



International Auditing and Assurance Standards Board  
International Federation of Accountants  
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Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Quality Management suite of Exposure Drafts.

Overall, we are supportive of the development of a suite of quality management standards. We see this as a positive step towards improving the quality of firms' systems of quality management leading to higher quality engagements performed by firms. We are cognizant that the proposed requirements for a system of quality management are a large step change for most firms but are of the view that this will solidify changes that some firms have been progressing over the past few years. For example, many firms have already implemented policies and procedures including those related to performing root cause analysis, developing an appropriate firm culture and developing mechanisms to handle complaints and allegations. The development of the proposed standards will expand such best practices into other firms that have not commenced this process and will provide a mechanism by which firms can more proactively manage quality rather than reactively control quality.

We do however have several concerns, highlighted below, on which we elaborate further in our detailed responses.

*Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews*

We are significantly concerned that the proposed effective date of the suite of quality management standards of 18 months from approval will not allow sufficient time for the standards to be properly implemented and will lead to firms not being able to take the time to properly address the new requirements. Such a short implementation period may lead to policies and procedures being implemented that do not fully address the proposed new requirements and may be detrimental to quality in the short term.

#### *ED-ISQM 1*

We are supportive of the introduction of a quality management approach for firms in developing their processes, policies and procedures. Overall, we are of the view that the proposed standard has been developed in a scalable manner, however, there are a few areas that we believe warrant further consideration from a scalability perspective. Specifically, we believe that the requirements may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements and have recommended further consideration of this area; including whether the proposed standard should apply at all to these firms, or whether consideration should be given to identifying a subset of requirements with which these firms are required to comply. We are also of the view that the requirements in relation to service providers and to firms that are part of a network could prove to be burdensome absent more defined boundaries to these requirements.

We have highlighted a number of areas in our detailed response where we are of the view that further application material is warranted. In particular, we would highlight the requirement for firms to identify and assess risk. Specifically, how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a "significant effect" should be measured or determined would be helpful. Absent this additional application material, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting their risk assessments should they be subject to challenge by regulators or through other inspection mechanisms.

We would also like to highlight the requirement for an annual evaluation of the system of quality management. As explained in our response to question 12, we are of the view that such an evaluation is redundant in a properly developed system of quality management, as such a system should promote continuous improvement.

#### *ED-ISQM 2*

We are of the view that the ED-ISQM 2 should not include a requirement for firms to develop a 'cooling off' period between an individual acting as an engagement partner and subsequently an engagement quality reviewer on the same engagement. We are of the view that this is in the purview of the International Ethics Standards Board for Accountants (IESBA) not the IAASB and accordingly should be addressed by IESBA.

In respect of the scalability of the proposed new standard, we have highlighted concerns in relation to the practical operation for smaller firms of the requirement for the person appointing the engagement quality reviewer to always be independent of the engagement team and in relation to the extent of the procedures listed as required to be performed by the engagement quality reviewer.

#### *ED-220*

We have significant concerns regarding the extent of the engagement partners responsibilities proposed by the amendments, specifically in their application to large single entity engagements and to multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Absent further guidance on how to practically apply these responsibilities in such engagements, we are of the view that these proposed amendments could be detrimental to quality. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

We are also concerned with the proposed definition of an engagement team. We have heard conflicting views on whether the definition of engagement team includes the component auditor and secondly, we are unclear about what constitutes an 'audit procedure' in this definition. An incorrect interpretation of this could result in individuals based at off-shore centres or those engaged in data mining activities being incorrectly included or excluded. Absent further clarity of these issues, we are of the view that this may have unintended consequences on who is considered a member of the engagement team and for the procedures that become required in relation to those individuals.

We respectfully submit our detailed responses to the Quality Management Exposure Drafts, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +1 646 825 8468.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

Antony Nettleton  
Global Leader – Quality and Risk Management  
Grant Thornton International Ltd

Enc: Appendix B: Response to Exposure Draft – Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)

## Responses to IAASB's Exposure Draft – Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)

The following provides our detailed response to the IAASB's request for comments to Exposure Draft – 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 Related Services Engagements*.

