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Submitted electronically at [www.iaasb.org](http://www.iaasb.org) and to [WillieBotha@iaasb.org](mailto:WillieBotha@iaasb.org)

Dear Sir

**COMMENT LETTER ON THE IAASB'S EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND ENGAGEMENT LEVEL, INCLUDING ENGAGEMENT QUALITY REVIEWS**

The South African Institute of Chartered Accountants (SAICA) is the home of the chartered accountants in South Africa – we currently have over 44,000 members from various constituencies, including members in public practice ( $\pm 30\%$ ), members in business ( $\pm 49\%$ ), in the public sector ( $\pm 4\%$ ), education ( $\pm 2\%$ ), and other members ( $\pm 15\%$ ). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the IAASB's Exposures Drafts for Quality Management at the Firm and engagement Level, including Engagement Quality Reviews (QM-EDs). We wish to express our appreciation for the work of the IAASB's Quality Control Task Forces (IAASB Task Force) in addressing the fundamental topic of quality management.

Accompanying this cover letter, please find an analysis of the data received in response to the SAICA survey. I refer you to the introduction section for background information to the SAICA survey.

Please do not hesitate to contact Hayley Barker Hoogwerf ([HayleyB@saica.co.za](mailto:HayleyB@saica.co.za)) should you wish to discuss any of our comments.

Yours Sincerely

***Signed electronically***

Hayley Barker Hoogwerf

Acting Senior Executive, Assurance and Practice

## **Introduction**

1. SAICA developed a survey (referred to as the SAICA survey) to obtain the views of the members in relation to the proposals included in the QM-EDs. Refer to Appendix A to this comment letter for the SAICA survey. The SAICA survey was distributed to all registered SAICA members.
2. The SAICA survey used phrases from the QM-EDs and provided sufficient background for survey respondents to provide meaningful and informed answers. The SAICA survey included closed- and open-ended questions. Closed-ended questions consisted of yes/no questions and multiple-choice questions. When appropriate, closed-ended questions were followed by an open-ended question where survey respondents were requested to explain their answers.
3. The information gathered provided unique insights into the perceptions of survey respondents relating to the QM-EDs. The results of the SAICA survey relating to the questions posed in the QM-EDs have been presented as separate comment letters. The purpose of providing the detailed response to the SAICA survey is to provide the IAASB with insight into the responses received and is not necessarily reflective of SAICA's view.
4. As part of introducing our members and educating them of the contents of the QM-EDs, SAICA developed a number of video-recordings, which were presented as training material on the QM-EDs. These video-recordings are available for viewing on YouTube as follows:
  - [Introduction and six biggest changes](#)
  - [ED ISQM 1 – Introductory paragraphs](#)
  - [ED ISQM1 - Engagement Quality Reviews](#)
  - [Monitoring and remediation documentation](#)
  - [Client acceptance and retention](#)
  - [Ethics](#)
  - [Risk assessment process](#)
  - [ISA 220](#)
  - [Governance and leadership](#)
  - [Resources, information and communication](#)
  - [Engagement performance](#)
  - [Networks and service providers](#)
5. In addition to the video-recordings, SAICA presented an Information Session to provide our members with an overview of the QM-EDs. The above video-recordings were used as part of the Information Session and participants were afforded the opportunity to complete the SAICA survey during this session.

## **Results of the survey**

6. In total, 108 people (referred to as survey respondents) responded to the SAICA survey. Thirteen respondents did not complete all the questions.
7. Details relating to the respondents are as follows:
  - 97% are SAICA members;
  - 33% are auditors registered with the IRBA;
  - 50% are in public practice.

For members in public practice, the services provided are as follows:

- Assurance – Audits and independent reviews – 65%
- Assurance – Audits only -11%
- Assurance – Independent reviews only – 11%
- Non-assurance – 13%

In terms of the constituencies that respondents below to,

- 21% are large firms
- 35% are SMPs
- 44% are sole practitioners.

8. SAICA would like to recognise the work done by Professor Karin Barac, University of Pretoria and Jana Kritzing, senior lecturer at the University of South Africa for their assistance in analysing the results of the survey.

## **Contents**

9. The SAICA comment letter is structured in the following sections:

- A. Overall Questions
- B. General Questions

## A. Overall Questions

- 1) Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

Response:

10. (36 valid responses, thus the following answer is based on a response rate of 38% (36/95))  
Sixty one percent (61%) of the respondents believe that the proposed implementation period of 18 months after the approval of the standards is sufficient time for implementation while 39% of respondents believe the time period to be insufficient.
11. One respondent commented that *"24 months would be more ideal"* another suggested that a *"trial period before the full implementation"* would be helpful. Some respondents commented that it is unclear whether a full monitoring cycle is expected to have been performed by the effective date. One respondent shared the following notion: *"If anticipated date is December 2021, consider including monitoring from December 2022"*.

- 1) In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

Response:

12. Respondents suggested the development of the following implementation materials:
- An implementation guide with clear guidance and examples on scalability
  - A guide for SMPs, similar to the current IFAC guide
  - A timeframe providing guidance on which components of the SoQM have to be in place by when.
  - A live "chat room"(discussion forum) where questions can be asked and answered
  - A sample quality management manual
13. Respondents alluded to the importance of having implementation material available upon approval of the final standard. One respondent described the need as follows: *"[Implementation material] must be made available at the time of the release of the final standard so that firms can immediately start to engage with those guides"*. The respondent argued that if implementation material is developed too late: *"firms won't necessarily have the time and motivation to go over the guide ... because they would have spent more time than required trying to come up with their own thing"*.
14. In addition to implementation material, respondents expressed a need for training on the new standards. For one respondent this is *"critical at all levels of the engagement team"*. In terms of training, respondents suggested the development of webcasts and regular information sessions by professional bodies.

## **B. General Questions**

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

- (a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

Response:

15. This question was not included in the SAICA survey.

- (b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

Response:

16. This question was not included in the SAICA survey.

- (c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

Response:

17. This question was not included in the SAICA survey.

SAICA – IAASB Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Reviews (QM-EDs)

**Survey to be distributed to SAICA members and facilitate members' input on the QM-EDs.**  
Comments are requested by **7 June 2019**

**Guide to completing the survey**

This survey is based on the three International Auditing and Assurance Standards Board (IAASB) exposure drafts for quality management at firm and engagements level (collectively referred to as QM-EDs), namely:

- (a) Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control (ISQC) 11), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ED-ISQM 1).
- (b) Proposed International Standard on Quality Management 2, Engagement Quality Reviews (ED-ISQM 2).
- (c) Proposed International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements (ED-220).

This survey includes extracts from the QM-ED to provide sufficient background for those participants who have not managed to work through the QM-EDs to provide meaningful and informed answers to the survey questions. It is not mandatory for participants to read through all background information if not considered necessary.

Please note that the QM-EDs are subject to copyright and permission is required to reproduce, store or transmit, or to make other similar uses of these extracts. The contact email is [permissions@ifac.org](mailto:permissions@ifac.org).

This study is being conducted in conjunction with University of Pretoria. Completing this survey is voluntary. Your response will remain confidential and will only be used for the purposes of developing a comment letter to the IAASB and for research being carried out by UP in identifying practical challenges and how these can be overcome. This survey will take you approximately 60 minutes to complete if you have read the QM-EDs and therefore do not need to work through the background information and approximately 90 minutes otherwise. We request that you please complete it in one sitting as the survey tool does not include a "save" functionality.

The closing date for participation is 7 June 2019.

