

**Financial Audit and Accounting Subcommittee - Analysis**  
**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 or Related Services Engagements**

This Exposure draft (ED) is issued by the International Auditing and Assurance Standards Board (IAASB).

**Deadline:**

Comments are requested by [July 1, 2019](#). See the link to the document for comment below.

[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](#)

## **Background and scope of the ED:**

This exposure draft represents the proposals from the Board formed following its initial Invitation to Comment. Proposals include a new ISQC 1 (to be named ISQM 1 with a change in name to quality management versus quality control), the introduction of a stand-alone standard for Engagement Quality Reviews (ISQM 2) and revisions to ISA 220 which is the engagement quality standard for financial audits. No revisions to standards applicable to direct engagements are proposed. The Explanatory Memorandum accompanying each document for comment presents a comprehensive and informative overview of the project proposals.

## **Specific questions posed by IAASB:**

### **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?

### **FAAS analysis and position:**

There is no basis to judge that this will be case, as the extent to which the QM is effective is how well it is put into practice. The essence of the proposal is that firms should operate QM systems to address the risks involved. However, this seems more a self-evident truism, rather than the main principle behind a standard on a key area. If quality fails in respect of a specific engagement, then can it ever be claimed that the standard has been adequately followed? In which case is it really a standard?

- (a) We do support the fact of building the new quality management approach on similar principles to COSO 2013. This should allow the organisations to apply a coherent approach to the audit process with that of the internal control system in general. In principle, the new quality management approach will allow organisations to tailor their quality management framework to the needs and organisational governance along the lines of the basic components.  
This updated approach is comprehensive and may result in significant implementation activities for firms/SAls depending on the extent of current business processes, controls and documentation in place.
- (b) The proposal has not made more clear the usage of concepts of professional judgement and scepticism. On the other hand, we think that these concepts are so much intertwined and to a certain extent, trying to define and distinguish them becomes a merely academic discussion. In practice, professional scepticism seems an important element of professional judgement, rather than a separate and additional concept. The main concern should be to judge whether, using the auditor's knowledge and experience, sufficient, relevant and reliable audit evidence has been obtained to support the conclusions reached. Considering the fact that the standard is principle based, IAASB may need to produce guidance and other supporting documents for practical use according to the circumstances. See also our comments on ED-ISA220 in relation to this issue.
- (c) The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include a sufficient level of explanation in the application material.

### **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?

#### FAAS analysis and position:

It is a key challenge to define and operate a process which identifies which engagements are at most risk, and require more intensive quality measures.  
The most important modification is the requirement for an engagement quality review for entities of "significant public interest" in addition to listed entities. However, the proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers' money is involved, all entities by definition should be considered as being of 'significant public interest' (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of 'significant public interest' by default, and the auditor should justify when they want to apply an exception to this rule.  
Another point is the vocabulary, which has changed again. And some of the clearest and useful terms (quality control and quality assurance) are no longer used. This could cause confusion.

### **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?

#### FAAS analysis and position:

Guidance in paragraphs A106 and A107 could be expanded to more thoroughly address the application of the concept of significant public interest in the public sector. We would recommend

paragraph A107 be removed or revised as this criteria is not, in our view, an indication of significant public interest.

#### **Question 4**

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

#### FAAS analysis and position:

The eight components of the system of quality management are consistent with those of the extant standard with the exception of the risk assessment process. Structure/organization of the standard has changed but the base principles remain. As a result, we are supportive of the components and structure.

#### **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?

#### FAAS analysis and position:

We support the objective of the standard. Public interest is a matter for the profession and the practice of public accounting. While ISQM 1 should not be prohibited from referring to the public interest, it is not necessary to do so as public interest is reflected in professional standards, laws and regulations that undergo appropriate due process. The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear. See also reply to question 1.

