



Paris La Defense, July 1<sup>st</sup>, 2019

**International Federation of Accountants  
International Auditing and Assurance Standards Board**

Mr. Thomas Seidenstein, IAASB  
545 Fifth Avenue - 14th Floor  
New York NY 10017 USA

Re: Response to the IAASB EDs on ISQM1, ISQM 2 and ISA 220

Dear Mr. Seidenstein,

MAZARS is pleased to submit this letter in response to your invitation to comment on the Exposure Drafts on proposed ISQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Statements or Other Assurance of Related Services Engagements*, ISQM 2 *Engagement Quality Reviews*, and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*.

MAZARS is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1<sup>st</sup> January 2019, there are over 23,000 professional staff including more than 1,000 partners, in 89 countries worldwide, trusted and committed in serving major international groups, entrepreneurial and small businesses, private investors and public bodies at every stage of their development.

MAZARS is a member of the IFAC Forum of Firms, and has been for more than 12 years, fully supporting the initiatives of IFAC IAASB, IESBA, Forum of Firms and Transnational Auditors Committee, as well as regulators in areas of common concern for public interest, promoting high quality standards as part of the international roll-out of audit engagements. All MAZARS firms and correspondents are committed to supporting and applying those initiatives.

MAZARS appreciates and supports all initiatives taken to enhance audit quality and the future of the profession for the benefit of the public interest and welcome the opportunity to add our views to the debate. The debate on audit quality has been in full flow in a significant number of countries for the past few years, and MAZARS is fully committed in steering change to support this cause.

We believe that the proposed standards (ISQM 1, ISQM 2 and ISA 220) will help improve quality in both firm-wide procedures and in the way audits and reviews are conducted and documented. However, we want to emphasize on the following aspects of the standards where we consider further guidance or development is required which is included in our detailed responses.

We particularly want to stress that the first implementation of these standards will incur significant costs for firms and require additional resources. Consequently, we believe that a sufficient time should be given for implementation following the issuance date of the standards. We consider this implementation period should not be less than 24 months.

We also believe that more guidance and examples should be given for implementation, especially for implementation in smaller firms or in firms operating in countries where ISA are not applicable. We are convinced that this is a key aspect of the scalability that is fostered by the standards.

Some aspects of the standards may also create challenges for implementation and further guidance should be given to help all firms to be in line with the principles (definition of “quality objectives” (ISQM 1), definition of a “deficiency” (ISSM 1), examples of “quality indicators” to be put in place (ISQM 1), definition of the audit team and consideration of joint audit (ISA 220)).

You will find in attachment to this letter the detailed comments to your exposure drafts on ISQM 1, ISQM 2 and ISA 220 (Revised).

We hope these responses will help to illustrate our commitment and our effort for continuous improvement in audit quality.

We would be pleased to discuss our detailed comments with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,



Jean-Luc Barlet  
MAZARS Chief Compliance Officer  
[jean-luc.barlet@mazars.fr](mailto:jean-luc.barlet@mazars.fr)

**Attachments :**

- Completed Response Template to Proposed ISQM 1
- Completed Response Template to Proposed ISQM 2
- Completed Response Template to Proposed ISA 220

## Response Template: Proposed ISQM 1

### Note to Respondents:

- The questions below are from the exposure draft of proposed International Standard on Quality Management (ISQM) 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*, which is available at [www.iaasb.org/quality-management](http://www.iaasb.org/quality-management).
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

### **General Comments on Proposed ISQM 1**

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

None

### **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: Yes, we believe scalability of the standard is enhanced, as well as the management of engagement quality. However, we believe more guidance and examples are needed for implementation by smaller firms and countries where international standards are not yet fully embedded.

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: Yes, we support the overall approach, but we believe that more guidance should be given to help identifying "quality risks" in the risk-based approach.

- (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: Yes, we believe that the proposals will help improve engagement quality and encouraging professional skepticism, although time and costs associated with the initial implementation may be significant (additional resource in particular).

(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:

Partially, the requirements may not be scalable enough for all kind of firms, especially in countries where the maturity of quality controls is less developed, and countries which do not have an audit regulator or do not use ISA.