Section 1: General information

1. Have you read the QM-EDs? Please note that sufficient background information is included within the survey to enable participants to meaningfully complete this survey. You are also able to skip over the background information if you do not require it.

- a. Yes.
- b. No.

Are you a SAICA member?

- Yes.
- No.

Are you currently registered with the Independent Regulatory Board for Auditors (IRBA) as a Registered Auditor?

- a. Yes.
- b. No.

2. Please select your gender:

- 1. Male
- 2. Female

3. Please select the cultural group you belong to:

- a. African
- b. Coloured
- c. Indian
- d. White
- e. Other

4. Are you currently:

- a. In public practice
- b. Not in public practice

[Question if "In public practice" is selected] \*Which one of the following constituencies does your firm belong to?  
[Respondent is allowed to choose one]

- ☐ Sole Proprietor
- ☐ Small firm (2-5 partners)
- ☐ Medium firm (5-10 partners)
- ☐ Large firm (10+ partners)
- ☐ Big 4 firm

[Question if "In public practice" is selected] \*What types of services do you/your firm provide?  
[Respondent is allowed to choose one]

- ☐ Assurance – Audits and independent reviews
- ☐ Assurance – Audits only
- ☐ Assurance – Independent reviews only
- ☐ Non-assurance

[Question if "In public practice" is selected] \*Please select the number of years you have been registered with the IRBA?

[Respondent is allowed to choose one]

- ☐ <2 years
- ☐ 2-5 years
- ☐ 6-10 years
- ☐ 11-15 years
- ☐ 16-20 years
- ☐ More than 20 years

[Question if "In public practice" is selected] \*Please select your current post level in public practice?  
[Respondent is allowed to choose one]

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- Partner/director ultimately responsible for quality within the firm
- Other partner/director
- Associate director
- Senior manager
- Manager
- Other

[Question if “Not in public practice” is selected] \*Which one of the following best describe your current position, or capacity, or association?

[Respondent is allowed to choose one]

- Academia/ Education institutions
- Investor or Analyst
- National Standard Setter
- Preparer of financial statements
- Public Sector
- Regulator or Audit Oversight Body
- Those Charged with Governance ( e.g. Members of board of directors and audit committee)
- Professional accountancy organisation
- External users of financial statements
- Other interested parties
- Describe other... (text)

Section 2: Specific Questions ED-ISQM 1

General considerations

The IAASB concluded that in order to substantively enhance firms’ management of quality and at the same time improve the scalability of the standard, ED-ISQM 1 should incorporate a new quality management approach, focused on proactively identifying and responding to risks to quality. The introduction of a risk based approach to the standard is the most significant change to extant ISQC 1.

1. 5. Do you feel that you understand the proposed new quality management approach that is included in ED-ISQM 1?
- a. Yes.
  - b. Partially.
  - c. No.

Please provide reasons for your answer below:

The essence of the new approach is to focus firms’ attention on risks that may have an impact on engagement quality. Unlike extant ISQC 1, the new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements that it performs. The new approach also requires firms to transition from policies and procedures that address standalone elements to an integrated approach that reflects upon the system as a whole.

2. 6. To what extent do you support the new quality management approach?
- a. Fully supportive of the new quality management approach.
  - b. Not in support of the new quality management approach at all.
  - c. In support of some aspects/attributes of the new quality management approach but not others.

Please provide reasons for your answer.



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If c, please provide details of the specific attributes of the approach that you do not support and include reasons for not supporting the specific attributes.

3. 7. Do you feel that the requirements and application material of ED-ISQM 1 are scalable such that they can be

applied to the size, complexity and circumstances of your firm?

- a. I am not able to identify the requirements and application material that are capable of being scaled.
- b. I am satisfied with the scalability of the requirements and application material of ED-ISQM 1.
- c. I am partially satisfied with the scalability of the requirements and application material of ED-ISQM 1.
- d. I am not satisfied with the scalability of the requirements and application material of ED-ISQM 1.

4. 8. What areas do you feel require further attention in order to make ED-ISQM 1 more applicable to your firm's unique circumstances, thereby improving the scalability thereof?

5. 9. What additional action can the IAASB take to improve the scalability of ED-ISQM 1?

The IAASB is of the view that the implementation of a system of quality management will result in a significant change in practice for most firms.

6. 10. In your view, will the implementation of a system of quality management change the operations and structure of your firm?
- e. No.
  - f. Yes.

Please provide reasons for your answer below:

7. 11. What practical challenges do you foresee in implementing the new quality management approach in your firm? References to actual requirements included in ED-ISQM 1 will be useful. Suggestions in terms of how these practical challenges can be overcome are also encouraged, including additional support material that may be useful.

8. 12. Is the application material included in ED-ISQM 1 helpful in assisting your understanding of the requirements?
- a. Yes, very helpful.
  - b. No, not helpful at all.
  - c. Helpful, but requires attention.
  - d. There are parts of the application material that add no value and can be removed.

If b or c, are there areas where additional examples or explanations that could be included in the application material that would be helpful?

If d, which parts of the application material do you feel add no value and can therefore be removed?

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9. 13. Would a separate document containing additional practical examples, over and above those included in the application material be useful?
- a. Yes, very helpful.
  - b. No, not helpful at all.
  - c. There is sufficient application guidance and examples included in the application material and therefore no separate document is required.

Quality management approach

The new quality management approach requires a change from policies and procedures that address standalone elements as required by extant ISQC 1 to an integrated approach that reflects upon the entire system. The IAASB has indicated that this approach is expected to generate multiple benefits for firms' system of quality management that supports the consistent performance of quality engagements, including:

- g. The system is tailored to the circumstances of the firm and the engagements it performs and will therefore be more robust and effective;
  - h. This may also result in improved utilization of firm resources;
  - i. The QM-EDs aim to facilitate a proactive response by the firm to changing circumstances and proactively manage and mitigating risks to quality management thus promoting a continual improvement to the system of quality management within the firm.
  - j. The new approach has an increased focus on monitoring the system as whole and timely and effective remediation, to promote the ongoing improvement including consideration of the appropriateness of the system, including whether it is appropriate.
  - k. There is improved integration of the components of the system, promoting the ongoing process of the system and improving decision making across the divisions.
10. 14. In your view, will the proposals generate additional benefits, as indicated above for engagement quality as intended?
- a. Our firm has already implemented a similar approach and will therefore not experience any additional benefits from the proposed quality management approach.
  - b. Yes, I definitely see additional benefits being generated from the proposed quality management approach.
  - c. No, I do not see any additional benefits being generated from the proposed quality management approach.

Please provide the reasons for your answer below:

11. 15. Do you believe that the additional benefits for engagement quality exceeds the cost thereof?
- a. Yes
  - b. No

If b, please provide the reasons for your answer below:

Professional scepticism

Given the pervasive effect of the system of quality management on supporting professional scepticism at the engagement level, ED-ISQM 1 does not specifically highlight which aspects of the system support professional scepticism. However, an emphasis on professional scepticism at the engagement level has been made in the introductory section and the engagement performance component of ED-ISQM 1 (see para. 36(b)). ED-220 then addresses professional scepticism in the context of managing quality at the engagement level through explaining the impediments to the exercise of professional scepticism and actions that the engagement partner may take to deal with such impediments.