#### **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?

FAAS analysis and position:

The concept of operating a quality management framework commensurate with the risks is a rather obvious approach, and one which seems naturally in the interests of audit firms. In order to know if the new approach will work it is necessary to know why the past failures happened. Is it because of or despite the extant ISQC1 and ISA200?

- a) Yes, we consider that the risk assessment process should apply to all components of the system of quality management.
- b) Yes, we support the approach. The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.
- c) We agree with the process, however risk should be assessed in a dynamic way, as the engagement progresses. The standard could provide some clarification.
- d) Yes.
  - i. Yes, following the requirements of the standard should lead to appropriate responses to the quality risks.  
However, it is not clear why previous audit failures have happened, and therefore whether it was a problem with the extant standards or for other reasons.  
Therefore it is difficult to assess whether the updated standard will result in improvement.
  - ii. It is not clear that the firm is expected to design and implement additional responses in all circumstances and that this is needed. Furthermore, the notion of going 'beyond' the standard does not seem within the spirit of the approach taken (ie, to respond to risks whatever they may be).

**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?

FAAS analysis and position:

Yes, the standard provides sufficient enhancements in this respect, compared to the previous version.

However, public sector institutions might face difficulties in performing regular performance evaluations of leadership, when they are 'publicly' or even 'politically' appointed. And who would do it if they are the head of the organisation?

**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?

OAG analysis and position:

- a) Yes, we support assigning responsibility for ethical and independence requirements at firm level.
- b) Not applicable.

**Question 9**

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

FAAS analysis and position:

We agree that these changes aim to modernize the standard and address the use of technology to a certain extent.

**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?

FAAS analysis and position:

Referring to a 'transparency report' in the standard may encourage firms to produce one. However, we consider it should be considered as good practice and left optional.

**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?

FAAS analysis and position:

The proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers' money is involved, all entities by definition should be considered as of 'significant public interest' (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of 'significant public interest' and should the auditor want to apply exception to this rule, it should be duly justified. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area."

Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.

**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?

FAAS analysis and position:

- (a) The proposals expand significantly on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.
- (b) Yes, we agree with the retention of this requirement.
- (c) The framework for evaluating findings and identifying deficiencies is clear from the requirements and application material.
- (d) Investigation of the root cause of deficiencies is an appropriate method to increase the likelihood that deficiencies are properly addressed. The principle of root-cause analysis allows is crucial before policies and procedures are tailored to manage deficiencies more effectively, as well curb the occurrence of recurring findings of poor quality.
  - i) Yes
  - ii) Yes
- (e) Yes. More clarification should be given to the meaning of "reasonable assurance that the objectives of the system have been achieved" for practical purposes. Also, on their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.

**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?

FAAS analysis and position:

Not applicable

**Question 14**

Do you support the proposals addressing service providers?

FAAS analysis and position:

Yes, in agreement. The firm remains equally accountable for the service providers' work and coverage is thus needed.

**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?

FAAS analysis and position:

Not applicable

**Editorial Comments on Proposed ISQM 1**

P22- Paragraph 67: Suggest to rephrase the heading: from "Monitoring the Monitoring and Remediation Process" to