We also consider the main body of the standard could be shorter and the guidance more comprehensive. Also, as noted above, we believe further guidance and examples are needed.

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:

Even if most of the considerations in the standard are already in place within many firms, we consider the following will present challenges on implementation:

- The standard is very comprehensive and it may be a challenge to apply it in some smaller firms and countries. The identification of quality indicators and the use of IT systems to properly identify and monitor in and the documentation of the new requirements will present a particular challenge, in a too short timeframe for implementation.
- The standard requires extensive identification and documentation of the quality objectives, risks and responses. The implementation of this formal framework will take time and additional resources.

It would also be useful to develop a tool to assist smaller firms to document quality objectives and risk assessments. This could be in a simplified framework checklist providing the quality objectives and areas for a firm to record specific responses in relation to risks and responses. This would reduce the documentation burden on smaller firms, while ensuring the key requirements of the standard are met by all firms.

- The application to member firms which are part of a network may be difficult to implement., International firms will need to consider developing tools to use across the network, this will take time to develop and roll out.

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: Additional examples would be helpful in the following areas:

- quality risks;
- quality indicators;
- how to evaluate deficiencies.

## Specific Questions

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

Response: Yes, we consider this approach gives a much clearer understanding and breakdown of the key areas of quality management.

- 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: Yes, we support the objective of the standard and how the standard relates to a firm's public interest role.

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

Response: Yes, if further guidance is provided on how to identify quality risks, which would ensure a consistent understanding in all firms.

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, we agree.

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

Response: Yes, see below

In particular:

- i. Are the required quality objectives appropriate?

Response: Yes, they appear appropriate on review and we note a firm's response to these is scalable based on the firm's size and audit and assurance offerings.

- 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 set out in ISQM1 ED para 10 and the application guidance but it would be useful to give this more prominence, perhaps by including this in each of the component sections of the standard.

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

Response: We note that the standard sets out what quality risks should address and the policies and procedures it should have in place – we are unclear where in the standard the processes required to do this are set out.

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

Response: Yes, but further guidance should be provided on how to do that.

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: Yes, it will also highlight areas where there is a requirement to put in place additional/new responses to 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?

Response: No, while this requirement is apparent, we cannot see it explicitly stated in the standard. It would be useful to include this consideration under each of the 8 components.

- 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: Yes, these appear appropriate.

- 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: We believe it is useful for an appropriate individual to be assigned responsibility for ethical requirements, but do not consider it necessary for responsibility for compliance to be assigned to an individual, where this is above or beyond any local requirement, and the duty of each professional accountant.

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

Response: even if the standard is appropriately addressing this issue, we note the network requirements are set out in paras 58-63, and consider introducing a cross reference to the independence requirements would be useful and prevent any need to duplicate requirements.

- 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, we believe communication to stakeholders around quality management is part of our vested public interest role. Annual mandatory transparency report for firms auditing Public Interest Entities in Europe has proven its large interest in interacting with the stakeholders.

We consider there should be more consideration of requiring all firms complying with this standard to make public statements around compliance, possibly by providing templates for wording for smaller firms.

We are unable to form a view as to whether the standard will encourage firms to communicate where not currently required to do so.

- 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, we agree with the proposals around scope.

We would suggest that the application guidance requires firms to develop their own guidelines, definitions, KPI, and objectives in relation to significant public interest to ensure the proper identification of engagement which should be subject to an engagement quality review. This would ensure consistency on fundamental indicators.

- 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: While we consider the proposals will support an effective monitoring program, we are unable to formulate a view as to whether they would improve it, as this is dependent on the current practice in any given firm. To help encourage the development of monitoring process, implementation period should not be less than 24 months.

- (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, we agree that monitoring should include inspections of completed engagements on a cyclical basis.

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

Response: The standard provides considerations relating to deficiencies but it does not define a deficiency.

It would be useful to include a definition of a deficiency in the context of the standard – this being a negative finding arising from monitoring which suggests an unacceptable risk factor in relation to a quality objective. More clarification and guidance is also needed in terms of “evaluating” the deficiencies as this may lead to discrepancies in understanding between firms.