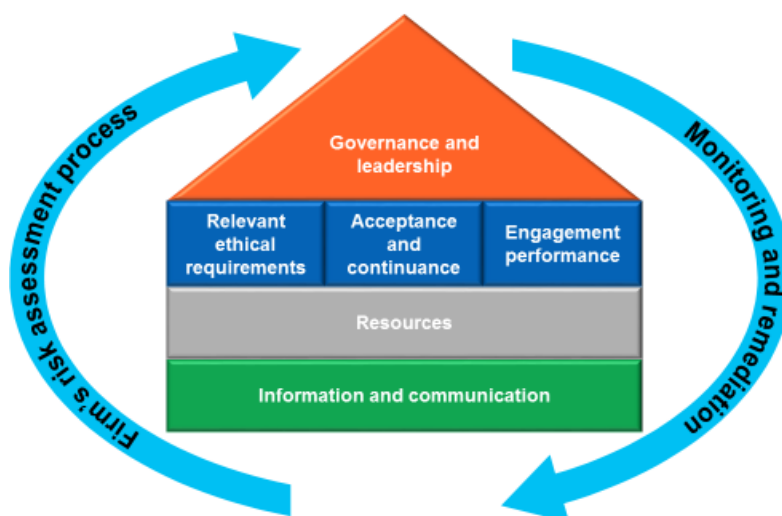
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12. 16. In your view, will the proposed changes to ED-ISQM 1, as explained above support the appropriate exercise of professional scepticism at the engagement level?
- Definitely.
  - Somewhat, but requires improvement.
  - Not at all.

If b or c, what further actions should the IAASB take to improve the standard?

Eight components of ED-ISQM 1

ED-ISQM 1 is organised according to eight components which forms the proposed system of quality management. The eight components and their interrelatedness are illustrated as follows:



13. 17. The above diagram is currently only included in the Explanatory Memorandum to ED-ISQM 1. Would it be useful to include this in the actual ED-ISQM 1?
- Yes, very useful.
  - Somewhat useful but not seen as a must have.
  - No, no use for it at all.
14. 18. To what extent do you support the eight components of the system of quality management and the structure of ED-ISQM 1?
- I do not understand the eight components or the current structure of ED-ISQM 1.
  - Yes, I fully support all eight components and the structure of ED-ISQM 1.
  - I partially support the eight components and the structure of ED-ISQM 1.
  - I am in support of the eight components but not the structure of ED-ISQM 1.
  - I am in support of the structure of ED-ISQM 1 but not all eight components.
  - I do not in support of the eight components or the structure of ED-ISQM 1 at all.

Please provide the reasons for your answer below:

Objective (para.18 of ED-ISQM 1)

The objective of ED-ISQM 1 as included in paragraph 18, is as follows:

*The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:*

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- (a) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and*  
*(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.*

15. 19. To what extent do you support the objective of the standard, which includes the objective of the system of quality management?
- I do not understand the objective of the standard as it currently stands.
  - Fully support the objective of the standard.
  - Partially in support of the objective of the standard.
  - Not in support of the objective of the standard at all.

Please provide the reasons for your answer below:

The Covering Explanatory Memorandum to the QM-EDs states that the IAASB is of the view that the three standards will, individually and collectively, improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and the performance of engagement quality reviews.

The IAASB also holds the view that, although public interest considerations vary across engagement types, the consistent performance of quality engagements is integral to a firm's responsibility to act in the public interest. The objective included in paragraph 18 of ED-ISQM 1 does not make reference to the public interest. However, paragraph 7 of the ED-ISQM 1 explains the connection between the public interest and the objective of the standard. The firm's public interest role is then included in paragraph 23(c), where it states that the firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements.

16. 20. Do you agree with how ED-ISQM 1 explains the firm's role relating to the public interest?
- I do not see how/where ED-ISQM 1 explains the firm's role relating to the public interest.
  - Fully agree with how ED-ISQM 1 explains the firm's role relating to the public interest.
  - Partially agree with how ED-ISQM 1 explains the firm's role relating to the public interest.
  - Do not agree with how ED-ISQM 1 explains the firm's role relating to the public interest.

If c or d, please provide suggestions on how ED-ISQM 1 can improve on explaining the firm's role relating to public interest.

17. 21. Is it clear how achieving the objective of the ED-ISQM 1 relates to the firm's public interest role?
- It is clear how the objective of the ED-ISQM 1 relates to the firm's public interest role.
  - I do not see how the objective of the ED-ISQM 1 relates to the firm's public interest role.

Please provide the reasons for your answer below:

18. 22. Do you believe that a system of quality management will assist firms in meeting the public interest expectation?
- Yes.
  - No.
  - Partially.

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If b, or c, please provide reasons for your answer below:

Definitions (para. 19 of ED-ISQM 1)

In relation to the definitions section, new definitions have been added into the ED-ISQM 1 and some include proposed changes. In particular:

Deficiency – New definition added, as follows:

*(a) Deficiency in the firm's system of quality management (referred to as "deficiency" in this ISQM) – This exists when:*

*(i) A quality objective required to achieve the objective of this ISQM is not established;*

*(ii) A quality risk has not been appropriately identified or assessed, such that a response that addresses that risk has not been appropriately designed or implemented; or*

*(iii) A response to address an assessed quality risk is not properly designed, implemented or operating effectively. (Ref: Para. A10)*

19. 23. In reading this definition, is it clear when a deficiency in the firms' system of quality management exists?
- No, I am not able to identify when a deficiency in the firm's system of quality management exists based on the current definition.
  - Yes, I am able to identify when a deficiency in the firms' system of quality management exists based on the current definition.
  - The definition is clear in that I am able to identify when a deficiency in the firm's system of quality management exists **but** I have other concerns with it.
  - The definition is not clear in that I am not able to identify when a deficiency in the firm's system of quality management exists **and** I have other concerns with it.

Please provide the reasons for your answer below:

Engagement team – Definition amended. The proposed new definition is as follows:

*(f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm, and also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).*

20. 24. In reading this definition, is it clear who is included and excluded from the engagement team?
- The extant definition of engagement team was clear to me and should therefore not be changed.
  - No, I am not able to identify who is included and excluded from the engagement team.
  - Yes, I am able to identify who is included and excluded from the engagement team.
  - I am able to identify who is included and excluded from the engagement team but I have concerns with it.

Please provide reasons for your answer below:

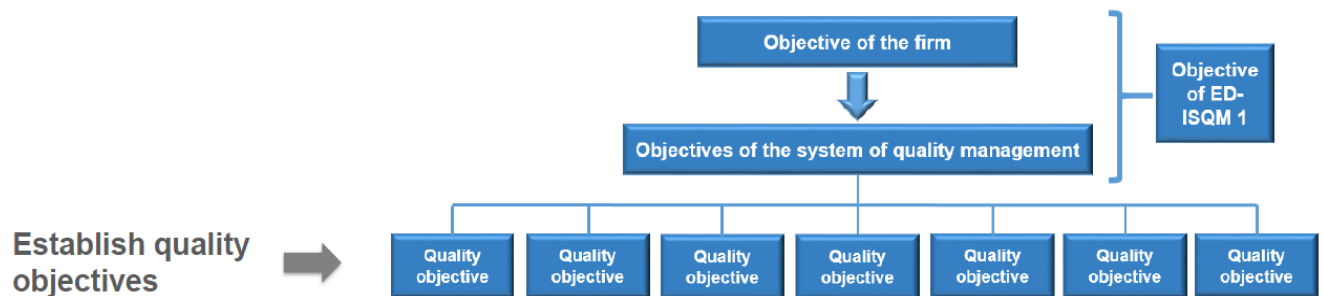
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The risk assessment process included in ED-ISQM 1 (para.26-31 and relevant parts of each individual component)

The firm's risk assessment process consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the firm's quality objectives and designing and implementing responses to address the quality risks.

