support would be desirable. Crowe Global and its member firms would be pleased to participate in discussions regarding the development of implementation support in this area.

The IAASB has given presentations indicating that the final standards may be issued in June 2020 with effective dates in December 2021. We recognise that it is important to demonstrate to stakeholders the adoption and implementation of a modernised approach to quality management, but also the practical challenges for many firms in adopting the new approaches set out in the standards. Together with national oversight and standard setting bodies we encourage the IAASB to recognise that following implementation there needs to be a period of transition to complete the implementation of the standards, including going through the first full cycle of monitoring and remediation.

Our detailed comments on each of the proposed standards are presented in the appendices to this letter.

We trust that our comments assist IAASB in progressing this important project. We look forward to seeing the progression to issued standards and to engaging with you on the development of important support materials.

We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is fluid and cursive, with a long horizontal stroke at the end.

David Chitty  
International Accounting and Audit Director

## Appendix 1 - Proposed ISQM 1

### Overall Questions

- 1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard?

Response: ED-ISQM 1 does substantially enhance firms' management of engagement quality. The proposed standard reflects the evolution in thinking about attitudes to quality control since the issue of ISQC 1. It rightfully embraces the role of leadership and governance in firms and the integration of quality into objective setting by firms. Scalability will be a challenge, and there are concepts in the standard that many practitioners are currently not particularly familiar with. Implementation support by the IAASB and close collaboration with national oversight bodies and professional accountancy organisations will be essential. This support should include discussions about scalability, including relevant case studies.

In particular:

- (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

Response: We support the new quality management approach. The approach is a much-needed development representing how attitudes to quality control have changed since the issue of extant ISQC 1.

- (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?

Response: It can be anticipated that the proposals will generate benefits for engagement quality. A risk-based approach is consistent with how attitudes to governance have evolved. Focusing on managing risk ought to support the exercise of professional scepticism.

- (c) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?

Response: The requirements and application material are scalable. We consider that the exposure draft has been written to promote flexibility based on the circumstances. Implementation guidance will assist firms with scaling the requirements to their circumstances. However, guidance on scaling the requirements in practice has to encourage firms to apply their own judgment in determining the solution that is right for them and not be perceived as being "standardised" or encouraging a "checklist" approach.

- 2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

Response: We do not see any ultimate issues in implementing the standard. However, the change in approach will be a challenge for many firms meaning that implementation support from the IAASB and national standard setters is essential.

3) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

Response: In general, the application material is sufficient and supports the understanding of the requirements. It is comprehensive and it would not be appropriate to extend it further. There will be areas where the understanding of the standard's requirements can be practically explained further through implementation guidance.

### Specific Questions

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

Response: 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?

Response: We support the objective of the standard and the supporting objectives of the system of quality management. It is right to address the firm's role relating to the public interest and to relate the objectives of the standard to the firm's public interest role.

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?

Response: A risk assessment process will result in firms establishing appropriate quality objectives, quality risks and responses. However, for objectives of the standard to be achieved it is essential that the IAASB delivers practical implementation guidance and is supported by national standard setters, oversight bodies and professional accountancy organisations. Outreach and practical presentation of the requirements are important.

In particular:

(a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?

Response: We 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?

Response: We support the approach for establishing quality objectives.

In particular:

i. Are the required quality objectives appropriate?

Response: The required quality objectives are appropriate.

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

Response: Paragraph 26 specifies that additional quality objectives shall be established if necessary. This is clearly expressed and supported by the application guidance. There is the risk that firms might overlook this aspect of the standard, particularly if the culture of the firm or the environment that it works in leads to a "compliance" culture in setting the quality objectives. Implementation guidance and support from national standard setters and oversight bodies ought to reinforce the importance of applying judgment, being flexible and open to establishing further risk objectives that help the quality (and risk) management of the firm.

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

Response: We agree with the proposed 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?

Response: We support the approach that requires the firm to design and implement responses to address the assessed quality risks.

In particular:

i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

Response: This approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks, but as with other responses, implementation support will be essential.

ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

Response: As with our response to 6(b)ii., practical implementation guidance is important for communicating this.

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

Response: The revisions to the standard appropriately address firm governance and the responsibilities of firm leadership. Including firm governance is a welcome improvement from ISQC 1, and we agree with the IAASB's view about the "paramount importance" of governance and leadership. We agree that the requirements of this component are universally applicable, but there are practical challenges.

8) With respect to matters regarding relevant ethical requirements:

(a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

Response: Responsibility for relevant ethical and independence requirements should be assigned to designated individuals.

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

Response: The standard appropriately addresses the responsibilities of the firm regarding the independence of other firms or persons within the network.

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

Response: We welcome the references in the standard to the use of technology. Technological applications in professional firms are changing rapidly and a challenge for the IAASB is issuing a standard whose language remains fit for purpose. As presented, the standard and application guidance sufficiently address the subject of technology, which will be applied differently depending upon the nature and circumstances of the firm. However, circumstances may quickly change and firms cannot be held back by interpretations of the standard by national oversight bodies that discourage innovation and evolution of approach. Additional wording from the IAASB acknowledging that the technology environment will continue to evolve would be helpful.