### QUESTIONS

#### OVERALL QUESTIONS

**Q1. 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?**

We are supportive of the new quality management approach. See our responses to the specific questions below in respect of areas where we have specific concerns.

**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?**

We are of the view that a proactive approach to managing quality will provide a sound foundation that creates an environment for improved engagement quality and the opportunity to exercise professional skepticism at the engagement level. However, enhancing standards will only address part of the issue. A quality engagement also requires those performing the engagement to have a questioning mind and to be committed to achieving quality. This is not something that can be achieved through standard setting alone. We would recommend that the IAASB consider working with others, such as national auditing standard setters in its efforts to improve the practitioner's exercise of professional scepticism. For example, consideration could be given to current projects on audit quality indicators.

**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 are of the view that the standard is generally scalable for firms of varying sizes that perform audit engagements. We would note however, that the requirements in ED-ISQM 1 may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements. We suggest that consideration is given to restricting the required application of ED-ISQM 1 to firms that perform audits and review engagements, with application of the proposed standard being voluntary for firms that only perform compilation engagements or agreed-upon procedures engagements. Alternatively, consideration could be given as to whether all of the requirements are necessary for these types of firms. The IAASB could consider identifying the subset of the requirements of ED-ISQM 1 with which firms only performing compilation engagements or agreed-upon procedures engagements would be required to comply, with compliance of the remaining requirements being voluntary.

Similarly, if ED-ISQM 1 is to be applied to firms that only perform compilations or agreed-upon procedures engagements, further clarification would be welcome on the extent of the assessment required by firms that form part of a network where such firms only perform compilation or agreed-upon procedure engagements.

**Q2. 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?**

There are areas in ED-ISQM 1 where further guidance is needed for firms to understand the boundaries of the requirement; the extent of the evidence firms need to gather; and the documentation needed to be in compliance with ED-ISQM 1. This is especially relevant in the areas of network requirements and service providers. For example, paragraph 64 includes a number of requirements that are applicable when a firm uses resources from a service provider. Many firms will have legacy software systems where some of the information required by ED ISQM 1 may not be available.

Further guidance is also needed in relation to the assignment of an individual responsible for performing an annual evaluation of the firm's system of quality management, in particular the level of information or documentation that the individual is required to review in order to make the evaluation would be helpful.

Implementation guidance in relation to these issues, for example through an FAQ would be helpful.

**Q3. 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?**

We are of the view that additional application material would be helpful in the following areas:

- Governance and leadership – paragraph 23(a) requires firms to establish 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, and specifically that the culture promotes a commitment to quality. Further guidance in this area would be helpful, specific to how a firm would both design such a culture and evidence that this culture is in place.
- Governance and leadership – paragraph 24(a)(i) requires the individual assigned ultimate responsibility and accountability for the firm's system of quality management to have the appropriate experience and knowledge to fulfil the assigned responsibility. Further guidance on what is meant by "appropriate experience and knowledge" would be helpful. For example, does this mean that the individual should possess qualifications in audit, and as such an advisory or tax partner would unlikely be able to fulfil this role, or that the individual should have experience and knowledge in managing a business.
- Acceptance and continuance of client relationships and specific engagements – we note that ED-ISQM 1 includes requirements relating to the consideration of the integrity and ethical values of the client. It is unclear whether these requirements are suggesting that firms should only accept or continue client relationships with clients that have ethical values that are compatible with the firm. We are the view that different firms may have different and perfectly acceptable ethical standards that are compliant with the requirements in their respective jurisdictions. This may even occur within a network of firms due to the prevailing culture and environment in each firm's jurisdiction. In our view it is acceptable, and possible to provide a good service to clients that have appropriate, but different ethical values to those of the firm. We would recommend that this is clarified through amendment of the requirement or the provision of additional application material.

