

Ref#737653

1 July 2019

Mr. Willie Botha

Technical Director

International Auditing and Assurance Standards Board (IAASB)

529 Fifth Avenue

New York

10017 USA

Submitted electronically at www.iaasb.org and to 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 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 ($\pm 2.0\%$) 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 Exposure 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) 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 the Response Template: Covering Explanatory Memorandum for Quality Management Exposure Drafts 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. The information gathered provided unique insights into the perceptions of survey respondents relating to the QM-EDs.
3. 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, SAICA presented an Information Session to provide our members with an overview to 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 Kritzinger, senior lecturer at the University of South Africa for their assistance in analysing the results of the survey.

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?
9. (78 valid responses, thus the following answer is based on a response rate of 82% (78/95)
Nearly half of the respondents (49%) believed they understand the new quality management approach (QMA) included in ISQM 1, while 46% of the respondents believed they only partially understand the new approach and 5% of the respondents believed they do not understand the new approach.
10. Respondents claiming to understand the new quality management approach (QMA) related it to similar approaches followed in business and the risk-based approach used in audits. Some of these participants ascribed their understanding to their involvement in SAICA or the IRBA quality forums. Those with limited or no understanding of the new QMA acknowledged that they still need to properly study ED-ISQM 1, and/or that they need further training on the practical application of the standard.
11. 69% of the respondents were fully supportive of the new QMA, while 27% of the respondents supported only of some of the attributes and 4% of the respondents indicated that they did not support the QMA.
12. Respondents in support of the new QMA viewed it as a proactive, logical approach, which corresponds well with similar approaches in business and the risk-approach followed in audits. The new QMA should be familiar to auditors. These respondents perceived it is a practical, as opposed to a rule-based approach, and saw merit in revising the standard to restore trust in the profession, which, based on recent negative publicity appears to declining. Respondents from large audit firms and Big 4 audit firms indicated that their firms had been proactive and had presented training and workshops to implement the new approach. One respondent explained *"our firm has started implementing the role of leadership and the necessary functions within the firm to identify and address the risks of the firm"*.
13. Various respondents, however, expressed concern about the practical implementation of the new QMA and the impact of the new QMA on small firm resources. Sole practitioners and respondents from medium and small audit firms (SMPs) questioned the scalability of a QMA and perceived it as a "one size fits all approach" with little or no value to SMPs. One sole practitioner commented, *"I have no idea as to how I am going to implement this"*. Respondents were concerned about the impact of the new QMA on time, other firm resources, audit fees, client relations, and auditor judgement. One respondent viewed the new QMA as *"being an over kill"* and questioned the value added to implement and monitor an effective system of quality management (SoQM). Another respondent considered the aforementioned matters as *"inhibiting factor[s] in [his] decision as to whether or not to open a new practice"* while yet another argued that the sole practitioner will become *"extinct"*.
14. Respondents outside public practice also questioned the ability of SMPs to adapt the new approach. This is evident in the following comment: *"The new concepts in the ED seem to be extracted from the*

current day practice of the bigger firms.....my view is that small firms will continue to apply the ISQC 1 principles”.

(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?

15. (55 valid responses, thus the following answer is based on a response rate of 58% (55/95))

Respondents commented on **additional benefits** expected from introducing the SoQM. The majority of respondents (80%) indicated a proper SoQM would promote delivery of consistent engagement quality. Respondents attributed this to increased responsibility and accountability of firm leadership for quality, improved utilisation of firm resources, a more holistic approach to manage quality, increased participation of staff at all levels and the continuous monitoring and remediation process. They believed these aspects would contribute to improved firm efficiency and higher quality audit work, which would ultimately serve public interest. One respondent commented: *“integrating the system of quality management with strategic objectives and decisions will result in a much improved culture [of] and environment for quality”*. Another respondent commented that a SoQM would reduce the *“risk of taking on work that you cannot do.... this can save the firm’s reputation and financial resources”*. One respondent explained how a SoQM would serve public interest: *“the effective implementation of a firm’s quality management will result in the firm operating more effectively, resulting in the service of its public interest”*.