**Monitoring the Process of Monitoring and Remediation**

Question	Cameroon	Canada	Namibia	ECA	FAAS Consolidated
<b>General Comments on Proposed ISQM 1</b>					
1. Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard?	Yes		Yes, similar to ISQC1, the ISQM1 would achieve that objective, equally with its extended components.	There is no basis to judge that this will be case, as the extent to which the QM is effective is how well it is put into practice. The essence of the proposal is that firms should operate QM systems to address the risks involved. However, this seems more a self-evident truism, rather than the main principle behind a standard on a key area. If quality fails in respect of a specific engagement, then can it ever be claimed that the standard has been adequately followed? In which case is it really a standard?	There is no basis to judge that this will be case, as the extent to which the QM is effective is how well it is put into practice. The essence of the proposal is that firms should operate QM systems to address the risks involved. However, this seems more a self-evident truism, rather than the main principle behind a standard on a key area. If quality fails in respect of a specific engagement, then can it ever be claimed that the standard has been adequately followed? In which case is it really a 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?	Yes	The new quality management approach expands on that established by ISQC 1, in some cases quite significantly. At its core is a desire to require and allow firms the ability to implement and customize a system that addresses fundamental quality risks as well as risks specific to each firm. This updated approach is comprehensive and may result in significant implementation activities for firms/SAs depending on the extent of current business processes, controls and documentation in place. It is, however, difficult to argue the expectations set out in the requirements and related application guidance.	Yes, in support given that the standard aims to cover the broader spectrum of the concept and principle of quality.	We do support the fact of building the new quality management approach on similar principles to COSO 2013. This should allow the organisations to apply a coherent approach to the audit process with that of the internal control system in general. In principle, the new quality management approach will allow organisations to tailor their quality management framework to the needs and organisational governance along the lines of the basic components.	We do support the fact of building the new quality management approach on similar principles to COSO 2013. This should allow the organisations to apply a coherent approach to the audit process with that of the internal control system in general. In principle, the new quality management approach will allow organisations to tailor their quality management framework to the needs and organisational governance along the lines of the basic components. This updated approach is comprehensive and may result in significant implementation activities for firms/SAs depending on the extent of current business processes, controls and documentation in place.
(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?	Yes. However, considering the fact that the standard is principle based, IAASB may need to produce guidance and other supporting documents for practical use according to the circumstance	The proposals, which expand on the core principles established in ISQC 1, should support engagement quality. The impact they will have will depend on the extent to which new requirements result in changes to firm business processes and controls already in place.	In agreement. But the linkage or usage of professional judgement and scepticism is not made clear.	The benefits of the implementation of the new proposal will have to be assessed by organisations on an engagement by engagement basis. It is difficult to say upfront. We agree with Namibia that the proposal has not made more clear the usage of concepts of professional judgement and scepticism. On the other hand, we think that these concepts are so much entwined with each other and to a certain extent, trying to define and distinguish them further becomes a merely academic discussion. In practice professional scepticism seems an important element of professional judgement, rather than a separate and additional concept. The main concern should be to judge whether sufficient, relevant and reliable audit evidence has been obtained to support the conclusions reached. See also our comments on ED-ISA220 in relation to this issue.	The proposal has not made more clear the usage of concepts of professional judgement and scepticism. On the other hand, we think that these concepts are so much intertwined and to a certain extent, trying to define and distinguish them becomes a merely academic discussion. In practice, professional scepticism seems an important element of professional judgement, rather than a separate and additional concept. The main concern should be to judge whether, using the auditor's knowledge and experience, sufficient, relevant and reliable audit evidence has been obtained to support the conclusions reached. Considering the fact that the standard is principle based, IAASB may need to produce guidance and other supporting documents for practical use according to the circumstances. See also our comments on ED-ISA220 in relation to this issue..
(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	Yes. However, further emphasis should be placed on application of the material in case of a sole	Scalability is an area of current focus for the IAASB and the international board has provided information on how this concept has been addressed in its current proposal in explanatory information and in the proposed standards –	There is appreciation in that the application material covers the scope of the	The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include a sufficient level of explanation in the application material.	The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include a sufficient level of explanation in the application material.

