



Kreston International Response: Proposed ISQM 1

General Comments on Proposed ISQM 1

[Please include here comments of a general nature and matters not covered by the questions below.]

The language used in the proposed standard is complex and this can make it difficult to understand the intention of the standard. This could also make it difficult to ensure that translations are consistent with the original standard and that application is consistent across jurisdictions.

Overall Questions

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

Response: The standard does enhance the emphasis of engagement quality management. The identification of risks to quality objectives should enable the standard to be scalable. However, there will be significant resource constraints for SMPs and appropriate support materials will be required.

In particular:

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

Response: The new quality management approach is supported as it brings clarity to the expectations of the firm, firm management and the engagement partner.

- (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?

Response: The proposals will improve engagement quality if they are implemented and adopted on a consistent basis across firms. This will depend on the expectations that are set at the firm level and that these are supported by engagement partners and fully understood by the engagement team. The language of the standard is complex and simplification of this could assist with adoption and the generation of benefits.

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

Response: As noted above the complexity of the standard could limit the scalability of the standard as SMPs will not have full time resources to apply to the implementation of the standard.

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

Response: Translation of the standard may create challenges for implementation.

The standard expects robust communication. This may require a change in mind set and culture within firms. These changes can take a significant amount of time to establish in a firm. They will require changes in approach at all levels in some firms.

The standard makes reference to “root cause analysis”. The standard does not identify how a root cause analysis should be performed and although there is guidance on identifying deficiencies that need to be investigated there is a risk that the nature and extent of root cause analysis will be established by the expectations of regulators. This could become a very extensive and resource heavy requirement especially for SMPs.

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

Response: The application material should support a consistent understanding of the requirements.

Specific Questions

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

Response: The eight components of the proposed system of quality management are appropriate.

- 5) Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm’s role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm’s public interest role?

Response: The overall objectives of the standards as set out in paragraph 18 (a) and (b) are appropriate. The language of the standard is confusing Paragraph 19(a)(i) refers to “A quality objective required to achieve the objective of this ISQM is not established”, this multiple use of the term objective does not make the standard clear. There is a risk that the overall objective of the ISQM is diluted by a focus on the objectives of the components of the quality management system. The firm’s role relating to the public interest is clear.

- 6) Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved?

Response: The appropriate application of a risk assessment process will drive firms to identify quality risks and responses. As noted previously the use of quality objectives as a term is potentially confusing and may make it difficult for firms to establish these appropriately.

In particular:

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

Response: Yes, the risk assessment process should be applied to other components.

- (b) Do you support the approach for establishing quality objectives?

Response: Subject to the concern regarding the term quality objectives the approach is appropriate.

In particular:

i. Are the required quality objectives appropriate?

Response: The quality objectives are generally appropriate. The engagement performance objectives are not clear as the overall objective of the ISQM is broadly to ensure engagements are performed appropriately.

The risk assessment process is included in the standard after the governance and leadership component and before the other components. It is understood that the risk assessment process should be applied to all the components. Therefore, placing risk assessment before governance and leadership would make it clearer that it also applies to this component.

The firm's risk assessment process section could contain an explicit requirement to establish a risk assessment process.

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

Response: This is clear.

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

Response: The process for identification and assessment of quality risks is appropriate. The term reasonable possibility of occurring is important for consistent application and this could be defined in the standard rather than as part of the application material.

Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks?

Response: This approach is supported.

In particular:

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

Response: Resource constraints may make this challenging for SMPs and it is likely that in many cases commercially designed solutions will be applied with minimal tailoring to reflect the firm's situation.

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

Response: This is clear.

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

Response: Governance and firm leadership are appropriately addressed.

Assessment of the managing partner or quality partner will be difficult in a small partnership or where there is significant ownership by one individual and guidance on addressing this issue could be helpful.

8) With respect to matters regarding relevant ethical requirements:

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

Response: This should not be required by the standard as the response should be able to reflect the circumstances of the firm.

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

Response: Yes

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

Response: YEs

- 10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

Response: Yes

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

Response: Yes

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

Response: Yes

In particular:

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

Response: Yes

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

Response: Yes, this is appropriate.

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

Response: The definition does not contain a concept of frequency or severity in respect of implementation this will make it difficult to filter findings and to identify situations where the

conduct of root cause analysis is appropriate. Some of the application material in paragraphs A 174 and A 175 may need to be in the standard.

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

Response: Root cause analysis can be beneficial. However, care is needed to ensure the level of root cause analysis required is not excessive when compared to the nature of findings.

In particular:

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

Response: Root cause is not defined in sufficient detail and this could lead to expectations that are excessive given the nature of the findings and the circumstances of the firm.

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

Response: 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?

Response: This will be a resource challenge and firms will need to ensure this addressed appropriately.

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

Response: The proposals for networks are appropriate.

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

Response: The proposals for service providers are appropriate.

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

Response:

Editorial Comments on Proposed ISQM 1

[Please include here comments of an editorial nature.]

Should paragraph 19(a) be (i) or (ii) or (iii).