



1 July 2019

via IAASB website link: [Submit comment](#)

Dear Sir or Madam:

Re: IAASB's Proposed International Standard on Quality Management 1

RICS is pleased to submit its response to the exposure draft dated February 2019 pertaining to the International Auditing and Assurance Standards Board's (IAASB) International Standard on Quality Management 1 (the 'ED-ISQM 1'). RICS appreciates the opportunity to provide observations and comments, which we set out in detail on the pages that follow. We would be happy to discuss any aspect of this response if you would find that helpful.

Yours sincerely,

Steve Choi

Global Director of Business Valuation

Copy: Alder, Chris - Director of Regulation
Collins, Richard - Executive Director for the Profession
Creighton, Kenneth - Director of Professional Standards
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About RICS

Founded in 1868, RICS is standards organization and independent 'regulator' with a mandate to protect the public interest.

RICS promotes and enforces the highest professional qualifications and standards in valuation, development and management of land, construction and infrastructure. We accredit over 130,000 professionals in these sectors and any individual or firm registered with RICS is subject to our quality assurance.

Within the valuation sector, RICS has over 25,000 valuation professionals in over 100 countries. Their expertise covers valuations of real estate, machinery and equipment and business valuation. Many of our professionals provide fair value measurements for financial reporting purposes under IFRS and U.S. GAAP.

In response to public comments made by the U.S. Securities and Exchange Commission, RICS along with two other valuation professional organizations have created the Mandatory Performance Framework and developed the requirements of the Certified in Entity and Intangible Valuations (or CEIV) credential for valuation professionals performing valuations of a business, business interest, intangible asset, certain liabilities, and inventory used to support management assertions made in financial statements issued for financial reporting purposes.

In addition, at the request of regulators, RICS is enhancing valuation professionalism and standards in other regions of the world.

We are also a major supporter and sponsor of two of the largest valuation standard setters - The Appraisal Foundation and the International Valuation Standards Council.

Preamble

RICS would like to thank the International Auditing and Assurance Standards Board's (IAASB) for their time and effort in preparing the exposure draft on the International Standard on Quality Management 1 (the 'ED-ISQM 1') dated February 2019. We believe the new standard will strengthen quality by requiring auditors to design and implement effective controls over all aspects of audit and assurance related projects such as acceptance, performance, leadership, etc.

RICS contends that valuation professionals performing fair value measurements for financial reporting should be subject to additional oversight and rules similar to the auditors. Thus, as part of the quality management process, firms using external valuation specialists, including management staff, to perform fair value measurements for financial reporting should be required to state the valuation specialist's qualifications including credentials such as the Certified in Entity and Intangible Valuations (CEIV), MRICS, FRICS, etc. Credentials that require members to follow rigid standards and best practice guides such as the Mandatory Performance Framework (MPF) and with an enforcement mechanism for non-compliance should be recommended by the audit and accounting firms when necessary to ensure the public interest is protected. For additional information about the CEIV credential as well as the MPF, please find a link to the CEIV site - <https://ceiv-credential.org/>.

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

We believe the public interest will be served by the new quality management approach.

In addition, the new ED-ISQM 1 requires each firm to apply a risk-based approach in the design, implementation and operation of the system of quality management based on the nature of the firm as well as engagements performed by the firm. We believe a bespoke system of quality management will result in improved utilization of firm resources.

- (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?

The exposure draft requires professional judgment as well as professional skepticism to be exercised in designing, implementing and operating the firm's system of quality management. However, there will inevitably be some inconsistency in firm culture and what each firm considers appropriate resources (based on knowledge and experience) to exercise professional skepticism at the engagement level. Additional guidance or examples could be useful to ensure consistency amongst firms and, as necessary, amongst countries.

- (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?

The topic of scalability has been debated and discussed for some time. We believe the level of detail as provided in ED-ISQM 1 is scalable as firms can tailor a system of quality management that is suitable for the nature and circumstances of the firm and the engagements the firm performs. Some may believe that ED-ISQM 1 is not scalable or ‘perfect’ however, given the prescriptive nature of the ISQC 1, we believe the current standard does not promote a scalable and customized system of quality management that focuses on areas of risk.

We also believe that the initial cost, time and resources invested by firms to implement ED-ISQM 1 will or may be significant, however, we believe in the long-run a bespoke quality management system will result in more effective use of firm resources and enhancements in engagement quality.

- 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?

We believe other than the initial period, the new standard will allow firms to tailor its quality management systems and should permit for a seamless implementation phase.

- 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?

Initially, we believe an ‘application material’ section is not needed in the new standard. However, as firms implement the new standard, there may be a need for a development of an ‘application material’ section over due course to illustrate or explain certain requirements in the new standard.

Specific Questions

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

Yes. Although ED-ISQM 1 is organized by the eight components as listed below:

1. Governance and leadership;
2. The firm’s risk assessment process;
3. Relevant ethical requirements;
4. Acceptance and continuance of client relationships and specific engagements;
5. Engagement performance;
6. Resources;
7. Information and communication; and
8. The monitoring and remediation process.

We understand that a firm is not required to organize their quality management systems by each of the eight components as long as a firm meets all of the requirements of the standard in designing, implementing, and operating its quality management system.

- 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?

Yes, we support the aim of the standard. Furthermore, we agree that consistent performance of quality engagements will serve the public interest.