16. Nine (16%) respondents indicated that a QMA would not generate additional benefits for engagement quality. They argued that such an approach would result in more ticking of boxes, *“seen as more red tape”*. These respondents also questioned whether the system would result in improved utilisation of firm resources as maintaining such a system requires additional effort without adding any value.

17. Some respondents questioned whether the additional benefits for engagement quality exceed the costs thereof. This is evident in the following two comments received from SMPs: *“Smaller firms do not have the budgets to obtain the resources and the clients are not able to absorb the costs”* and *“it is not viable for a one man show to add more paperwork and hours to something that he cannot charge the client for”*. There was a general belief that for SMPs, the additional cost will “erode profitability”.

18. Respondents from Big 4 audit firms and large audit firms were less concerned about cost implications from the SoQM. One respondent from a large audit firm believed that implementing the system requires initial investment, but it will not be too costly once the system is implemented and stable. Two Big 4 audit firm respondents reported that their firms had already implemented a similar approach and would therefore not experience any additional benefits from the proposed QMA.

19. One respondent argued that the QMA would not address the fundamental issue influencing audit quality and commented: *“I cannot see how a new system will resolve the human element of dishonesty.... the risks facing the audit profession will remain”*.

20. Respondents further commented on how the new QMA will support the **exercising of professional skepticism** at the engagement level. Most respondents (60%) indicated that the proposed changes to ED-ISQM 1 would support the appropriate exercise of professional skepticism at engagement level. More than a third of the respondents (35%) required more guidance from the standard on the matter. These respondents argued that a SoQM requires a high level of discretion and judgement,

which might be open for interpretation. From a regulator's perspective, it is thus difficult to determine whether another individual (reasonable auditor) will come to the same conclusion. Respondents further commented that it is currently unclear what the consequences will be if a firm fails to appropriately identify its risks. One respondent suggested that *"the application material should clearly explain how and/or where professional skepticism should be exercised in each of the elements addressed in the standard..... It should also explain where the exercise of professional judgement and skepticism should be documented. This would clarify the requirements for practitioners and regulators"*.

- (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?

21. (58 valid responses, thus the following answer is based on a response rate of 61% (58/95))

Just more than a third of the respondents (38%) were satisfied with the scalability of the requirements and application material of ED- ISQM 1. These respondents viewed the standard as being principle based and applicable to firms of all sizes. One respondent from a large audit firm stated that the requirements are *"scalable to assist the firms as to identify their objectives and focus on the risks that is applicable to them and moving away from doing generic policies and procedures that does not really add value"*.

22. In contrast to the above, most SMP respondents raised concerns about the scalability of the requirements and application material of ED-ISQM 1. 62% of these respondents were not satisfied, or only partially satisfied, with the scalability of the requirements and application material of ED-ISQM 1. SMP respondents perceived the requirements too onerous for their practices and were concerned about the practical implementation. This is evident in the comment from one sole practitioner that the requirements are *"impossible to implement as a sole practitioner"*. These respondents called for further guidance and or clearer differentiation between application material for firms of varying sizes. These respondents further suggested additional non-authoritative supplementary material, with accompanying examples, to support implementation in SMPs. Various respondents suggested the development of a separate standard for SMPs, with one commenting a standard similar to "IFRS for SMEs". Two respondents suggested a discussion platform for questions and answers on how to implement a SoQM.

- 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?

23. (56 valid responses, thus the following answer is based on a response rate of 59% (56/95))

More than two thirds (69.6%) of the respondents indicated that the implementation of a SoQM would change the operations and structure of their firms. Some respondents perceived that firm leadership structures would change, while others intended to change their operating systems or contemplated outsourcing. There was agreement from respondents that the development, implementation and monitoring of a SoQM will require a significant investment of time and resources (also training of staff). As mentioned in question one, some of the larger audit firms have already started with the implementation of a SoQM.