- Firm's risk assessment process – further guidance is needed to support the practical application of paragraphs 28 and 29, which require the identification and assessment of risks. Specifically, in respect of how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a “significant effect” should be measured or determined would be helpful.
- Engagement performance – paragraph 37(e) requires firms to establish policies or procedures that require an EQ review for audits of financial statements of entities that the firm determines are of significant public interest. Although we acknowledge that the term “significant public interest” is used in ISA 700<sup>1</sup> and similarly related application material paragraph A102 of ED-ISQM 1, is linked to entities that have a large number and wide range of stakeholders and the nature and size of the business, we are of the view that this phrase could be open to different interpretation in different jurisdictions and by different firms. As such, we are of the view that further guidance, which provides more objective criteria by which to make this assessment would be helpful. In the context of ED-ISQM 1, it is not clear if this would result in an expectation that an EQ review is performed on all charities, because of the nature of the business, or just those that have a large number and wide range of stakeholders, and if the latter, how should “large number and wide range” be interpreted. Further, given all public sector engagements potentially involve a large number and wide range of stakeholders, it is unclear whether the expectation is that all such engagements would be subject to an EQ review. Our concern is that this could have the consequence of more engagements being subject to an EQ review than intended, and lead to more negative inspection findings based solely on differences in interpretation by firms and regulators as to the engagements that the firm should determine meet the criteria of significant public interest.

We are of the view that the following application material could be deleted:

- Paragraphs A49 and A59 of ED-ISQM 1 begin by identifying the paragraphs that contain the required objectives and the required responses. If, per our recommendation below, a single paragraph that specifically requires that a firm's system of quality management to incorporate all the quality objectives and responses in ED-ISQM 1 and to establish additional quality objectives and responses necessary that are specific to the firm's circumstances, is incorporated into the standard, we are of the view that these paragraphs could be deleted.

#### **SPECIFIC QUESTIONS**

#### **Q4. Do you support the eight components and the structure of ED-ISQM1?**

We support ED-ISQM 1 organizing a firm's system of quality management into components, given that the proposals also allow firms' the flexibility to adapt those components, as necessary, to their own terminology and frameworks (paragraph A5 of ED-ISQM 1) and to undertake the risk assessment process for the system of quality management as a whole (paragraph A48).

We would recommend however, providing further emphasis that, irrespective of the terminology or frameworks used, a firm's system of quality management should be designed to incorporate all of the required quality objectives and all of the required quality responses set out in ED-ISQM 1, to avoid the potential of non-compliance with the proposed standard if firm's frameworks are significantly different. We do also note some inconsistency in this area in respect of how compliance is achieved. For example, paragraph 26 emphasises that quality

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<sup>1</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

objectives additional to those required by ED-ISQM 1 need to be established by firms, whereas paragraph 30, emphasises that the responses the firm develops to address its assessed quality risks need to include those required by ED-ISQM 1. (See our response to question 6 below).

In our view, the firm's risk assessment process should be the first component included in the proposed standard. The firm's risk assessment process is something a firm has to put in place for it to be applied to other components in the system of quality management. Governance and Leadership could then be the second component with the other identified components following. This structure would result in the proposed standard following the logical structure of a firm's system of quality management. Further, because the governance and leadership is the first component in the proposed standard, a somewhat lengthy introduction to the firm's risk assessment process has been added. Moving the requirements relating to the firm's risk assessment process to the beginning of the standard may facilitate a more concise introduction. We are of the view that the characteristics of the firm's risk assessment process component differ from those of the governance and leadership component, in that the firm's risk assessment process is applied to the governance and leadership (and other) components, whereas the governance and leadership component, whilst closely inter-related to other components, is not applied to them. As such, we believe that placing the risk assessment component before the governance and leadership component does not, in any way, diminish the importance of that component.

**Q5. 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?**

We are supportive of the objective of the standard, except in its application to firms that only perform compilation engagements or agreed-upon procedures engagements. (See our response to question 1 above). We are further supportive of the objective of the system of quality management being included within the objective. In our view this provides a more comprehensive description of the expected outcome of compliance with the proposed standard.