**Quality objectives**

The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved. The relationship between the quality objectives, the objective of the system of quality management and the objective of the standard is as follows:



21. 25. To what extent do you believe that the application of a risk assessment process will result in the objective of the ED-ISQM 1 being achieved?
- Fully agree that the risk assessment process will result in the objective of the ED-ISQM 1 being achieved
  - Do not agree that the risk assessment process will result in the objective of the ED-ISQM 1 being achieved
  - Partially agree that the risk assessment process will result in the objective of the ED-ISQM 1 being achieved, but see flaws in the process or areas where the process could be improved.

Please provide the reasons for your answer below:

22. 26. Do you believe that application of a risk assessment process will drive firms to change their approach to quality management?
- Firms will be proactive in applying the risk assessment process in their firms and establishing quality objectives.
  - I do not foresee any change in the approach to managing quality.

Please provide the reasons for your answer below:

23. 27. In relation to the required quality objectives included in the components of the system of quality management, which statement best reflects your view?
- I do not believe that required quality objectives should be prescribed in ED-ISQM 1.
  - All the required quality objectives included in each of the eight components are appropriate.
  - Certain required quality objectives included in certain of components are appropriate, but others not.

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If c, which specific quality objectives do you believe are not appropriate? Please include the reasons for your answer:

24. 28. Is it clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?
- Yes.
  - No.
25. 28. Is it practical for firms to be required to establish additional quality objectives beyond those required by the standard in certain circumstances?
- Yes.
  - No.

Identify and assess quality risks

A risk-based approach supports the firm in focusing its efforts and resources on areas where they are needed the most. ED-ISQM 1 recognises that it is not reasonable or practicable for firms to identify and assess every possible risk, and to design and implement responses for every risk (see paragraph A54 of ED-ISQM 1).

Accordingly, ED-ISQM 1 includes a process for identifying and assessing quality risks that includes a threshold for identifying quality risks and a requirement to assess those risks identified, such that the nature, timing and extent of the responses designed and implemented by the firm are appropriately focused on what is important for the system of quality management. The process for identifying quality risks and the further assessment is depicted as follows:



26. 29. To what extent do you support the process for the identification and assessment of quality risks?
- I do not understand the process for the identification and assessment of quality risks.
  - Fully supportive of the process for the identification and assessment of quality risks.
  - Not in support of the process for the identification and assessment of quality risks at all.
  - Partially in support of the process for the identification and assessment of quality risks.

Please provide the reasons for your answer below:



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Paragraph 28 of ED-ISQM 1 explains that the threshold for identifying quality risks that are required to be assessed is:

- (a) those where there is a reasonable possibility of the risk occurring; and
- (b) if the risk were to occur, it may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

27. 30. To what extent do you understand the principle of the *threshold* that is applied for identifying quality risks that are required to be assessed?
- a. Fully understand the principle of the *threshold* that is applied for identifying quality risks that are required to be assessed.
  - b. Partially understand the principle of the *threshold* that is applied for identifying quality risks that are required to be assessed.
  - c. Do not understand the principle of the *threshold* that is applied for identifying quality risks that are required to be assessed.
  - d. I understand the principle of the *threshold* that is applied for identifying quality risks that are required to be assessed but have concerns with this.

Please provide the reasons for your answer below:

28. 31. Is ED-ISQM 1 clear that the process for identifying and assessing quality risks is a two-step process?  
**[Respondent are able to select more than one option]**
- a. Yes.
  - b. No.
  - c. Including the diagram in ED-ISQM 1 would be useful in clarifying this.

Please provide reasons for your answer:

Design and implementation of responses

ED-ISQM 1 requires the firm to design and implement responses to address the quality risks, in order that the quality objectives are achieved (see paragraph 30 of ED-ISQM 1). ED-ISQM 1 includes some responses that all firms are required to design and implement, however these responses are not comprehensive. As a result, the standard is explicit that the firm is required to design and implement responses to address the assessed quality risks, in addition to the responses required by the standard (see paragraphs 10(c) and A59 of ED-ISQM 1).

29. 32. Do you believe that firms will design and implement responses that are tailored to, and appropriately address the assessed quality risks?
- a. I do not foresee any change in the approach to managing quality and therefore do not believe that firms will design and implement responses to address the assessed quality risks.
  - b. The process for the firm to design and implement responses to address the assessed quality risks is too complicated and therefore firms will not design and implement responses that appropriately address the assessed quality risks effectively.
  - c. Firms will be proactive in designing and implementing responses that are tailored to and appropriately address the assessed quality risks.
  - d. Firms will rely on the prescribed responses included in ED-ISQM 1 in appropriately addressing the assessed quality risk and will not design and implement any additional responses.
  - e. Firms will outsource this process and rely on external parties to provide a generic response to address quality risks.
30. 33. Is it clear in ED-ISQM 1 that, in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?
- a. Yes.
  - b. No.



Firm governance and leadership (para. 23-25 of ED-ISQM 1)

ED-ISQM 1 has been substantially enhanced to improve the robustness of firms' governance and leadership. In particular, it addresses the expected behaviour of firm leadership in setting the tone at the top, the appropriate qualifications of leadership, and holding leadership accountable through performance evaluations. ED-ISQM 1 now also addresses the effect of the firm's strategic actions, including financial and operational decisions, on engagement quality and the firm's public interest role, as well as firm leadership's ability to influence decisions about the firm's resources.

31. 34. Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership?
- Yes.
  - No.
  - Yes, but I have concerns with the revised requirements.

35. If b or c, what further enhancements are needed or what concerns are noted?

In developing the requirements, the IAASB considered who in the firm should be ultimately responsible for the system of quality management, and whether that responsibility should be extended to quality more broadly. The IAASB resolved to retain the requirement of extant ISQC 1, which assigns this role to the firm's chief executive officer, or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) (see paragraph 24(a) of ED-ISQM 1).

32. 36. Do you agree with the requirement that the firm shall assign ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent)?
- Yes.
  - No.

If b, please provide the reasons for your answer below:

33. 36. Do you agree that the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) are the appropriate parties to be ultimately responsible and accountable for the firm's system of quality management?
- Yes.
  - No.

If b, please provide the reasons for your answer below, including recommendations as to who you feel the most appropriate party is:

34. 36. The IAASB is of the view that the requirements in the governance and leadership component are universally applicable to firms of all sizes. Do you foresee any practical challenges in implementing any of the requirements relating to the governance and leadership component?
- No.
  - Yes.

If b, please provide the reasons for your answer below:

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The IAASB is of the view that independence is critical to the performance of the engagements where independence is required. Accordingly, requiring firms to assign responsibility for independence emphasises that independence is an important consideration in a firm's system of quality management. ED-ISQM 1 includes a new requirement for the firm to assign operational responsibility for compliance with independence requirements and the monitoring and remediation process to appropriate personnel within the firm's leadership (see paragraph 24(a)(iii)(b) of ED-ISQM 1). The IAASB is however contemplating whether there should be an individual assigned responsibility for relevant ethical requirements in addition to assigning responsibility for compliance with independence requirements.

35. 37. In your view, should ED-ISQM 1 require firms to assign responsibility for **relevant ethical requirements** to an individual in the firm?
- a. Yes.
  - b. No.

If b, what is your proposal in relation to assigning responsibility for relevant ethical requirements?