<p>circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?</p>	<p>practitioner considering the fact that quality responsibility at the firm level and the engagement level maybe enshrined in the same person.</p>	<p>refer to paragraphs 85-89 of the explanatory material in the Exposure Draft preceding the proposed ISQM1. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.</p>	<p>public sector auditing perspective. It could be beneficial, e.g. If A30 could be extended in as far as public interest and stakeholder/public expectations are concerned.</p>		
<p>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?</p>	<p>Yes availability of resources (qualified human resources, intellectual resources and development of technological resources not forgetting financial resources) could be major challenges in a developing country context.</p>	<p>Of most significance, the proposals establish a requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this criteria in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.</p>	<p>A41 might be challenging as performance is not directly linked monetary incentives. However, the last section will solve the challenge, ie. “other incentives”. The application of professional judgement vs scepticism might differ.</p>	<p>We think it is a key challenge to define and operate a process which identifies which engagements are at most risk, and require more intensive quality measures.</p> <p>The most important modification is the requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. However, the proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers’ money is involved, all entities by definition should be considered as being of ‘significant public interest’ (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of ‘significant public interest’ by default, and the auditor should justify when they want to apply an exception to this rule.</p> <p>Another point is the vocabulary, which has changed again. And some of the clearest and useful terms (quality control and quality assurance) are no longer used. This could cause confusion.</p>	<p>It is a key challenge to define and operate a process which identifies which engagements are at most risk, and require more intensive quality measures.</p> <p>The most important modification is the requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. However, the proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers’ money is involved, all entities by definition should be considered as being of ‘significant public interest’ (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of ‘significant public interest’ by default, and the auditor should justify when they want to apply an exception to this rule.</p> <p>Another point is the vocabulary, which has changed again. And some of the clearest and useful terms (quality control and quality assurance) are no longer used. This could cause confusion.</p>
<p>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?</p>	<p>ED-ISQM 1 being principle based, examples are required in all the areas to enhance its practical usefulness</p>	<p>As noted above, guidance in paragraphs A106 and A107 could be expanded to more thoroughly address the application of the concept of significant public interest in the public sector. We would recommend paragraph A107 be removed or revised as this criteria is not, in our view, an indication of significant public interest.</p>	<p>The application material is regarded as supportive, especially whilst the SAI is in a process of acquiring “Training Office” status for the first time and the implementation of the ED-ISQM is one of the key requirements.</p>	<p>Agree with Canada</p>	<p>Guidance in paragraphs A106 and A107 could be expanded to more thoroughly address the application of the concept of significant public interest in the public sector. We would recommend paragraph A107 be removed or revised as this criteria is not, in our view, an indication of significant public interest.</p>

<p>4) Do you support the eight components and the structure of ED-ISQM 1?</p>	<p>Yes</p>	<p>The eight components of the system of quality management are consistent with those of the extant standard with the exception of the risk assessment process. Structure/organization of the standard has changed but the base principles remain. As a result, we are supportive of the components and structure.</p>	<p>Yes, it's perceived as sufficiently comprehensive to cover the area of quality management. The structure accommodate the public sector environment an aspect which is appreciated.</p>		<p>The eight components of the system of quality management are consistent with those of the extant standard with the exception of the risk assessment process and information and communication. Structure/organization of the standard has changed but the base principles remain. As a result, we are supportive of the components and structure.</p>
<p>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?</p>	<p>Yes</p>	<p>Extant CSQC 1 has as its objective:</p> <p>11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:</p> <p>(a) (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>ISQM 1 has as its objective:</p> <p>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:</p> <p>(a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>We view these objectives as comparable and are therefore supportive of the stated objective of ISQM 1.</p> <p>Paragraph 23(c) of ED-ISQM 1 describes the firm's role in serving the public interest, and paragraphs 7 and A2 of the standard explain the meaning of this term and its relationship to the Code. Paragraph 7 of ED-ISQM 1 also explains</p>	<p>Yes, in support.</p>	<p>We support the objective of the standard. See also reply to question 1.</p>	<p>We support the objective of the standard. Public interest is a matter for the profession and the practice of public accounting. While ISQM 1 should not be prohibited from referring to the public interest, it is not necessary to do so as public interest is reflected in professional standards, laws and regulations that undergo appropriate due process. The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear. See also reply to question 1.</p>