We are of the view that the proposed standard is clear in explaining that achieving the objective of ED-ISQM 1 will facilitate the performance of quality engagements and that it is the consistent performance of quality engagements by a firm that results in a firm acting in the public interest. However, we are of the view that better distinction is required between the terms "public interest" and "entities of significant public interest." The similarity of the terms could lead to confusion in the implementation of this standard.

**Q6. 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?**

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? In particular**

**i. Are the required quality objectives appropriate?**

We agree that the quality objectives established by ED-ISQM 1 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?**

We agree that it is clear that firms are expected to establish additional quality objectives beyond those required by the standard when such objectives are needed to achieve the objective of ED ISQM 1. For example, firms may need to develop more specific objectives that are reflective of their specific facts and circumstances and that are responsive to the environment or jurisdiction in which they operate.

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

We support the concept of requiring firms to identify and assess quality risks before consideration of responses to address the risk that a quality objective is not achieved. However, we do have concerns with the two-step process of the identification of the risk and then its subsequent assessment, including introducing the thresholds of “reasonably possible” and “individually or in combination with other quality risks.”

In respect of the two-step process, we are of the view that whilst this may be a conceptual way to determine the risks for which a firm may need to develop a response, it is not clear how this would be practically applied, or if there is a substantive difference between the identification requirement and assessment requirement, other than a more detailed consideration of the risks. It is also unclear what documentation would therefore be required to reflect this two-step process.

In respect of determining whether the identified risk should be further assessed, the proposals seem to introduce two thresholds that firms have to consider, firstly if it is reasonably possible and then if it is reasonably possible, whether it individually or in combination with other quality risks will have a significant effect on the achievement of the quality objective. Reasonably possible was a concept introduced in the recent ISA 315 (Revised)<sup>2</sup> exposure draft, where a reasonable possibility was equated with more than remote. We note that ED-ISQM 1 follows the same approach in paragraph A55 of the proposed standard, and we would reiterate our comment in our response to the ISA 315 (Revised) exposure draft, that we do not believe that this is an appropriate equation. Further, we are of the view, that absent the additional application material, highlighted in our response to question 3 above, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting its risk assessment should it be subject to challenge by regulators or through other inspection mechanisms.

**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?**

We are of the view that if a firm commits to fulfilling the requirements of the proposed standard, it should result in responses that are appropriately designed and implemented to address the assessed quality risks. The appropriate design of responses to address the assessed quality risks is critical to the operation of a system of quality management.

**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 are of the view that the expectation that firms design and implement responses in addition to those required by the standard could be further emphasised. In fact, we

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<sup>2</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*



note that paragraph 30 of ED-ISQM 1, actually emphasises the development of responses *required* by the standard and not responses *in addition* to those required by the standard. We would recommend that the statement included in paragraph 10(c) of the introduction to the proposed standard, that “the responses required by this ISQM 1 alone will not be sufficient to address all of the firm’s assessed quality risks for the quality objectives that are required to be established by this ISQM,” would be better incorporated into the requirement.

**Q7. Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?**

We are generally supportive of the revisions to the standard to address the responsibilities of firm leadership. However, we would make the following observations in relation to this component:

- Paragraph 24(a) requires that ultimate responsibility and accountability for the system of quality management is assigned to the firm’s chief executive officer (or equivalent) who has the appropriate experience and knowledge to fulfil the assigned responsibility. As noted in our response to question 3 above, further guidance is required on what is meant by “knowledge and experience.” Firms may have chief executive officers (or equivalent) that are from parts of the practice other than audit and assurance, for example from the advisory or tax practices, and it is unclear whether this requirement is intending to prohibit such individuals from fulfilling the role of chief executive officer (or equivalent).
- Paragraph 20 requires the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility for the firm’s system of quality management to have an understanding of the proposed standard relevant to their responsibilities. We question whether this requirement should be extended to have an understanding of the entire standard, as is currently required by extant ISQC 1, paragraph 13. Absent an understanding of the entire standard we question how these individuals would identify what is or is not relevant to their responsibilities.
- Also as noted in our response to question 3, in relation to paragraph 23(a), further guidance on how a firm would design and evidence the culture required would be helpful.