As many audited financial statements will include fair value measurements, to fully protect the public interest, we recommend that valuation professionals performing fair value measurements for financial reporting should be subject to additional oversight and rules similar to the auditors. Thus, as part of the quality management process, audit firms using external valuation experts, including management staff, to perform fair value measurements for financial reporting should be required to provide his or her qualifications including credentials demonstrating that the individual performing the work adheres to high quality standards and best practice guides and with an enforcement mechanism for non-compliance such as the Certified in Entity and Intangible Valuations (CEIV), MRICS, FRICS, etc. when necessary. This will enhance the quality of valuation work products involving fair value measurements.

- 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?

Yes, we agree that the firm's risk assessment process should be applied to the other seven components of the system of quality management because a firm can use this process in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for the other seven components.

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

- i. Are the required quality objectives appropriate?

The quality objectives are described at a high level in ED-ISQM 1, and provides 'flexibility' to recognize quality objectives based on a particular division/unit or by the nature of the engagements or by industry according to the entities for whom engagements are performed. Thus, we believe the required quality objectives are appropriate and reasonable.

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

We believe ED-ISQM 1 provides details on this, however, a few illustrative examples could be useful for a firm to interpret and implement this point.

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

Yes, we support the 'two-step' process for identifying quality risks and assessing quality risks, and that the two steps can be undertaken concurrently by a firm.

- (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?

When a firm has identified a quality risks that has reached the threshold criteria, given the factors and guidance provided in ED-ISQM 1, we believe the firms will design and implement responses to 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?

Although there is a good amount of details provided in ED-ISQM 1 on this topic, a few illustrative examples could provide some useful information to the firms.

- 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, we believe the requirement of assigning responsibility and accountability for the system of quality management to an individual or a certain group of individuals at a firm to demonstrate a commitment to quality will appropriately address firm governance and leadership.

- 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?

Yes, assigning responsibility for relevant ethical requirements to an individual or a certain group of individuals at a firm to establish policies for compliance (as well as non-compliance) will properly address this important topic. Also, we believe a firm should assign responsibility for compliance (and non-compliance) with independence requirements to an individual or a certain group of individuals.

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

Yes, we believe the standard provides direction to firms about implementing a network-developed IT application that requires all firms in the network and its staff to record and maintain information with respect to independence.

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

Yes, we believe the new requirement addresses the modernization of the standard with respect to the use technological resources - both in the performance of engagements and the operation of the system of quality management. In sum, the new requirement is principles-based as technologies are frequently evolving (and at times at a rapid pace), therefore, we believe this new standard is appropriately modernized.

- 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?

Regular communication that provide valuable and insightful information about the firm's system of quality management with external parties including firm's stakeholders helps promote transparency and trust in firms with robust internal controls. We believe through a transparency report, as it is required in many jurisdictions and for firms that perform audits of public entities, is one way to achieve this. By providing flexibility by allowing alternative means that may be more appropriate and effective than a transparency report given the circumstances of the firm, can also be relevant and useful.

We note in areas where transparency reports are not required, it may be useful to understand why stakeholders do not demand these reports, and perhaps the reports should be tailored specifically for each market / jurisdiction. Additionally, there may be a need to educate stakeholders regarding the importance of quality management systems.

- 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?

We do not have a specific view on this proposal.

- 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?

Yes. The current standard focused on the inspection of completed engagements, while ED-ISQM 1 focuses on proactive monitoring of all aspects of the system of quality management. Also, under ED-ISQM 1, firms can tailor its monitoring activities to allow an evaluation of the system of quality management.

- (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?

Although we cannot comment on the effectiveness of the current requirement, we do believe retention of this requirement seems sensible.

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

We do not have a specific comment on this point.

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

We do not have a specific comment for this question.

- 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?

We do not have a specific comment for this 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?

Yes, we support the proposals addressing networks. We also believe that although a firm belongs to a network and regardless of the implementation of network requirements or network services, ultimately the firm remains responsible for its system of quality management.

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

Due to limited resources and/or lack of expertise at the firms, we support the proposals addressing service providers. We also believe that firms should use service providers in the system of quality management when necessary. In addition, the standard provides some helpful expectations required of firms when utilizing resources provided by a service provider such as (1) obtaining an understanding of the service provider's reputation and capabilities, (2) establishing the nature and scope of the resources and (3) determining whether the resource is appropriate for use. Although the firms may engage service providers, we agree that the firm still remains responsible for its system of quality management.

In addition, even though it is not explicitly stated in ED-ISQM 1, fair value measurements attributes to a good number of audit deficiencies (as noted in the PCAOB Staff Inspection Brief, Information about 2017 Inspections, Volume 2017 / 3, August 2017). ED-ISQM 1 requires auditors to design and implement effective controls over all aspects of audit/assurance projects (acceptance, performance, leadership, etc.). Generally, when auditors are subject to additional rules and oversight, valuation professionals who perform fair value measurements (FVM) will also be subject to additional rules and oversight. We believe information regarding this point will ensure valuation work products involving fair value measurements are also enhanced.

Furthermore, audit firms utilizing external valuation specialists, including management, to perform fair value measurements for financial reporting should be required to state the valuation specialist's (or management's) qualifications including any credentials such as the Certified in Entity and Intangible Valuations (CEIV), MRICS, FRICS, etc. Further, audit and accounting firms should recommend working with practitioners who follow rigid standards and best practice guides such as the Mandatory Performance Framework (MPF) and with an enforcement mechanism for non-compliance, when necessary. This will enhance the quality and transparency of valuation work products involving fair value measurements.

- 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?

We believe if the implementation and adoption of ISQM-1 improves quality and consistency, and protects the public interest, it would be difficult to argue against adopting this standard at a jurisdictional level.