		<p>the connection between the public interest and the objective of the standard.</p> <p>Public interest is a matter for the profession and the practice of public accounting. While ISQM 1 should not be prohibited from referring to the public interest, it is not necessary to do so as public interest is reflected in professional standards, laws and regulations that undergo appropriate due process. The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear.</p>			
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?	Yes		Yes, in support.	The concept of operating a quality management framework commensurate with the risks is a rather obvious approach, and one which seems naturally in the interests of audit firms. In order to know if the new approach will work it is necessary to know why the past failures happened. Is it because of or despite the extant ISQC1 and ISA200?	The concept of operating a quality management framework commensurate with the risks is a rather obvious approach, and one which seems naturally in the interests of audit firms. In order to know if the new approach will work it is necessary to know why the past failures happened. Is it because of or despite the extant ISQC1 and ISA200?
(a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?	Yes	ISQM 1 has been drafted to direct "minimum" or "required" quality objectives to be addressed irrespective of a firm's risk assessment. Quality objectives that all firms are required to establish are set out in paragraphs 23, 32, 34, 36, 38, 40 and 42 of ED-ISQM 1. This should result in a certain baseline system of quality management that directly addresses these aspects at a minimum. As a result, the application of the firm's risk assessment process will then serve to supplement/extend/strengthen the system for circumstances and risks relevant to the firm. We are supportive of such an approach but acknowledge it will require resource investment upon adoption and each year to ensure the system remains relevant.	Yes, as the area of ERM is pervasive through the 8 components.	Yes, we consider that the risk assessment process should apply to all components of the system of quality management.	Yes, we consider that the risk assessment process should apply to all components of the system of quality management.
(b) Do you support the approach for establishing quality objectives?	Yes	The quality objectives required by the standards located in the paragraphs noted above comprise important aspects of extant ISQC 1 that have been retained (leadership, ethics, acceptance and continuance, HR, engagement performance, and Monitoring) as well as objectives that have been introduced to address key issues highlighted in the Invitation to Comment (ITC) or elements the IAASB considers necessary for a system of quality management. As a result, we support the required quality objectives which are derived, in part, from extant ISQC 1. The proposed ISQM 1	Yes, such approach will make the standard more practical in terms of implementation, whilst monitoring of such objectives could be enhanced and evidence based.		Yes, we support the approach. . The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.

		is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.			
i. Are the required quality objectives appropriate?	Yes		Yes, since an additional objective can be added.		
ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?	Yes		Yes, for example, A78 give clear guidance that could be applicable to the public sector whereby certain entity specific regulations prohibit the SAI to undertake certain engagements.		Yes.
(c ) Do you support the process for the identification and assessment of quality risks?	Yes	The process for the identification and assessment of quality risks is one that involves an assessment of likelihood and impact and is therefore reasonable in our view. Given this assessment, we believe his approach will result in a firm designing and implementing responses that are tailored to the assessed quality risks.	Yes, If the SAI do not conduct such assessment it would enhances the risk of quality failure and losing the public's confidence.	We agree with the process, however risk should be assessed in a dynamic way, as the engagement progresses. The standard could provide some clarification.  Individual engagement partners could also be an element of this risk – and not likely to admit it if the case? In such case, a higher level instance for assessing engagement-level risks might be needed?	We agree with the process, however risk should be assessed in a dynamic way, as the engagement progresses. The standard could provide some clarification.  Individual engagement partners could also be an element of this risk – and not likely to admit it if the case? In such case, a higher level instance for assessing engagement-level risks might be needed?
(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks?	YES	As noted above, it is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard.	Yes, as failure to do so, enhances the risk of quality failure and losing the public's confidence.		Yes
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?	Yes		Yes, Agree.	Yes, following the requirements of the standard should lead to appropriate responses to the quality risks. However, it is not clear why previous audit failures have happened, and therefore whether it was a problem with the extant standards or for other reasons. Therefore it is difficult to assess whether the updated standard will result in improvement.	Yes, following the requirements of the standard should lead to appropriate responses to the quality risks. However, it is not clear why previous audit failures have happened, and therefore whether it was a problem with the extant standards or for other reasons. Therefore it is difficult to assess whether the updated standard will result in improvement.
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?	Yes		The element of additional to the standard might need to be enhanced. Additionally it needs to be clear that such additions depends on circumstances as prevailing in the operating environment of	It is not clear that the firm is expected to design and implement additional responses in <b>all</b> circumstances and that this is needed Furthermore, the notion of going 'beyond' the standard does not seem within the spirit of the approach taken (ie, to respond to risks whatever they may be).	It is not clear that the firm is expected to design and implement additional responses in <b>all</b> circumstances and that this is needed. Furthermore, the notion of going 'beyond' the standard does not seem within the spirit of the approach taken (ie, to respond to risks whatever they may be)..