**Q8. 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?**

We are of the view that firms should be required to assign responsibility for relevant ethical requirements to an individual in the firm. Additionally, depending on the size and the complexity of the firm, it may also be appropriate for another individual to be assigned responsibility for compliance with independence requirements. For example, for larger firms, with multiple offices or networks with member firms across multiple jurisdictions, where independence reporting and monitoring may be more difficult and require the use of IT systems, it may be appropriate to appoint a separate individual to be responsible for independence. In smaller firms, independence may be much simpler and, as such, may not require separate monitoring.

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

We are of the view that the standard appropriately addresses the responsibilities of the firm regarding the independence of other firms or persons in the network.

**Q9. Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?**

We are of the view that, although the proposed amendments in ED-ISQM 1 have begun to address a firm's use of technology in its system of quality management, further guidance and clarification on the scope is needed in the application material to ED-ISQM 1. For example, would the requirements therein apply to use of routine technology such as excel, and to more complex matters such as cyber security issues or data protection issues? Implementation guidance, in the form of examples could also be provided, which contrasts the extent of the responses that would need to be implemented and the related documentation at both ends of the spectrum. Consideration would also need to be given to how requirements in this area would be capable of being inspected against. For example, consideration could be given to whether there are suitable external benchmarks for firms to use in developing their responses and for regulators to inspect against.

**Q10. 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?**

We support the intent of providing guidance around appropriate communications with external parties, however, we note that where details of matters that may be communicated is provided, albeit through application material, there is a tendency for firms and regulators to view this as a list of matters that must always be communicated. This may result in firms communicating information that external users may not find useful or of interest.

We also note that paragraph 41(c)(iv)a references the use of transparency reports as a means of communicating to external parties. Although as drafted, this paragraph does not actually require the use of a transparency report to communicate to external parties, the mere fact that it is included in a requirement may lead firms and regulators down this path. This may cause issues where firms do not prepare a transparency report and the regulator is expecting one to be prepared or may result in firms issuing a transparency report where there is no demand for such. We are of the view that a transparency report is not always necessary, or the most appropriate means of communication about a firm's system of quality management and would recommend that this is removed from the requirement and only retained in the application material as an example of how a firm may choose to communicate.

**Q11. 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 agree with the intent to expand the scope of engagements that should be subject to an engagement quality (EQ) review by requiring firms to identify engagements, other than listed entities, that meet certain criteria. However, we are of the view that the using the term of "significant public interest" may not result in a consistent application of this paragraph. We note that the related application material highlights that in making the determination of whether an entity is of significant public interest, firms would take into account whether the entity has a large number and wide range of stakeholders, and the nature and the size of the business. It also includes entities that may meet these criteria such as financial institutions and not-for-profit organizations. However, we are of the view that this guidance lacks sufficient specificity to promote consistent application and may have the unintended consequence of scoping in all public sector engagements, given, arguably, these entities will always have a large number and wide range of stakeholders, but may otherwise not be of significant public interest. We are of the view that if this terminology is retained, a more specific definition of the entities that this is designed to bring into scope for an EQ review would be beneficial.

Additionally, EQ reviewers may be appointed to engagements for reasons other than the risk associated with the entity. For example, a firm may choose to appoint an EQ reviewer on an engagement that is led by a newly appointed partner. We would also recommend that consideration is given in ED-ISQM 2 to other factors such as this.

Further, where interim review procedures are required on entities in addition to an audit, for example, for listed entities, it is unclear if there is an expectation that an EQ review is required to be performed on any interim reviews that may be required, in addition to the audit; or if it this determination is made by firms as part of the development of their responses to quality risks. Clarification in this respect, for example in a FAQ document, would be welcome.