36. 37. In addition to assigning responsibility for relevant ethical requirements, should the firm also be required to assign responsibility for compliance with independence requirement to an individual?
- a. Yes.
  - b. No.

If b, what is your proposal in relation to assigning responsibility for compliance with independence requirements?

37. 37. Does ED-ISQM 1 appropriately address the responsibilities of the firm regarding the independence of other

firms or persons with the network?

- a. Yes.
- b. No.

If b, please provide the reasons for your answer below:

Resources (para. 38-39 of ED-ISQM 1)

The IAASB recognises that firms are increasingly using technology in performing engagements. As part of the modernisation of the standard, the IAASB has introduced a new requirement for the firm to obtain or develop, implement and maintain appropriate technological resources to enable the operation of the firm's system of quality management and the performance of engagements (see paragraph 38(e) of ED-ISQM 1). The requirement is principles-based because the IAASB is mindful that the types of technologies, and the extent to which they are being used, are continually evolving. It is noted that the application material includes IT-related concepts that have been explained in a manner consistent with ED- 315.9.

38. 38. Has ED-ISQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management? (para.38 – 39 and ED-ISQM 1 as a whole)
- a. Yes.
  - b. Partially.
  - c. No.

39. Please provide the reasons for your answer below:

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Information and communication (para. 40-41 of ED-ISQM 1)

Extant ISQC 1 does not address the broader need for information and communication across the system and the communication of information with engagement teams, which is essential for the effective operation of the system of quality management and the performance of engagements. It also does not acknowledge the two-way nature of communication. As a result, ED-ISQM 1 includes a new component, information and communication, which includes requirements for the firm to establish an information system and emphasises the need for effective two-way communication within the firm, as well as the responsibility of all personnel for communication. The new component also supports the firm in addressing the need for robust communication and interactions during the performance of engagements, a key public interest issue highlighted in the Invitation to Comment (ITC) released in December 2015, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits*.

The IAASB considered whether the requirements in the information and communication component should further specify with whom communication should take place and the type of information that should be obtained, generated and communicated. The approach taken was for the requirements not to include this specificity and in designing the system of quality management, the firm would need to understand the integration of the components and the information that needs to be obtained, generated or communicated to support the firm in achieving the requirements of each of the components.

39. 40. Do you agree with the IAASB's decision to follow a principles-based approach that is not prescriptive in specifying the information and communication needs for each of the components?
- Yes.
  - No.

Please provide the reasons for your answer below:

The requirements in ED-ISQM 1 for communication with external parties address all forms of communication with external parties (not only transparency reports) and have been developed in a manner that is adaptable to the circumstances of the firm. The IAASB believes that the requirements for communication with external parties will encourage firms to exchange valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

40. 41. In your view, will the requirements for communication with external parties encourage your firm to exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders?
- Yes.
  - No.
  - Partially. I see other elements that can be included.

Please provide the reasons for your answer below:

41. 42. Will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?
- Yes.
  - No.

Please provide the reasons for your answer below:

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42. 42. Do you think that ED-ISQM 1 should be more prescriptive in terms of when transparency reporting is required?
- a. Yes.
  - b. No.

Please provide the reasons for your answer below:

43. 42. If required to prepare a transparency report either in terms of the firm's established policies or procedures or required by local legislation, does the application material provide sufficient and appropriate guidance in terms of the extent of reporting? (para. A150 to A153 of ED-ISQM 1)
- a. Yes.
  - b. No.

Please provide the reasons for your answer below:

Engagement quality reviews

An engagement quality review is a firm-level response to an assessed quality risk(s) that is implemented by the engagement quality reviewer on behalf of the firm. As explained in the explanatory memorandum for ED-ISQM 2, the IAASB agreed that since the engagement quality review is a response to an assessed quality risk(s), ED-ISQM 1 should address the engagements for which an engagement quality review is to be performed. The specific criteria for an individual to be eligible to perform the engagement quality review and requirements for the performance and documentation of the review are located in ED-ISQM 2. The IAASB concluded that having a separate standard for engagement quality reviews would provide a number of benefits, including but not limited to, emphasising the importance of the engagement quality review and increasing the scalability of ED-ISQM 1.

44. 43. Do you support a separate standard, namely ED-ISQM 2 for engagement quality reviews?
- a. Yes.
  - b. No.

Please provide the reasons for your answer below:

45. 43. In terms of the scope of the proposed standards, 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?
- a. Yes.
  - b. No.

Please provide the reasons for your answer below:

Para 37(e) of ED-ISQM 1 indicates that a firm shall include a response to quality risks by establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2, and that require an engagement quality review for:

- (i) Audits of financial statements of listed entities;
- (ii) Audits of financial statements of entities that the firm determines are of significant public interest;

And,

(iii) Audits or other engagements for which:

- a. An engagement quality review is required by law or regulation; or
- b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.

46. 44. Do you agree with the proposals addressing the engagements that should be subject to an engagement quality review?

- a. Yes.
- b. No.

If b, what changes to the scope do you suggest?

The application material contained in ED-ISQM 1 indicates that in determining whether an entity is of significant public interest, the firm may take into account, for example, whether the entity has a large number and wide range of stakeholders, and the nature and size of the business. The firm also may consider the relative significance of factors such as these in the context of the jurisdiction or region in which the entity operates. Entities that the firm determines to be of significant public interest may include entities such as financial institutions (e.g. certain banks, insurance companies, and pension funds), and other entities such as certain not-for-profit organizations.

47. 45. From the above application material, will you be able to determine which entities are of significant public interest **[Respondent are able to select more than one option]:**

- a. Yes, this is clear to me.
- b. No, it is not clear.
- c. More application guidance would be useful here.
- d. Entities that meet the definition of a Public Interest Entity as contained in the IRBA Code of Professional Conduct are intended to be covered by this requirement.

48. 46. In your view, in the absence of local regulators issuing additional requirements of guidance, from a South African point of view, entities of significant public interest will:

- a. Only include entities that meet the definition of a Public Interest Entity as contained in the IRBA Code of Professional Conduct
- b. Will have a wider application than entities that meet the definition of a Public Interest Entity as contained in the IRBA Code of Professional Conduct
- c. Will have a narrower application than entities that meet the definition of a Public Interest Entity as contained in the IRBA Code of Professional Conduct

49. 47. In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

- a. Yes.
- b. Yes, but the requirements for the identification of engagements subject to an engagement quality review are not clear.
- c. No.

48. If b or c, please provide the reasons for your answer below:

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

- a. Yes.
- b. No.

48. If b, please provide the reasons for your answer below:

Monitoring and remediation (para. 42- 57 of ED-ISQM 1)

The ITC highlighted the need for greater focus on internal and external monitoring and remediation activities as one of the key public interest issues, and an area where the extant standard is in need of modernisation. As a result, ED-ISQM 1 has various new and improved requirements for monitoring and remediation, specifically:

- a. The requirements promote more proactive and effective monitoring activities and have increased the emphasis on tailoring the monitoring activities to provide a sufficient basis for the firm to evaluate the system. The IAASB is of the view that this approach may encourage firms to develop innovative monitoring techniques to further enhance quality management.
- b. The requirements focus on monitoring all aspects of the system. Extant ISQC 1 is largely focused on inspections of completed engagements, which only address monitoring responses that are implemented at the engagement level.
- c. The requirements acknowledge that there may be a variety of information sources that provide the firm with information about the operation of the system of quality management, including external inspection findings.
- d. The requirements have been clarified to differentiate between findings and deficiencies, so that it is clear that not all findings are deficiencies for which further action is needed.
- e. The firm is now required to investigate the root causes of deficiencies so that appropriate action can be taken to remediate the deficiencies effectively.
- f. The responsibilities of firm leadership have been enhanced, and include a requirement to determine the effectiveness of remedial actions, and an evaluation, at least annually, of whether there is reasonable assurance that the objective of the system has been achieved.

