Dear recipients,

Suomen Tilintarkastajat ry (The Finnish Association of Authorised Public Accountants) supports the comments given to IAASB by Nordic Federation of Public Accountants (NFR) on the IAASB Exposure Drafts on *ISA 220 (Revised), Quality Management for an Audit of Financial Statements* and quality management standards *ISQM1* and *ISQM*2. We also want to emphasize the importance of certain matters by providing our own comments.

We thank you for your effort in revising the standards and especially for your attempts to make the extant standards more scalable. Quality management is an important part of the quality of the audit, and therefore the standards should be as clear and understandable as possible. They should also be fit-for-purpose and easily applicable for all kinds of audit entities and engagements e.g. entities of different legal forms and different sizes and degrees of complexity.

Our comments relate mainly to the scalability and understandability of the revised standard and the focus is on SMPs. Few SMPs audit listed entities or entities that are of ´significant public interest´ and therefore we do not comment on ISQM2 separately. We do, though, support a separate standard for engagement quality reviews. The answers to some of the questions regarding the revised ISA 220 and the questions in *The IAASB´s Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews* are included in this document.

Our responses to the specific questions are below. For further information on our comments, please contact Riitta Laine on +358-40-7560676 or via email at riitta.laine@suomentilintarkastajat.fi.

Sincerely,

Sanna Alakare   Riitta Laine

Chief Executive   Audit Specialist

Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

Overall Questions

Question 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?

We support the new quality management approach and the risk approach. We would, however, emphasize that ISQM1 also applies to the very small and sole practitioners (1-3 partners working with few staff if any). The standard is long and includes numerous quality objectives and responses. It is not clear how much needs to be documented about the reasons why a particular detail is not relevant for a SMP. Together with our other comments below this shows that it is difficult to write a standard that covers the entire range from big audit firms to sole practitioners. Therefore, a separate standard for SMPs or at least a clear and comprehensive guidance for SMPs would be useful in helping SMPs to decide what needs to be done and what needs to be explained when not done. If the "comply or explain" principle is followed in every step the risk for overdocumentation increases. The vast number of requirements can also lead to a checklist approach and the overall objective for audit quality might be obscured.

The SMPs may fall short in having staff with specialized competence regarding different aspects of the quality management system. The quality management system as proposed in the revised standard might be an overwhelming exercise for SMPs. At least the objectives and requirements of the standard and the language used should be as clear as possible. The need for each requirement should be carefully considered.

When dealing with the scalability, the relevance of the standard is fairly easy to understand. Therefore just stating that the firms do not have to comply to requirements that are not relevant (due to the size of the types of engagements) is not helpful. There is more to scaling than relevance. The difficulties lie more in "in what situations" and "how" than "relevant or not", and more guidance is needed dealing with the first two questions. The scalability of a *relevant* standard is the issue that should be thoroughly considered whenever a standard is being revised or a new standard is established.

Question 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?

A clear guidance on what´s new and what has changed would be helpful when implementing new requirements. The firms should be able to update and improve their existing systems without the need to start ´from scratch´.

The standard should always include only requirements that are authoritative. Any examples or additional guidance should be left out of the standard and be included in the application material, appendices or other guidance.

The Guide to Quality Control for SMPs and *Staff Questions & Answers – Applying ISQC1 Proportionately with the Nature and Size of the Firm* should also be updated as soon as possible to help with the consistent implementation and compliance of new and revised standards.

Question 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?

As pointed out in the previous answers, guidance and tools should be provided to help with the scalability and the transformation from the existing systems to the revised one.

Specific Questions

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

The standard includes a lot of quality objectives and responses to the objectives that relate to the eight components. The structure of the standard is not clear and there is no common subheading nor any balance between different components. Some of them are more overarching than the others, and some have much more objectives or responses than the others. For example, the risk assessment process and communications are, in our opinion, not separate components but fundamental parts of the quality management process. Calling the eight areas ´components´ feels a bit artificial. Therefore we would not call them components at all.

The numerous objectives and requirements should be highlighted somehow in order to clarify the structure of the standard.

Question 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?

The responsibility to act in the public interest is a fundamental requirement as prescribed in the IESBA Code of Ethics. The public interest is often looked at from the PIE point of view and the SME perspective is often secondary or missing. Whenever public interest is mentioned, the broad range of entities and their stakeholders should be taken into account.

Question 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?*

We support the risk approach of the standard. However, the number of different objectives and responses makes the standard quite long and we are concerned that the quality management process and also the documentation requirements hence are too heavy for the SMPs.

The terminology and other aspects regarding the risk assessment process should be as consistent with the revised ISA 315 as possible. The new approach to scalability, which we hope to be successfully incorporated in the revised ISA 315, should also be as consistent with ISA 315 as possible.

We would also suggest that the quality objectives would be treated as risks rather than as objectives. This would fit the ´risk and response´ approach that the auditors are familiar with. The objectives should be fewer, more overarching and principals based.

As we wrote in our response to ISA 315 (revised), the standards should not include so many different levels of risk - e.g. likelihood, 'reasonable possibility', 'more than remote' and ´acceptably low level´. The nuances of these different terms are difficult to translate and can cause inconsistency in the compliance of the standard even if the translation was perfect.