24. SMP respondents raised concerns about additional resources required for the implementation of the SoQM. The change requires a system with formal documentation of the process and amendment of

current quality control manuals, policies and procedures. Respondents commented that their firms would have to appoint additional staff, or alternatively outsource some activities to ensure compliance to the requirements (e.g. engagement quality reviews). There was consensus amongst respondents that this will negatively influence firms' profitability. This notion is clear from the following view: *"It will severely increase the cost of doing business"*. One sole practitioner commented that the requirements are *"too onerous for a one-man business"* while another alluded to the cost (and practicality) of appointing an *"advisory board"* to assist with quality management. Some SMP respondents were also concerned about coinciding time pressures, one respondent commented: *"there is time limitations on me as a sole practitioner to even formulate a quality policy"*. Another sole practitioner commented that the challenges and costs relating to implementation would force him to *"close the business"*.

25. Respondents commented that an effective SoQM requires a change in the culture of firms. It requires leadership's "buy in" and a greater commitment to non-billable activities (design, implementation, training and monitoring of a SoQM). Although there was consensus that such a change will benefit audit quality, respondents cautioned that there is a delicate balance between *"firm management and business management"* affecting quality and profitability. The latter is evident in the words of the following respondent: *"management is charged with ensuring that the firm has a robust quality management system but this is often compromised for the need to have a profitable environment which will attract and retain quality professionals"*.
26. Respondents referred to changes in their social capital. First recruitment practices need to change to appoint competent individuals who are familiar with the new requirements. Second all existing staff need training and training material will have to be updated. In this regard respondents perceived the educational video material developed by SAICA, and presented at "SAICA's IAASB's Project on Quality Management Information Session" helpful and as a valuable source for training.
27. External service providers saw value in assisting firms with the development, implementation and monitoring of their SoQM. Some of these respondents perceived it as a business opportunity to assist firms, while practitioner respondents were concerned about the cost implications. One respondent expressed a need for *"finding someone who can do it [quality management] for me without it costing me an arm and a leg"*. Respondents further suggested the development of guidance material with practical examples on how to implement a SoQM appropriate for the SMP environment. Another respondent suggested that an example of a quality management manual be made available for SMPs, which can be used as benchmark by firms in the design of their firm's SoQM.

- 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?

28. (52 valid responses, thus the following answer is based on a response rate of 55% (52/95))

The majority of the respondents (60%) perceived the application material included in ED-ISQM1 to be helpful in supporting a consistent understanding of the requirements. Respondents commented that it explains the principles and informed their understanding. 40% of respondents, however, indicated that the application material was not helpful, or required changes to facilitate a consistent understanding of the requirements. One of these respondents raised concerns about the overall length of the standard and perceived some of the paragraphs in the application material to be of an educational nature. The respondent suggested that these should rather be included in an appendix to the standard or presented as part of non-authoritative material. The majority (81%) of the

respondents indicated that a separate document containing additional practical examples, other than those included in the application material, would be useful.

Specific Questions

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

29. (51 valid responses, thus the following answer is based on a response rate of 54% (51/94))

The majority (67%) of the respondents indicated their support of all eight components and the structure of ED-ISQM1. Respondents commented that the eight components provide clarity on how, in terms of the standard, firms should manage quality and these components are in line with those used in other risk management frameworks. Respondents also mentioned that they were familiar with the eight components from their experiences with extant ISQC1. They supported the emphasis on governance and leadership (considered to be a key driver in quality) and increased attention given to components relating to communication as well as monitoring and remediation.

30. Favorable comments were made about the visual presentation and use of a housing metaphor. The majority of the above-mentioned respondents suggested that the house diagram, which is included in the explanatory memorandum, should be included in the standard as it provides a visual presentation and high-level overview of the components.

31. Respondents not supporting the eight components perceived the structure to be cumbersome.

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?

32. (52 valid responses, thus the following answer is based on a response rate of 55% (52/95))

The majority (83%) of the respondents supported the objective of the standard, which includes the objective of the system of quality management. One respondent asserted: *"the objective makes it clear that the firm should have a proper system of quality management and also makes it clear what the system should achieve"*.