**Q12. In your view, will the proposals for monitoring and remediation improve the robustness of firm' 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?**

We are of the view that the proposals will improve firms' monitoring of the system of quality management as a whole and will promote more proactive and effective monitoring activities. Although a number of firms have already implemented proactive measures in their monitoring of quality, such as in-process engagement reviews, incorporating such considerations in the inspection requirement in the monitoring and remediation component of ED-ISQM 1 may promote a more widespread adoption of this practice. We are of the view that quality monitoring procedures that can be performed before an engagement report is issued are preferable to those that occur subsequent to the issuance of the report.

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

We are of the view that it is appropriate to retain a requirement for inspection of completed engagements on a cyclical basis. Retaining such a cycle means that all engagement partners are subject to quality monitoring, which can only have a positive impact on future quality. However, we are of the view that further guidance needs to be provided as to how the quality and robustness of a firm's monitoring process and activities affects the cycle for review of completed engagements. For example, a firm that performs in-process reviews may have a longer cycle for performing reviews of completed engagements than a firm that does not perform any in-process reviews. Our concern is, that as currently proposed, firms may implement too large a rotational cycle, without implementing other necessary monitoring procedures to support the extended cycle. We would also suggest that consideration be given to the inclusion of a FAQ that demonstrates how a firm can use its monitoring activities to vary its inspection cycle.

We also note that paragraph A169 proposes that the cyclical periods by which engagements are inspected be based on the type of the engagement, for example, audits and compilations. In our view the categorisation of engagements to which the cyclical inspection period is applied should be based on the assessed risk of the engagement rather than on the type of engagement being performed.

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

We note that the definition of a deficiency includes that a deficiency exists in the following circumstances:

“ii) a quality risk has not been appropriately identified or assessed, *such that a response that addresses that risk has not been appropriately designed or implemented*; or iii) *a response to address an assessed quality risk is not properly designed, implemented or operating effectively.*”

The difference between these two aspects of the definition is not entirely clear, given that they both refer to the design and implementation of a response to a quality risk. Whilst we believe that the former relates to an inadequate or lack of response because the related risk was not identified and the latter relates to an inadequate or lack of response when the risk has been identified, we are of the view that further clarification of what would be a deficiency in a quality risk is warranted.

ED-ISQM 1, in the firm’s risk assessment process component, provides guidance in assessing the risks identified to meeting the quality objectives. This guidance includes taking into consideration the expected frequency of the quality risk occurring; the rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk; and the duration of time of the effect of the quality risk after it has occurred. We are of the view that these factors could be adapted to provide guidance on assessing findings specifically in relation to quality risks.

Paragraph 61 of ED-ISQM 1 includes a requirement for firms to obtain and communicate the results of monitoring activities across the network firms’ system of quality management at least annually. We are of the view that “at least annually” may become the default communication time period, and depending on the results of the monitoring activities, a timelier communication may be appropriate. We would recommend that this requirement is amended to include the need for more timely communication should a matter arise that would warrant more immediate communication.

We are also concerned that the requirements in this area may create an onerous documentation exercise and would recommend that consideration be given to providing implementation guidance on the type and extent of documentation required by the proposed requirements.

- 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?**

We agree with the incorporation of a new requirement in ED-ISQM 1 to investigate the root cause of identified deficiencies and are of the view that the guidance allows for sufficient flexibility. As we have noted previously, this requirement is another example of the incorporation of practices that a number of firms have already developed. We further support the inclusion of guidance in ED-ISQM 1 paragraph A180 that explains that the procedures undertaken to understand the root cause of an identified deficiency may be simple, given the term “root cause analysis” is often associated with a complex and in-depth process. We are of the view, however, that further guidance may be useful for firms to help them to determine when they have performed sufficient analyses of the cause of the deficiency. Such guidance could be staff guidance that is external to the standard.

We do note, however, that even where firms do perform effective root cause analyses, this is unlikely to drive 100% quality in a firm. Root cause analysis is good for identifying and addressing systemic quality issues across a firm, however, it will not eliminate those “one off” deficiencies that result from human error.