51. 50. Will the proposals improve firms' monitoring of the system of quality management as a whole?

- a. Yes. Firms will be proactive in implementing the system of quality management as a whole and therefore improve firm's monitoring of the system of quality management as a whole.
- b. Yes, but only if firms are proactive in implementing the system of quality management as a whole but I do not believe that the proposals will be implemented.
- c. No, the proposals will not improve firm's monitoring of the system of quality management.

Please provide the reasons for your answer below;

52. 51. If implemented by firms, will the proposals promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

- a. Yes.
- b. No.

If b, please provide the reasons for your answer below:

53. 52. Please provide examples of innovative monitoring techniques that your firm will implement to promote more proactive monitoring of quality:

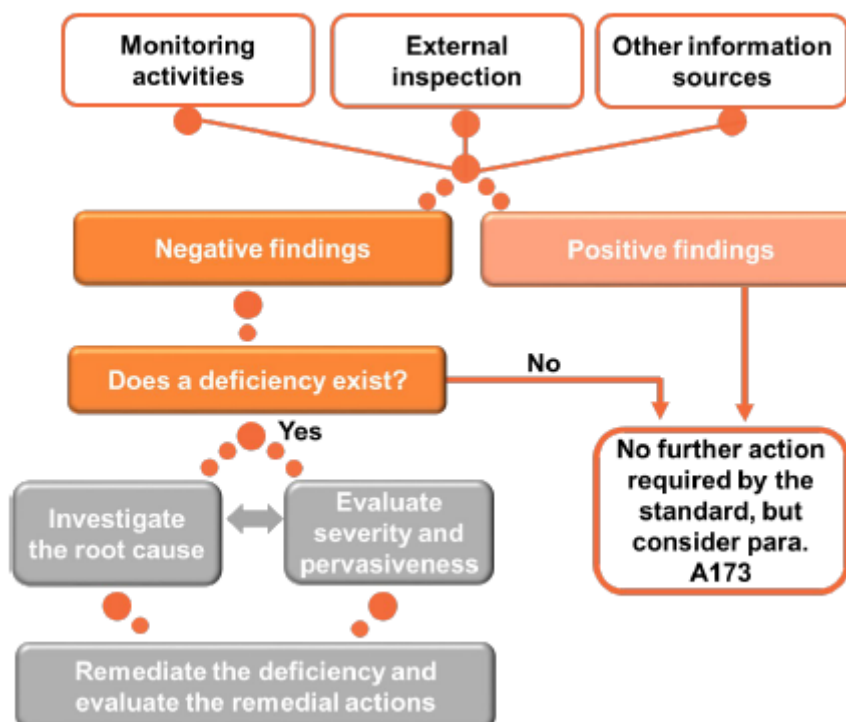
54. 53. Do you agree with the IAASB's conclusion to retain the requirement for inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

- a. I do not see the enhancements to improve flexibility of the requirement
- b. Yes.

c. No.

54. If c, please provide the reasons for your answer below:

This illustration sets out the framework in ED-ISQM 1, and the application material in ED-ISQM 1 provides further guidance to support the firm in working through the framework.



55. 55. Is the framework for evaluating findings and identifying deficiencies clear?

- Yes, clear for both evaluating findings and identifying deficiencies.
- Clear for evaluating findings but not for identifying deficiencies.
- Clear for identifying deficiencies but not for evaluating findings.
- No, not clear for either evaluating findings or identifying deficiencies.

56. If b, please provide the reasons for your answer below:

56. 57. Do you support the definition of deficiencies?

- Yes.
- No.

If b, please provide the reasons for your answer below:

ED-ISQM 1 includes a new requirement for firms to investigate the root cause of deficiencies.

57. 58. Does your firm's **current** monitoring and remediation process include the performance of a root cause analysis?

- Yes.



2. No.

59. If a, does your firm's root cause analysis include an investigation of positive findings?

- a. Yes.
- b. No.

58. 60. Is the nature, timing and extent of the procedures included in ED-ISQM 1 to investigate the root cause of identified deficiencies sufficiently flexible?

- a. I cannot identify the flexibility of this requirement.
- b. Yes.
- c. No.

Please provide the reasons for your answer below:

ED-ISQM 1 does not require firms to determine the root cause of positive findings. It does however discuss the benefits of investigating the root cause of positive findings to encourage firms to include this as part of their policies and procedures addressing the evaluation of the findings.

59. 61. In your view, will the proposals in ED-ISQM 1 encourage your firm to investigate the root cause of positive findings?

- a. Yes.
- b. No.

60. 61. In your view, should ED-ISQM 1 have a more explicit requirement to investigate the root cause of positive findings?

- a. Yes.
- b. No.

61. 62. 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? **[Respondent are able to select more than one option]**

- a. I do not agree with the proposed timeframe of *at least once a year*.
- b. I do not understand what is meant by *providing reasonable assurance*.
- c. I do not understand how to demonstrate compliance with this requirement.
- d. The requirements are clear to me.
- e. There are no challenges that may arise.
- f. There are challenges that may arise.

Please provide the reasons for your answer below:

Networks (para. 58-63 of ED-ISQM 1)

The IAASB is of the view that in circumstances when networks share common elements related to the system of quality management, such common elements can be instrumental in enhancing engagement quality across the firms that belong to the network. However, as highlighted in the ITC, concerns have been raised that firms place undue reliance on network requirements or network services. Accordingly, new requirements have been introduced in ED-ISQM 1 addressing network requirements or network services.

The aim of the new requirements is to improve the robustness of the firm's responsibilities for the network requirements or network services, so that the firm understands the network requirements or network services and the effect they have on the firm's system of quality management. Given the varying structure of networks and the nature of the network requirements or network services, the new requirements are principles-based so that they can be adapted to a variety of circumstances. The IAASB is of the view that the new requirements emphasise that the firm is responsible for its own system of quality management, thereby addressing the issue that firms may place undue reliance on network requirements or network services.



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The IAASB is of the view that although the new requirements are focused on the firm, they are likely to have an effect on the network.

62. 63. Is your firm part of a network?

- a. No.
- b. Yes.

If yes,

63. 64. Do you support the proposals included in ED-ISQM 1 addressing networks?

- a. Yes.
- b. No.
- c. Partially.

Please provide reasons for your answer.

64. 65. Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

- a. I do not believe that firms are currently placing undue reliance on network requirements on network services.
- b. Yes.
- c. No.

If c, please provide the reasons for your answer below:

Service providers (para. 64-65 of ED-ISQM 1)

Firms may use service providers in the system of quality management, for example, engagement software may be obtained from a service provider or the firm may use a service provider to perform engagement quality reviews. The IAASB is of the view that a service provider provides a resource, and therefore the firm needs to determine that it is appropriate to use that resource in the system of quality management. Accordingly, ED-ISQM 1 includes new requirements addressing the use of service providers in the firm's system of quality management.

65. 66. Do you or your firm make use of service providers?

- a. No.
- b. Yes.

If yes,

66. 67. Do you support the proposals included in ED-ISQM 1 addressing service providers?

- a. Yes.
- b. No.