			the firm/institution.		
7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?	Yes	Revisions to requirements and application guidance concerning governance and leadership are notable as explained in paragraph 43 of the explanatory memorandum for this exposure draft. New requirements include a requirement for performance evaluations of the individual with ultimate responsibility for the system of quality management as well as those with operational authority have been introduced.  In conjunction with the above, ISQM 1 provides appropriate public sector considerations concerning performance evaluations of individuals with ultimate responsibility for the system (for example, an auditor general) at paragraph A43.	Yes, in support.	Yes, the standard provides sufficient enhancements in this respect, compared to the previous version.  However, public sector institutions might face difficulties in performing regular performance evaluations of leadership, when they are 'publicly' or even 'politically' appointed. And who would do it if they are the head of the organisation?	Yes, the standard provides sufficient enhancements in this respect, compared to the previous version.  However, public sector institutions might face difficulties in performing regular performance evaluations of leadership, when they are 'publicly' or even 'politically' appointed. And who would do it if they are the head of the organisation?
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?	In my opinion, responsibility for relevant ethical requirements and independence requirements are part of the responsibilities of the engagement partner and the engagement partner reviewer	Paragraph 24(a)(iii)(b) of ISQM 1 requires the assignment of operational responsibility for compliance with independence requirements. This a narrower focus that ethical requirements as a whole.  OAG Canada has had an individual with this operational responsibility for some time. In our experience, it provides an appropriate focus given the importance of the matter, and results in timely, consistent and effective independence threat mitigation and resolution. While our Internal Specialist, Values and Ethics has a broader focus than only independence matters, the vast majority of their involvement in threat resolution has been in the area of independence, likely because of explicit audit procedures and templates in our methodology related to this area.  We are therefore supportive of the focus on independence but would not be concerned with shifting the focus to ethics more broadly.	Yes. Individual responsibility is equally significant to ensure utmost adherence, so that collectively the firm achieve its objective towards ethical behaviour that remains beyond reproach. Keeping accountability on a central level may not bear the predetermined results/outcome, due to the inherent limitations in central monitoring.	Yes, we support assigning responsibility for ethical and independence requirements at firm level.	Yes, we support assigning responsibility for ethical and independence requirements at firm level.
(b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?	Yes	Legislative auditors generally do not operate or belong to a network, as a result, no analysis has been performed in respect of this question	Yes, to a certain extent but the linkage to ethical requirements not clearly stated.	This issue does not concern public sector auditors, therefore we do not comment upon.	Not applicable.
9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?	More emphasis need to be placed on electronic documentation and archives	As part of the modernization of the standard, the IAASB has introduced a new requirement addressing the use of technological resources, both in the performance of engagements and the operation of the system of quality	Yes. Though the use of <b>Artificial intelligence in Auditing</b> is not clearly covered,	We agree that these changes aim to modernize the standard and address the use of technology to a certain extent.	We agree that these changes aim to modernize the standard and address the use of technology to a certain extent.

