

## **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**

#### **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 ED does assist in improving audit quality but scalability needs to be further explained with appropriate detailed examples.

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:

It appears to make conceptual sense but for SMPs it will be a significant challenge to comply.

- (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:

It is very much dependent on the attitude of individual firms and personnel. Those with the right mind set will get to the right outcome but others may just go through a ticking exercise.

(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:

Despite the aim to not be too prescriptive there is a need for some balance and more guidance, with examples, of how scalability works for smaller practices.

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:

Covered by the above responses.

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:

Smaller firms do need further guidance, with appropriate examples.

### Specific Questions

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

Response:

YES

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:

Further guidance is still necessary as to what is a PIE entity.

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?

Conceptually YES but it is dependent on the size of firms, i.e. it is more challenging for SMPs.

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

In particular:

i. Are the required quality objectives appropriate?

Response:

Nexia International supports the approach because identification of QOs is a precondition for scalability. However, smaller firms would worry about not complying with all the QOs, but they could justify not doing something.

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

Response:

YES

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

Response:

YES

(c) 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?

Response:

YES

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:

YES

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

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:

YES

(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:

Not really an objective of the standards but should be considered by each firm.

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 but more guidance is required as to what is a PIE entity.

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

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

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

Response:

YES

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

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 for both – there is a need to learn what drove either.**

(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**

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:

**YES**

14) Do you support the proposals addressing service providers?

Response:

**This requirement appears to be too onerous.**

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**