If b, please provide the reasons for your answer below:

Appointment and eligibility of engagement quality reviewers

The IAASB recognised in the ITC concerns that had been expressed regarding the selection of the engagement quality reviewer, including the qualification, experience and objectivity of the individual selected to perform the engagement quality review. Respondents to the ITC believed that the independence, integrity and objectivity of the engagement quality reviewer should be addressed. In response to the feedback from the ITC, the requirements in ED-ISQM 2 for the appointment and eligibility of the engagement quality reviewer are more robust than those in extant ISQC 1.

To this end, ED-ISQM 2 states the following:

*16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)*

*(a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)*

*(b) Comply with relevant ethical requirements, including that threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team are eliminated or reduced to an acceptable level; and (Ref: Para. A13–A16)*

*(c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)*

*17. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:*

*(a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and*

*(b) Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation. (Ref: Para. A18–A19)*

1. 68. 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 to 17, respectively, of ED-ISQM 2?
- Yes.
  - No.
  - Partially.

Please provide the reasons for your answer below:

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Respondents to the ITC had mixed views regarding whether the IAASB should address the cooling-off period, including whether the IAASB should prescribe a cooling-off period or require firms to determine the period; whether it should be addressed by the International Ethics Standards Board for Accountants (IESBA); or whether there should be collaboration between the two Boards.

2. 69. What are your views regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer? Should **[Respondent are able to select more than one option]**:
- ED-ISQM 2 prescribe a cooling-off period.
  - ED-ISQM 2 require firms to determine the cooling-off period by establishing policies and procedures that set forth the requirements.
  - ED-ISQM 2 provide guidance regarding a cooling-off period.
  - The IEASBA Code prescribe a cooling-off period.
  - The IEASBA Code provide guidance regarding a cooling-off period.
  - Other. Please expand on this:

Performance of the engagement quality review (para. 21 – 24 of ED-ISQM 2)

3. 70. With reference to paragraphs 21 to 24 of ED-ISQM 2, do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures?
- Yes.
  - No.

If b, please provide the reasons for your answer below:

4. 71. In your view, are the responsibilities of the engagement quality reviewer appropriate given the responsibilities of the engagement partner in ED-220?
- I do not understand the interaction between the responsibilities of the engagement partner as contained in ED-220 and the responsibilities of the engagement quality reviewer as contained in ED-ISQM 2.
  - Yes.
  - No.

72. Please provide the reasons for your answer below:

#### Significant judgments

The IAASB noted that extant ISQC 1 requires the engagement quality reviewer to discuss significant matters with the engagement partner, and there sometimes is confusion between the population of matters that would be considered "significant matters" versus those that are "significant judgments."

The IAASB observed that the concept of "significant matters" is addressed in ISA 230.6 The concept of "significant judgments," which is integral to the definition of an engagement quality review, is addressed in ED-ISA 220.

The IAASB concluded that the engagement quality reviewer's review of the engagement team's significant judgments in ED-ISQM 2 needed to be consistent with the approach taken in relation to the engagement partner's review of audit documentation in ED-220. As a result, ED-ISQM 2 includes application material to draw attention to these standards, as follows:

*A29. For audits of financial statements, proposed ISA 220 (Revised) requires the engagement partner to review audit documentation relating to significant matters and other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.*

*A30. For audits of financial statements, proposed ISA 220 (Revised) provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.*

*A31. For engagements other than audits of financial statements, the engagement quality reviewer may consider the nature and circumstances of the engagement in identifying significant matters, and significant judgments made by the engagement team. For example, in an assurance engagement performed in accordance with ISAE 3000 (Revised), the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment. The examples in proposed ISA 220 (Revised) also may be useful to the engagement quality reviewer in identifying significant judgments in engagements other than audits of financial statements.*

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5. 73. In your view, is the inclusion of the application material relating to significant matters and significant judgments useful in clarifying the confusion between the population of matters that would be considered “significant matters” versus those that are “significant judgments.”
- Yes.
  - Partially.
  - No.

74. If b or c, please provide the reasons for your answer below:

6. 75. 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 scepticism?
- Yes.
  - No.

If b, please provide reasons for your answer:

7. 76. Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the

engagement quality reviewer?

- No.
- Yes.

If b, what suggestions do you have in that regard.

Documentation

ED-ISQM 2 includes a specific requirement for the engagement quality reviewer to take responsibility for documentation of the engagement quality review, and also adds a requirement that the documentation be filed with the engagement documentation. The IAASB also added an overarching requirement in ED-ISQM 2 for the documentation to be sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the nature, timing and extent of the engagement quality review procedures performed.

8. 77. Do you agree with the enhanced documentation requirements?
- Yes.
  - No.
  - Partially.

Please provide reasons for your answer below:

Section 4: Specific Questions ED-220

Leadership Responsibilities for Managing and Achieving Quality on Audits (para.11 – 13 of ED-220)

The IAASB believes that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement as this is fundamental to providing the engagement team leadership required to achieve high quality audits, and therefore meeting the objective of ED-220. The diagram below illustrates how the engagement partner's overall responsibility to manage and achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the engagement, such that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the audit:



In clarifying the role and responsibilities of the engagement partner, the IAASB determined that ED-220 needed to highlight early in the ISA that achieving quality on the audit engagement requires the engagement partner to demonstrate sufficient and appropriate involvement in the engagement, which includes being responsible for creating an environment that emphasizes the firm's culture and expected behaviour of engagement team members (see paragraph 11 of ED-220). The engagement partner is also required to take clear, consistent and effective actions that reflect the firm's commitment to quality and communicate the expected behaviour of engagement team members (see paragraph 12 of ED-220). The focus on the link between the firm's culture and the tone set by leadership is aligned with the requirements of ED-ISQM 1 (see, for example, paragraph 22 of the explanatory memorandum of ED-ISQM 1).

Another aspect of leadership responsibilities is assigning responsibilities to other engagement team members. ED-220 recognizes that the engagement partner may assign procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements, but that the engagement partner is still required to take overall responsibility for the quality of the engagement. The engagement partner is therefore required to inform assignees about their responsibilities, to monitor the performance of the assignees' work, and to review related documentation (see paragraph 13 of ED-220). The IAASB discussed whether the leadership requirements, collectively, placed too much emphasis on the role of the engagement partner, but concluded that the public interest was best served by requirements that continue to emphasize the importance of overall responsibility for managing and achieving quality being in the hands of the engagement partner.

1. 78. Do you support the focus on the sufficient and appropriate involvement of the engagement partner, as part of taking overall responsibility for managing quality on the engagement?
  - a. Yes.
  - b. No.

If b, please provide the reasons for your answer below:

2. 79. In your view, does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?
- Yes.
  - No.

If b, please provide the reasons for your answer below:

Standing back provision (para. 37 of ED-220)

Paragraph 37 of ED-220 requires the engagement partner to “stand-back” and, prior to forming an opinion, determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. The IAASB concluded that it was appropriate for the engagement partner to determine that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement and that the nature and circumstances of the engagement (and any changes thereto) have been taken into account in complying with the proposed ISA. The IAASB believes that including such a stand-back requirement would also assist in supporting the exercise of professional scepticism by the engagement partner and other members of the engagement team. Paragraph A100 of ED-220 provides guidance that appropriate consideration of the requirements of ED-220, and how the audit documentation evidences the engagement partner’s involvement in the audit, would provide the basis for whether the engagement partner has taken overall responsibility for managing and achieving quality.

3. 80. Do you support the inclusion of the stand-back provision?
- Yes.
  - No.