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

Response: Yes

In particular:

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

Response: Yes

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

Response: Yes, while we acknowledge the benefit of undertaking root cause analysis on positive findings, where resource is limited it is important that the focus is on negative findings so the current approach is considered 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?

Response: Yes, the standard should advise whether the “annual” evaluation can be based on a rolling testing program (and that only remediation of severe and pervasive deficiencies, together with significant/key controls should be based annually), in accordance with the risk-based approach fostered by the standard.

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: No, the proposal should be extended and adapted to the structure of the networks. It may be difficult to provide the detailed information regarding the design and implementation of global tools and applications to all member firms of the network. This will create significant duplication of documentation across the network firms.

14) Do you support the proposals addressing service providers?

Response: The material in Q&A (Question N° 22) should be included in the application material in A 205. The definition of service provider should be limited to significant or risky services, in accordance with the scalability and risk-based approach promoted by the standard.

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: No.

### **Editorial Comments on Proposed ISQM 1**

*[Please include here comments of an editorial nature.]*

None.



## Response Template: Proposed ISQM 2

### Note to respondents:

- The questions below are from the exposure draft of proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, which is available at [www.iaasb.org/quality-management](http://www.iaasb.org/quality-management).
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

### **General Comments on Proposed ISQM 2**

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

None

### **Questions**

- 1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

Response: Yes, we consider a separate standard for firm wide and engagement level considerations to be both easier to understand and implement.

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

Response: Yes

- 3) Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

Response: Yes, we support the change. No adverse consequence foreseen.

- 4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

Response: Yes

- (a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Response: We believe this appears reasonable. We also believe that such a cooling-off period should not be less than 2 fiscal years, but not significantly more as well, if we want to ensure this safeguarding measure practicality.

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

Response: Yes, this appears reasonable although it would be useful to have clear linkage or referencing between the two documents

- 5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Response: Partially: we believe that goes beyond the role of the EQR to "identify" the areas involving significant judgements" (§ 22 c). We believe "identify" should be replaced by "challenge".

Also, more guidance would be appreciated on § 22 f.

- 6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

Response: Yes, it appears reasonable that the engagement reviewer should evaluate the engagement team's exercise of professional skepticism.

Documenting professional skepticism is always challenging, so where the engagement quality reviewer is unclear that it has been adequately demonstrated on file, this should be addressed through evidenced discussion with the audit team to ensure there is sufficient evidence on file.

Where the discussion does not provide sufficient evidence of skepticism to satisfy the engagement quality reviewer, the audit team will need to revisit this area or consider the requirements in paragraph 23 of ED-ISQM 2.

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

Response: Yes

- 8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

Response: Yes, we cannot identify any improvements that could enhance the scalability of the requirements for smaller firms without compromising quality, although we appreciate it may be harder for smaller firms to apply all the requirements of ED-ISQM 2.

## Editorial Comments on Proposed ISQM 2

*[Please include here comments of an editorial nature.]*

None

## Response Template: Proposed ISA 220 (Revised)

**Question 1 - Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?**

- We are convinced that the engagement partner plays a key role in managing and achieving quality and so we find that this ED is helpful. In particular we believe that the use of the concept of “reasonable assurance” in § 9 is relevant. We also think that the definition of the “response” in § 10 which consist of policies or procedures is pragmatic.
- However, we believe that the standard should not introduce any requirements related to the behavior and ethics as these should be included in the Code of IESBA. Therefore, we believe that the last sentence of § 1 and the related A1 and A2, and the § 14-19 and A31-A41, should be removed or amended and a reference to the appropriate paragraphs of the IESBA Code added instead.
- We would make the following points in relation to the definition of the engagement team § 10 d and A18:
  - We understand that it has been slightly changed to clarify that the engagement team includes any individual engaged, employed or not by the firm or the network firm. So it seems that for a group, the group engagement team includes all component auditors.
  - We are concerned by this change as it could be interpreted as re-introducing the concept of related auditor which disappeared when the ISA 600 was revised and clarified.
  - This change could also be interpreted to include the auditor of any service organization used by an audited entity, where the audit engagement team of the audited entity uses an ISAE 3402 report in their audit approach.
  - The point that the engagement team is responsible for ensuring the involvement and adequate documentation of work done by others (for example. component auditors, shared service centers auditors, service organization auditors should be addressed clearly and thoughtfully by the standard. It should require that wherever the audit evidences are located and who ever does the work, the engagement team must ensure they can direct, monitor and review the work and obtain sufficient appropriate audit evidence and documentation. This should address the quality of the audit evidence to be obtained for an engagement, but also the practical limitations in considering an engagement team as responsible of the quality management system of other firms or auditors. The main driver should remain the quality of the engagement.
- As shared audit and joint audit are developing in many countries of Europe, we recommend that the application material should be extended to address this factual situation (see below extract from the Study requested by the ECON committee of the European Parliament on the EU Statutory Audit Reform IPOL\_STU(2019)631057\_EN):

