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Exposure Draft – Proposed Quality Management-related Conforming Amendments to the Code

The Financial Reporting Council (FRC) welcomes the opportunity to comment on this exposure draft. As the UK's Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g. where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

We support the aim of IESBA to make amendments to the Code so that it is aligned and interoperable with ISQM 1 and ISQM 2. It is important that IESBA and IAASB are consistent with their terminology and concepts – inconsistencies are confusing and may hinder efficient application of the Code and auditing standards when they are applied in respect of the same engagement. We strongly encourage IESBA to work with IAASB to produce a common Glossary of terms and to address other inconsistencies that are identified in the process of doing that.

Responses to request for specific comments

1. *Do you agree with the proposed conforming amendments in this ED?*

We are generally supportive of the proposed conforming amendments. However, the proposed amendments to paragraphs 320.3 A4 and 330.4 A2, while application material rather than requirements, appear to introduce a presumption that ISQM 1 is adopted and that not implementing policies or procedures "in accordance with ISQM 1" could increase the level of threats. We suggest that the language in these paragraphs is modified to reflect the wording in paragraph 3(a) of ISQM 1 that recognises there may be acceptable alternative standards. For example:

- 320.3 A4...

Whether the firm has implemented policies or procedures, as part of a system of quality

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management in accordance with ISQM 1, or national requirements that are at least as demanding, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.


2. *In addition to the proposed conforming amendments, the IESBA also considered the matter raised concerning decisions about accepting or providing services to a client in paragraph 300.7 A5. See explanation in the margin of paragraph 300.7 A5 (page 9). Do you agree with the IESBA's view on this matter? If not, please explain why.*

We agree with IESBA that it is not necessary to amend the identified bullet point in paragraph 300.7 A5, although we would not have objections to the highlighted wording being deleted. We understand the view expressed by the IAASB staff in the context of ISA 220 being written on the basis of the firm being responsible for client acceptance decisions. However, we would not agree that the wording of paragraph 300.7 A5 implies that engagement partner rather than the firm makes the decision whether to accept or continue the client engagement and, if they do not, the level of threat is necessarily heightened. That paragraph is setting out examples of matters that might impact the evaluation of a level threat. While in many firms client acceptance decisions are made at the firm level, in some there could be individual partners with the authority to make such a decision on their own.

3. *Do you agree with the proposed effective date? If not, please explain your reasoning.*

Yes. Given these are conforming amendments to align with ISQM 1 and ISQM 2 it is appropriate that they should have the same effective date

If you have any questions on our response, or wish to discuss any of our observations in more detail please contact James Ferris, Director, UK Auditing and Assurance Standards, Financial Reporting Council on j.ferris@frc.org.uk or +44-20-7492-2412.

Yours sincerely,


Mark Babington
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