If b, please provide the reasons for your answer below:

The public interest role of audits and the exercise of professional scepticism (para.7 and A27-A29 of ED-220)

The IAASB has included new introductory material on the importance of the use of professional scepticism and professional judgment in performing audit engagements (see paragraph 7 of ED-220). This introductory material is further supported by application material that describes impediments to professional scepticism, auditor biases, and actions the engagement partner can take to deal with impediments to the exercise of professional scepticism.

4. 81. Do you support the additional application material included in paragraphs A27-A29 of ED-220 on the appropriate exercise of professional scepticism in managing quality at the engagement level?
- Yes.
  - No.

If b, please provide reasons for your answer below:

Modernising ISA 220 for an Evolving Environment

The ITC noted that the project to revise ISA 220 could acknowledge the evolving use of audit delivery models and emphasise the need for appropriate policies and procedures for these structures as part of the firm’s system of quality control and at the engagement level. ED-220 now recognizes that engagement teams may be organised in a variety of ways including being located together or across different geographic locations, or organised by the activity they are performing. ED-220 also recognises that individuals who are involved in the



*Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts*

audit engagement may not necessarily be engaged or employed directly by the firm. Importantly, the change recognises that, regardless of the location or employment status of such individuals, if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed. As a consequence, changes have been made to the definition of the engagement team to recognise different and evolving engagement team structures.

ED-220 also highlights the growing role of technology in audits of financial statements. The requirements in the *Resources* section have been enhanced and cover not only the human resources involved in an audit engagement, but also the technology and intellectual resources. Paragraphs A56–A58 explain how technological resources may be used in the audit. The ED also notes the role of specialised skills or knowledge in the use of automated tools. In proposing amendments to the ISA, the IAASB took into account the learnings of the IAASB’s Data Analytics Working Group, which is exploring the use of technology on audits.

5. 82. In your view, does the ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
- Yes.
  - No.

If b, please provide reasons for your answer below:

Interaction between ED-220, ED-ISQM 1 and ED-ISQM 2

ED-220 is designed to operate as part of the broader system of quality management established by ED-ISQM 1. Under ED-ISQM 1, the firm establishes quality objectives, identifies and assesses quality risks, and designs responses to address the quality risks in relation to the components of the firm’s system of quality management. The responses may be implemented at the firm level or at the engagement level, depending on the nature and circumstances of the firm and the engagement. Accordingly, ED-ISQM 1 requires the firm to communicate information to the engagement team about their responsibilities regarding the firm’s responses that are required to be implemented at the engagement level.

Extant ISA 220 includes requirements and guidance on the performance of an engagement quality review (formerly known as an engagement quality control review) of the audit, including requirements directed at the engagement quality reviewer. These requirements and guidance are now proposed to be moved to ED- ISQM 2 and, therefore, ED-220 is focused only on the responsibilities of the engagement partner in this regard, including how the engagement partner and engagement team interact with the engagement quality reviewer.

6. 83. Does ED-220 have appropriate linkages with the ISQMs?
- Yes.
  - No.

If b, please provide reasons for your answer below:

Extant ISA 220 notes that engagement teams are entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise. The IAASB has proposed removing this material, and replacing it with application material that explains that in certain circumstances, the engagement partner may “depend on the firm’s policies or procedures” in complying with the requirements of ED-220. This approach is intended to avoid the risk that the engagement team blindly relies on the firm’s system of quality management without taking into account whether the firm’s quality management policies or procedures are “fit-for-purpose” in the specific circumstances of the engagement. To assist the engagement partner in making the determination as to whether, and the degree to which, the engagement partner may depend on the firm’s policies or procedures, the IAASB has also proposed application material that provides examples of ‘matters’ that the engagement partner may take into account when determining whether it is appropriate to depend on the firm’s policies or procedures (see paragraphs A7–A8 of ED-220).

7. 84. 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 firm’s policies and procedures?
- Yes.

b. No.

If b, please provide reasons for your answer below:

Supporting engagement performance (para. 27-31 of ED-220)

The IAASB revised the engagement performance section extensively to improve the quality of audits by enhancing the requirements and emphasizing the importance of taking the nature and circumstances of the audit into account in addressing them. To this end,

- a. The requirements and application material on direction, supervision and review have been strengthened and include greater specificity on how the engagement partner needs to be involved. In addition, the revised requirements include linkages with other requirements in ED-220 (e.g. the requirements on engagement resources) and with other ISAs (e.g. the guidance in ISA 230 on significant matters). The proposed standard also includes new guidance on these requirements, including guidance on matters that may constitute a significant judgment, and which matters therefore need to be reviewed by the engagement partner.
- b. New requirements require the engagement partner to review the financial statements and the auditor's report prior to dating the auditor's report and, prior to their issuance, to review formal written communications to management, those charged with governance, or regulatory authorities.

8. 85. Do you support the revised requirements and guidance on direction, supervision and review?

a. Yes.

b. No.

If b, please provide reasons for your answer below:

Documentation (para. 38 of ED-220)

9. 86. Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

a. Yes.

b. No.

If b, please provide reasons for your answer below:

## Section 5: Overall Questions

Effective date

In the Explanatory Memorandum, the IAASB recognise that the new quality management approach in ED-ISQM 1 together with various other new requirements across the standards represent substantial revisions to the extant standards. Accordingly, there will be a need for focused and likely substantial effort by firms and engagement teams to implement the new and revised requirements.

The IAASB indicate that they have noted concerns of stakeholders that firms' systems of quality control and management of engagement quality is an area requiring urgent improvement. The IAASB further indicated that they are of the view that the three standards will, individually and collectively, improve the quality of engagements through addressing the key public interest issues that have been identified.

On the other hand, the IAASB is conscious of the need to establish an implementation period that allows enough time for the effective implementation of the new and revised standards, including the development of implementation guidance and support materials.

1. 87. In accordance with the current timeline and the IAASB's proposed implementation period of 18 months after the approval of the three standards by the Public Interest Oversight Board, systems of quality management in



*Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts*

compliance with the QM-EDs will be required to be established by December 2021. Do you believe that this provides your firm with sufficient time to implement the requirements?

- a. Yes.
- b. No.

Please provide the reasons for your answer below:

2. 88. In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

**Scalability**

3. 89. Do you believe that the new and revised requirements make the QM-EDs scalable for firms of varying size and complexity?

- a. Yes.
- b. Yes, but there is still room for improvement in making the standards even more scalable.
- c. No.

Please provide the reasons for your answer below:

**Overall enhancement of audit quality**

4. 90. Having worked through the QM-EDs and with the background to the IAASB's project, do you believe that we are going to see a change in audit quality?

- a. I do not foresee any change in the approach to managing quality and therefore do not believe that this project is going to result in a change in audit quality.
- b. Yes.
- c. No.

91. Please provide the reasons for your answer below, specifically suggestions on actions that the IAASB can take to promote audit quality.

The IAASB has issued two additional documents, as follows:

- a. Draft Frequently Asked Questions regarding Proposed ISQM 1 (FAQs), which is intended to provide further clarity on various matters in ED-ISQM 1; and
- b. Draft Examples: How the Nature and Circumstances of the Firm and the Engagements it Performs Affect the Implementation of Proposed ISQM 1 (Draft Examples), which is intended to illustrate how ED-ISQM 1 can be applied in a scalable manner by firms with varying circumstances.

5. 92. Do you find the FAQs useful?

- a. Yes.
- b. No.

6. 92. Do you find the Draft Examples useful?

- a. Yes.
- b. No.