		<p>management (see paragraph 38(e) of ED-ISQM 1). Use of technological resources (eg. off the shelf working paper software) is also relevant and included in the discussion of service providers in ISQM 1.</p> <p>The requirement is principles-based because the IAASB is mindful that the types of technologies, and the extent to which they are being used, are continually evolving. It is noted that the application material includes IT-related concepts that have been explained in a manner consistent with ED 315.</p> <p>We agree that these changes serve to modernize the standard and address the use of technology.</p>	unless implication thereof is regarded as sufficient.		
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?	Yes	<p>Establish policies or procedures that address the nature, timing and extent of communication and matters to be communicated with external parties, including:</p> <p>(i) Communication to external parties in accordance with law, regulation or professional standards. (Ref: Para. A142)</p> <p>(ii) Communication with the network. (Ref: Para. A143)</p> <p>(iii) Communication with service providers. (Ref: Para. A144)</p> <p>(iv) Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm determines it appropriate to do so, taking into account: (Ref: Para. A145, A149–A153)</p> <p>a. Whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm; and (Ref: Para. A146–A147)</p> <p>b. The nature and circumstances of the firm, including the nature of the firm's operating environment. (Ref: Para. A148)</p> <p>At present, we believe transparency reporting should be optional and therefore agree with how the proposals leave this matter to a firm policy choice.</p>	Yes, Agree.	Referring to a 'transparency report' in the standard may encourage firms to produce one. However we consider it should be considered as good practice and left optional.	Referring to a 'transparency report' in the standard may encourage firms to produce one. However, we consider it should be considered as good practice and left optional.
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?	Yes	<p>ISQM 1 paragraph 37(e) provides that Engagement Quality Reviews are required for</p> <p>(i) Audits of financial statements of listed entities;</p> <p>(ii) Audits of financial statements of entities that the firm determines are of significant public interest; and</p> <p>(iii) Audits or other engagements for which:</p>	Yes, Agree. Of importance for the SAI and given its operating environment, the emphasis on the need for meeting expectations in terms of public interest is	The proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers' money is involved, all entities by definition should be considered as of 'significant public interest' (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be	The proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers' money is involved, all entities by definition should be considered as of 'significant public interest' (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of 'significant public

		<p>a. An engagement quality review is required by law or regulation; or  b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.</p> <p>Our analysis of the Canadian document for comment related to this project highlighted that “[o]f most significance, the proposals establish a requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.”</p> <p>Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.</p>	fundamental and is well covered.	to assume that all public sector entities are of ‘significant public interest’ and should the auditor want to apply exception to this rule, it should be duly justified.	<p>interest’ and should the auditor want to apply exception to this rule, it should be duly justified. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.”</p> <p>Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.</p>
12) In your view, will the proposals for monitoring and remediation improve the robustness of firms’ monitoring and remediation?	Yes		Yes as monitoring without remediation will not add value to the firm.		
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?	Yes	The proposals expand significant on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.	Yes to address the root causes and the application of remedies.		Yes, the proposals expand significantly on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.
(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	Yes but application in the public sector needs to be clarified	We agree with the retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis as an appropriate element of monitoring.	Yes, such that accountability aspect is employed on the engagement partner.	Yes, we agree with the retention of this requirement.	Yes, we agree with the retention of this 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?	Yes	The framework for evaluating findings and identifying deficiencies is clear from the requirements an application material. Whether or not a finding is ultimately considered a deficiency will depend on the application of judgment as illustrated in paragraph A175 and as such, the definition is acceptable.	Yes, in agreement.		Yes, the framework for evaluating findings and identifying deficiencies is clear from the requirements an application material
(d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies?		Investigation of the root cause of deficiencies is an appropriate method to increase the likelihood that deficiencies are properly addressed. Not all negative findings will be considered deficiencies, and not all deficiencies will have complex root causes. However, the introduction of root cause analysis requirements is likely to present the benefits outlined in paragraph A179.	Yes, in agreement as the principle of root-cause analysis allows is crucial before policies and procedures are tailored to manage deficiencies more effectively, as well curb the occurrence of recurring findings of poor quality.		Investigation of the root cause of deficiencies is an appropriate method to increase the likelihood that deficiencies are properly addressed. The principle of root-cause analysis allows is crucial before policies and procedures are tailored to manage deficiencies more effectively, as well curb the occurrence of recurring findings of poor quality.
In particular: i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?	Yes		Yes, in agreement.	Yes	Yes
ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?	Yes		Yes, in agreement.	Yes	Yes
(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?	Yes. More clarification should be given to the meaning of "reasonable assurance that the objectives of the system have been achieved" for practical purposes  The revised standard may require firms to invest time and resources for effective implementation	ISQM 1 paragraph 55 requires the individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved. On their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.	Yes particularly on unclear professional judgement and scepticism.	Yes, it is not clear how is reasonable assurance defined in the context of quality management and how it is different from the reasonable assurance in audit engagements.	Yes. More clarification should be given to the meaning of "reasonable assurance that the objectives of the system have been achieved" for practical purposes. Also, on their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.
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?	Yes	Legislative auditors generally do not operate or belong to a network, as a result, no analysis has been performed in respect of this question.	Yes, in agreement. No firm can function effectively in isolation, given the rapid change in its operating		Not applicable.