In our opinion, the firms should not be expected to establish additional quality objective beyond those required in the standard. Additional objectives can, though, be necessary, and therefore the requirement could, instead, be *a requirement to consider* whether additional objectives should be established. This would enhance the scalability of the standard because in the SMPs no additional objectives are likely to be needed.

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

No comments

Question 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?

No comments.

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

No comments.

Question 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?

No comments.

Question 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?

Although not usually relevant for SMPs, we are of the opinion that the IAASB should be very cautious when addressing the scope of engagements that should be subject to an engagement quality review. Using the term ´significant public interest´ can cause inconsistencies in the application of the standard.

The suggested scope is too broad. We are also afraid that a comprehensive documentation might be expected on the deliberation based on the examples given in A104. An engagement quality review is not the only and not necessarily the best response to quality risks.

We would also like to point out that the requirement to use engagement quality reviews in all the engagements that involve ´a high level of judgement or complexity´ can be seen to diminish the role of the appointed auditor. Making judgements – big and small - is part of everyday audit.

Question 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 cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?
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 there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

We agree with the new requirement for the firm to investigate the root cause of deficiencies, but the distinction between a finding and a deficiency is not clear. Many see all findings as deficiencies and a positive finding might not be treated as a finding in the first place.

The application material should not include any guidance on situations that are not included in the standard. We refer to the A178 that deals with investigating root cause of positive findings.

Evaluating annually whether the system is working is usually unnecessary for the SMPs in simple circumstances. We suggest the evaluation to be done every third year. More frequent evaluation should be done for example if an external inspection has made severe comments about quality or if the SMP fails the external inspection.

More guidance on the scalability of the requirement to evaluate root causes should be given.

Question 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?

No comments

Question 14 - Do you support the proposals addressing service providers?

No comments

Question 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?

We do not mention ISQC1 by name in Finnish legislation. We refer, though, to our comments on the translation issues.

ISA 220 (revised) Quality Management for an Audit of Financial Statements

Overall Questions

Question 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?

No comments

Question 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?

No comments

Question 3 - Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level?

No comments

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

No comments

Question 5 - Do you support the revised requirements and guidance on direction, supervision and review?

No comments

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

No comments

Question 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?

No comments.

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

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

We refer to our comments to ISQM1.

Comments on translatabity

General

We were happy to notice that the language used in these ED's is much more readable and understandable than that used in other recent texts, such as the ISA 315 ED and the final ISA 540 (Revised).

However, we have the following comments relating to potential translation problems and challenges.

Terminology

Changing the term 'quality control' into 'quality management' might result in a need to amend legislation at the level of the European union and in its member states, although European law or Finnish Audit Law do not mention ISQC1 by name.

The term itself will be relatively easy to translate, but some other terms might cause confusion in some languages that have a different lexical density. In this case we refer to '*engagement quality review'* and '*engagement quality reviewer'* (previously 'engagement quality control review' and 'engagement quality

control reviewer'). Finnish, for example, does not have exact equivalents for 'inspection' and 'review', and on the other hand, we do have separate words for different kinds of 'review'. The translation we had for 'engagement quality control review" will not work by just removing the 'control' part from it, because the resulting translation would refer to an inspection in connection with quality control, and therefore we might have to use the equivalent of 'engagement quality management review'. You have deviated from the previous logic of putting together longer terms consisting of parts, and ours might not be the only language that will have problems with that particular term.

Ambiguous references in relative clauses

There are some cases, but not as many as in ISA 540 (Revised), where a relative clause could <u>refer to several words or expressions</u>. An example:

ISQM 1.42:   The firm shall establish the following quality objectives **that** address the firm's monitoring and remediation process **that** enable the evaluation of…

Here the first 'that' refers to 'quality objectives', but it is not completely clear what the second 'that' refers to. Maybe it also refers to quality objectives, because that is the only word in plural. But it could also refer to the processes.

In some cases, the relative pronoun is <u>far away from what it refers to,</u> and this makes the sentence difficult to read. For example, ISQM 1.18:

> The objective of the firm is to design, implement and operate **a system of quality management** for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, **that** provides the firm with reasonable assurance that…

'*Including' with an ambiguous reference*

Expressions starting with 'including' are frequently used in the text. In some occasions it is not completely clear what 'including' refers to. For example, ISQM 1.23:

> The firm shall establish the following quality objectives that address the aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management, **including** the firm's culture, decision-making process, actions, organizational structure and leadership:

Here, 'including' could refer to 'the aspects of the firm's environment' or to 'the other components of the system of quality management', at least.

Complex structures

Sometimes there are expressions that are constructed in an unnecessarily complex manner so that a sentence needs to be read several times in order to be understood. For example, ISQM 1.20:

> The individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm's system of quality management shall have an understanding of this ISQM relevant to their responsibilities, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.

Multiple prepositional structures

For languages that do not use prepositions, sentences including multiple prepositional structures are a nightmare to translate, often resulting in a translation twice the length of the original. For example, ISQM 1.30 and ISQM 1.A51

> The design of the responses shall be **based on** and **responsive to** the reasons for the assessments given to quality risks.

> Although the quality objectives set out in this ISQM are organized by component, an objective in one component may be **related to**, support, or be **supported by** a quality objective in another component.