10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with

the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

Response: It is right that ISQM 1 addresses communications to stakeholders about the firm's system of quality management. The final standard has to encourage flexibility because of the differing circumstances of firms. Transparency reports are a valuable source of information for certain types of firms, such as those with public interest engagements, but the IAASB has to be careful with the presentation of the standard to avoid conveying any impression that transparency reports are a requirement. The Explanatory Memorandum lists a transparency report as an example of a means of communication, but it is important to remember that there are other means of communication available, particularly as not all jurisdictions mandate the preparation of transparency reports.

- 11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

Response: We agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review (EQR).

- 12) In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation?

Response: The proposals for monitoring and remediation will improve the robustness of firms' monitoring and remediation. The proposals reflect how monitoring and remediation practices have evolved since the issue of extant ISQC 1. What is proposed is flexible, and recognises that information to assist the monitoring process can come from a variety of sources. The broader scope, covering all aspects of the system, is right, and addresses a weakness in extant ISQC 1. The enhanced responsibilities of firm leadership are right and consistent with the broader objectives of ISQM 1.

In particular:

- (a) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

Response: The proposals will improve firms' monitoring of the system of quality management. The approach appears to be flexible, recognising that there are different ways to achieve the objectives of monitoring.

- (b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

Response: We broadly agree with the IAASB's conclusion as the inspection of completed audit engagements generally ought to remain an important component of monitoring, as this is an opportunity to assess the practical application of standards and individual performance by engagement partners and their teams. However, the approach in the standard should be presented in a way that facilitates greater flexibility, the consideration of risk in determining the review cycle, and consideration of evidence from in process reviews and monitoring by regulators. There may be circumstances where it is right to place greater reliance on the results of in process reviews or focused reviews on specific areas such as the implementation of new standards.

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

Response: The framework for evaluating findings and identifying deficiencies is clear to an informed reader, but many practitioners, such as those who have less experience of applying control frameworks, may require practical guidance to assist them with implementing this aspect of the standard. Using a definition of “deficiency” that is consistent with other control frameworks makes sense, but the understanding and awareness of this term has to be considered.

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

Response: We agree with the new requirement for the firm to investigate the root cause of deficiencies. However, root cause analysis is a new concept for many professionals and the IAASB has to develop practical implementation guidance (including case studies) to assist firms with understanding and implementing the requirement. This is an area where “plain language” should set out that the requirement is about understanding the “underlying reasons”. The IAASB has to collaborate with oversight bodies, national standard setters and professional accountancy organisations to ensure that there is both a proper understanding of the concept and a consistent application of the concept.

In particular:

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

Response: The approach is sufficiently flexible, but as noted above, support for practical implementation in a consistent way is important.

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

Response: We welcome the recognition of “positive findings” in ISQM 1. However, as root cause analysis can have negative perceptions, communication and education is important to show the positive aspects of the practice. Case studies would be a good way to illustrate the use of root cause analysis to address positive findings.

(e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

Response: It is right that the individual assigned ultimate responsibility and accountability for the system of quality management should perform a periodic evaluation. There are challenges as in some environments the application of ISQC 1 has been treated as a “compliance” activity, firms’ leadership have not necessarily engaged closely with this “compliance” activity and the proposals therefore represent a significant change which may not be fully understood. Communication and engagement by the IAASB and collaboration with national oversight, standard setters and professional accountancy organisations is essential to achieve the change in approach to leadership responsibility in some environments.

13) Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

Response: We agree with the proposals addressing networks. It is right to address network requirements and network services from the perspective of the firm, as it is firms that conduct audit and assurance services, and firms are subject to external oversight. Firms have to take responsibility for their reliance on the network, but the standard does address how the network can support firms in fulfilling this

responsibility. The proposals achieve the right balance. We encourage the IAASB to engage with the networks to develop practical implementation guidance for this aspect of the standard.

14) Do you support the proposals addressing service providers?

Response: We agree with the proposals addressing service providers.

15) With respect to national standard setters and regulators, will the change in title to "ISQM" create significant difficulties in adopting the standard at a jurisdictional level?

Response: We are a network, not a standard setter or regulator, but we do not perceive any issues and encourage standard setters and regulators to adopt the IAASB's new approach.



## Appendix 2 - Proposed ISQM 2

### Questions

- 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?

Response: We agree that there should be a separate standard for engagement quality reviews (EQRs). We agree with the proposed division between ED-ISQM 1 and ED-ISQM 2.

- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Response: The linkages between ED-ISQM 1 and ED-ISQM 2 are 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?

Response: We support the change in terminology. The simplification of the term is welcome and the removal of the word “control” is consistent with the aims of the IAASB’s quality management initiative.

- 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?

Response:

- (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?

Response: Guidance is needed to assist firms in applying the policies and procedures that will be required to design and implement ED-ISQM 2. We agree that a cooling off period is appropriate for listed and certain other types of public interest entity engagements. Guidance will assist firms in determining the appropriate length of a cooling off period that upholds the public interest, as well as determining the type of engagements to which there need be no cooling off period or a short period.