“Currently, joint audits are only mandatory in three EU countries: 1) for all PIEs in France; 2) for banks, insurers and pension funds in Bulgaria; and 3) under certain conditions in Croatia. Thus, in all other Member States, joint audits are voluntary for PIEs. In this sense, EU regulation regarding a joint audit requirement is similar in most Member States (except for France). (...) The countries where joint audits are promoted via an extension of the mandatory firm rotation period are: Belgium, Cyprus (not for banks, though), Denmark, Finland, France, Germany, Slovakia, Spain and Sweden. (...)

In total, 20 Member States have at least one PIE client that engages in a joint audit, and the average percentage of joint PIE audits in the EU equals 9.1 % in 2017 (excluding France). Member States that score high for the percentage of voluntary joint audits are Sweden (where 37.6 % of all PIE clients had a joint auditor in 2017), Spain (33.1 %), Finland (18 %), Czech Republic (11.8 %) and Belgium (11.2 %). Note that Sweden, Spain, Finland and Belgium are countries in which joint audits can be used to extend the MFR period.”

- It could be helpful to cross-reference with ISA 230, when ISA 220 requires reviewing the audit work performed through review of the audit documentation. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who review such work, and when it was reviewed.
- The last sentence of A78 “The engagement partner need not review all audit documentation but may do so” should be in § 28 to give it more prominence.
- In § 28 “On or before the date of the auditor’s report, the engagement partner shall, through review of audit documentation and discussion with the engagement team, determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued”, we would suggest that the sentence is amended to “documentation and/or discussion”.
- Quality standards ISQM1, ISQM2 and ISA 220 address quality management for an audit of financial statements. We would suggest that the current title of ISA 220 is extended to “Quality management for an audit of financial statements at the engagement level and the related responsibilities of the engagement partner”. Even if it is thus a long title, we consider it more clearly sets out the purpose of the standard for the user.
- We draw the attention that the definitions between the proposed ISA 220 and the ones from the glossary are not exactly the same. When the ISA 220 is issued in its final form, we recommend that the glossary is updated to ensure consistency.

**Question 2 - Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?**

- Globally in agreement, even if we recommend a cross check between this standard and ISQM1 and 2, to ensure there are no overlaps or omissions.

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

- We support the material on professional skepticism, especially as developed in A27-A29. Nevertheless, it is as well important to underline that professional skepticism enhancement actions can also be designed and trained at the firm level to ensure consistency, by business and sub-sectors, between the different audit engagements and engagement partners, and provide relevant examples of real case situations faced.
- We recommend that the circumstances in A27 are extended to address situation when the entity either refuses to correct identified misstatements, or only reflect selective misstatements to improve results or balances.

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

- The proposed standard is not overly detailed or complex and we believe it is appropriate as technology evolves quickly; it is much better that the content is principle-based, as it may less be outdated or become irrelevant over time.
- The standard does not currently address the role of the engagement team in some complex areas, where experts and specialists are required.

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

Yes.

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

- We think that the linkage between ISA 230 and ED ISA 220 needs to be checked to avoid any duplications or omissions when ISA 220 is finalised.

**Question 7 - Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?**

- For scalability, we would suggest that examples and frequently asked questions are provided outside the standard.
- We are not sure that a sole practitioner or a small and medium practitioner will easily understand how to scale the standard.
- We suggest some reference to A16-A17 of the ISA 230.