			environment, thus due coverage is crucial.		
14) Do you support the proposals addressing service providers?	Yes	<p>Service providers are described in the ISQM 1 paragraph A205 as individuals or organizations external to the firm and its network that provide human, technological, or intellectual resources. Internal audit is not to be considered a service provider. We are generally supportive of the inclusion of such proposals.</p> <p>The Office of the Auditor General provides services to provincial audit offices via the National Professional Practices Group (NPPG). These services include the option for provinces to adopt and apply OAG Canada audit methodology as well as make use of intellection resources for technical matters or other matters requiring consultation. As a result, it is expected that OAG Canada services to individual provinces, where significant to a province, would be in scope of these provisions for individual provincial systems of quality control. Users of service provider will be required to:</p> <ul style="list-style-type: none"> <li>(a) Obtain an understanding of the service provider,</li> <li>(b) Establish the nature and scope of the resources provided by the service provider,</li> <li>(c) Determine whether the resource is appropriate for use in the system of quality management.</li> </ul> <p>The Office of the Auditor General makes use of various service providers for human, technological and intellectual resources. For example, OAG Canada financial audit methodology is sourced from PwC Canada. As a user of service providers, OAG Canada will also have the above responsibilities.</p> <p>Application guidance includes a commercial IT applications used to perform engagements within the concept of a service provider. The use of a commercial IT application may further scope in a firm's IT infrastructure and general controls.</p> <p>We understand the conceptual linkage between a firm's use of IT in performing engagements and the operation of its system of quality control/management. IT applications and supporting IT infrastructure are currently not explicitly scoped into ISQC 1 and as a result, may be overlooked in monitoring the operating effectiveness of a system of quality control/management. As a result, we are supportive of this explicit inclusion. We note the similar inclusion of technological resources at</p>	Yes, in agreement. The firm remain equally accountable for the service providers' work and coverage is thus needed.		Yes, in agreement. The firm remains equally accountable for the service providers' work and coverage is thus needed

		<p>paragraph 38(e) that addresses technological resources developed in-house.</p> <p>It will be the responsibility of individual firms to determine the extent of IT applications and infrastructure relevant to its system, their source (internal or externally), documentation, risk assessment and monitoring. Firms may need to review the competencies of individuals involved in monitoring their system of quality control/management to ensure appropriate team competencies are included for monitoring this area.</p>			
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?	No	No analysis performed since this question is directed at national standard setters and regulators.	No difficulties foreseen.		N/A
<b>Editorial Comments on Proposed ISQM 1</b>			P22- Paragraph 67: Suggest to rephrase the heading: from "Monitoring the Monitoring and Remediation Process" to <b>Monitoring the Process of Monitoring and Remediation</b>		P22- Paragraph 67: Suggest to rephrase the heading: from "Monitoring the Monitoring and Remediation Process" to <b>Monitoring the Process of Monitoring and Remediation</b>