- (b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Response: Consistent guidance ought to be located in both ISQM 2 and the IESBA Code.

- 5) Do you agree with the requirements relating to the nature, timing 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)?

Response: We agree that overall the requirements are appropriate. We feel that there should be additional guidance, specifically as it relates to:

- (1) The involvement of the engagement quality reviewer in the engagement planning process and the extent and timing of their procedures. If the engagement quality reviewer is not a member of the engagement team, there is concern that the objectivity of the EQR may be threatened based on the extent and timing of their discussions with the engagement team. For example: the participation in planning meetings and discussions may lead to the EQR making decisions or influencing the nature and extent of audit procedures performed and

evidence obtained by the engagement team. As a consequence, there is a perceived lack of objectivity on the part of the EQR in performing their evaluation. Although Paragraph 21(c) identifies the requirement to address these circumstances, we feel that they will become a common occurrence in many engagements unless there is more explicit guidance on the extent of the EQR's involvement; and

- (2) As noted in Paragraph A28, the nature, timing and extent of the EQR's procedures may need to change based on circumstances encountered in performing the engagement quality review but there is no guidance, such as examples of possible circumstances and additional procedures required to appropriately respond to them.

- 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 scepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

Response: The evaluation of significant judgments and the engagement documentary evidence will inherently require the consideration of professional scepticism used by the engagement team. We believe that the exercise of professional scepticism by the EQR in performing their duties and responsibilities is necessary; however, additional guidance to provide clarity on the degree of scepticism and the documentation requirements would be beneficial.

- 7) Do you agree with the enhanced documentation requirements?

Response: The enhanced documentation requirements are an important and appropriate response to the concerns raised about the robustness of the current approach to Engagement Quality Control Review (EQCR). We agree with what is set out in the standard and the application guidance. The final text of the application guidance ought to discourage "checklist" approaches that result in minimal documentation about the EQR process, the matters discussed and the judgments made.

- 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?

Response: We consider that the approach is scalable and that this has been addressed in the standard and application guidance. However, implementation support is essential to help achieve scalable solutions in practice.

## Appendix 3 - Proposed ISA 220 (Revised)

### Questions

- 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?

Response: We generally agree with the proposed amendments to paragraphs 11-13 and 37 of ISA 220. Effective overall engagement partner leadership is critical for the delivery of a quality audit.

Paragraph 11 notes the partner shall take overall responsibility for managing and achieving quality on the audit engagement. We are fully supportive of the engagement partner's involvement throughout the engagement such that the engagement partner can appropriately conclude on the basis for significant judgments and conclusions reached. However, the engagement team as a whole has to support the partner in the responsibility to deliver quality. As noted in paragraph 12, all engagement team members are responsible for contributing to the management and delivery of quality. Also per paragraph A22, the engagement partner's responsibility for managing quality is supported by a firm's culture. Placing the responsibility of quality solely on the engagement partner is not conducive to an overall culture of quality throughout the firm. We recommend that the emphasis on the partner's overall responsibility be shared with senior members of the team and the firm and that paragraph 11 be amended accordingly.

Also, additional clarification would be welcome regarding the roles and responsibilities of other partners, such as second audit partners, partner specialists, component auditor partners, and other partners responsible for the firm's quality management environment.

- 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?

Response: We consider that the linkages are appropriate. We agree with the requirements to follow the firm's policies and procedures and with the material referring to when the engagement partner may depend on the firm's policies or procedures. There should be an expectation that the engagement partner can rely on the firm's effective system operating as required by ISQM 1, unless the partner was aware of deficiencies in that system.

- 3) Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

Response: The material in paragraph 7 and A27-29 of ED-220 note the requirement to perform the audit by applying professional scepticism. The appendix provides examples of challenges in applying professional scepticism and ways to overcome or deal with such challenges with a focus on bias and resource constraints.

The application of the standard and professional scepticism would benefit from examples on how professional scepticism is applied to an engagement, rather than solely focusing on challenges with applying professional scepticism and related solutions. This could be achieved through implementation support material.

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

Response: The performance of audit is changing rapidly. We welcome the inclusion of a section in the standard on "engagement resources" supported by application guidance. However, the language used is cautious, such as "the use of technological resources may assist the auditor"

(A56). There is a risk that the use of cautious language means that the standard and its application guidance could become obsolescent not long after its issue.

The standard would also benefit from additional clarification regarding the audit partner and senior engagement team members' responsibility for the firm's quality controls as it pertains to multi location audit delivery models, including group auditors, whereby it may not be practical for the partner to have full visibility of specific quality and training protocols.

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

Response: We agree with the revised requirements and guidance on direction, supervision and review. These are a welcome development from the extant standard more clearly setting out the contemporary expectations of the role of engagement leaders to deliver audit quality. We encourage the use of implementation guidance to support the practical understanding and application of these expectations.

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

Response: The content of the standard on documentation ought to be more detailed. We acknowledge that the requirements of ISA 230 are overarching, but some of these ought to be included in ISA 220. The application guidance is well presented and some of this could be presented in the standard and regarded as a requirement.

- 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?**

Response: We consider that the standard is scalable.