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

We are supportive of the manner in which positive findings are incorporated into ED-ISQM 1, including in regard to addressing the root cause of positive findings. We note that communication of positive findings may act as a motivational tool to employees and that it also supports the development of the culture required by the governance and leadership component of ED-ISQM 1. Therefore, processes to identify the root cause of positive findings may have a positive effect on improving quality across the firm. Performing a root cause analysis of positive findings may be more beneficial for larger firms, given their size and geographical dispersion. However, we are of the view that the impact on quality for smaller firms may not be proportional to the cost of implementing such a process. Therefore, we agree that a requirement to perform a root cause analysis on positive findings would not be appropriate, but support the encouragement, through incorporation of application material, for firms to consider performing such an analysis where it would be an appropriate response to a quality risk.

Further, we would recommend that a term other than “findings” be used given the negative association with the term. Suggestions for alternative terms could include “positive outcomes” or “positive results.”

**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 are of the view that this requirement may be difficult for larger firms to implement, particularly large international firms. According to paragraph A189 of ED-ISQM 1, to make the determination of whether the firms' system of quality management provides reasonable assurance that the stated objectives have been achieved, the individual assigned ultimate responsibility and accountability for the system of quality management is required to review at least a description of the monitoring activities performed; the identified deficiencies, including the severity and pervasiveness of such deficiencies; and the remedial actions to address the identified deficiencies. In larger firms, the volume of such information may be extensive, and we are of the view that, if this requirement is to be retained, further guidance is needed on how one person in a firm is able to make this conclusion.

We further question whether such a requirement is needed where a system of quality management is adopted. As proposed, the system of quality management promotes continuous improvement of a firms' system of quality management, with the results of monitoring of all the components being continuously fed into the objective setting, the evaluation of risks and development and implementation of responses. The new requirements are focused on the monitoring of the entire system of quality management and will help firms understand if they are meeting the objective of the standard and of the system of quality management and whether the system is continually improving. As such, an annual evaluation at a specific point in time should not be necessary and is contrary to the concept of continuous improvement.

**Q13. 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?**

We understand the rationale for the inclusion of requirements relating to the firm's use of network requirements and services and agree that it is important to achieving quality that firms do not place undue reliance on services and resources provided by the network. Our concern lies in the focus and the extent of the proposals.

We agree that the individual firm should be responsible for its own system of quality management, however, we do not agree with treating the network in the same way as a service provider in this respect. Unlike a service provider, a network shares the same reputation as the firms within the network and has a vested interest in promoting quality within the individual member firms. Arguably, the risks to quality are more extensive at firms that do not have access to the extensive resources a network can provide, yet the standard appears to be placing a larger burden on firms that participate in the benefit of these resources.

The proposals require firms to understand the network requirements, services and resources and any responsibilities that the firm itself may have to implement the requirements or use the services and resources. The related application material provides examples of the types of inquiries and documentation that the firm may consider in performing its assessment, but it provides little or no guidance on the extent of the assessment that the firm should perform, nor the extent of the documentation required to evidence that the firm has performed the assessment. We would recommend that such guidance be incorporated into the proposed standard to guide firms in determining what they need to have in place to fulfil the requirements of the standard.

We are also concerned that introducing such requirements extends the scope and authority of the proposed standard beyond firms that provide audits or reviews of financial statements to those firms in the network that just perform compilation or agreed-upon procedures engagements. Refer to our response to question 1(c) above, where we recommend that consideration be given as to whether ED ISQM 1 should be extended to those firms that only perform such engagements, or whether a modified version of ED ISQM 1 might be appropriate for those firms.

**Q14. Do you support the proposals addressing service providers?**

We support the inclusion of requirements for firms to understand the service provider and the scope and nature of the services that it intends to use as part of developing its system of quality management. However, similar to our response to question 13 above, we are of the view that further guidance is required on how firms can scale its response to these requirements based on the service provider being used. For example, we would expect that the response employed by firms when using a service provider such as Microsoft would be different if to that if the service provider was a new, relatively unknown service provider.

**Q15. 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 have no comments on this question.