33. Sixty one percent (61%) of the respondents agreed with the manner in which ED-ISQM 1 explains the firm's role relating to the public interest, while 23% of the respondents only partially agreed with the explanation and 16% of the respondents did not agree with the explanation. The latter respondents suggested more clarification of the concept (a respondent requested that this should be aligned with interpretations of public interest in other standards). One respondent, for example, stated: *"I believe it should be explained in a bit more detail in the application material"*, while another suggested the exposure draft should be more transparent that *"public interest is at risk if quality management is lacking in our assessment of client"*. A respondent suggested more guidance on how the firm's strategic decisions and actions demonstrate commitment to a firm's role in serving public interest. Contrasting views were found whether different levels of public interest (based on whether audits are done for listed clients with greater levels of public responsibility) should be specified. Another respondent requested more guidance relating to non-profit organisations.

34. The majority (75%) of the respondents indicated that they understood how achieving the objective of the ED-ISQM 1 related to the firm's public interest role. The following comments support this notion: *"no further explanation is needed"*, *"it is pretty straight forward"* and *"if you do what you should and you issue the right report, you'll serve public interest"*. Some respondents elaborated further,

explaining that ISQM 1 provides guidance for quality which is in public interest, that the latter is protected by increasing quality in the firm and that a proper SoQM will ensure a consistent level of quality which is in public interest. For the remaining 25% of respondents the alignment between the objective of ED-ISQM 1 and the concept of public interest was not clear because the “*intention of public interest*” varies and “*the understanding of public interest might not be the same*” for all firms. A suggestion was made to change the objective of the standard by incorporating reference to the firm’s role relating to the public interest.

- 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?

35. (46 valid responses, thus the following answer is based on a response rate of 48% (46/95))

Nearly two thirds (63%) of the respondents agreed that the application of a risk assessment process would result in the objective of ED-ISQM 1 being achieved and 77% of respondents believed the application of a risk assessment process would drive firms to change their approach to quality management. Most respondents viewed the risk assessment process as being pro-active and a practical approach with the capability of providing leadership with more relevant information for decision-making purposes. Timeous identification and mitigation of risks will result in an effective quality management system and will enhance engagement quality. One respondent motivated the use of the risk assessment process as follows: “*identify the risks before it comes knocking on the door*”.

36. Thirty-five percent (35%) of the respondents, although agreeing that the application of a risk assessment process assists firms to achieve the objective of ED-ISQM 1, had some concerns. These respondents perceived the practical implementation of ED-ISQM 1, especially in a SMP environment, as a challenge. Some respondents from SMPs viewed the implementation of a risk assessment process as a mere compliance exercise. A sole practitioner commented that his firm would implement the system simply because he is “*forced to do so*” and a respondent from outside public practice believed that firms would view the risk assessment process as an “*evil necessity*”. Respondents expressed a need for more guidance in terms of establishing quality objectives and identifying quality risks.

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?

This question did not form part of the survey

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

This question did not form part of the survey

In particular:

- i. Are the required quality objectives appropriate?

37. (46 valid responses, thus the following answer is based on a response rate of 48% (46/95))

Seventy six percent (76%) of the respondents indicated that that the required quality objectives are appropriate. One respondent raised the following question: “*What happens where the firm does not have the necessary skills to set quality objectives but they think that they do?*”

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

38. (45 valid responses, thus the following answer is based on a response rate of 47% (45/95))

Most (87%) of the respondents understood that ED-ISQM 1 requires of the firm to establish additional quality objectives beyond those explicitly mentioned in the standard. Nearly two-thirds (62%) of respondents believed it is a practical requirement of firms to establish additional quality objectives. Some respondents, however, sought more practical guidance to set additional quality objectives.

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

39. (47 valid responses, thus the following answer is based on a response rate of 49% (47/95))

Fifty-eight (58%) of the respondents fully supported the process for the identification and assessment of quality risks, while 32% of respondents only partially supported the process. Four (8%) respondents indicated that they did not understand the process and one respondent (2%) did not support the process.

40. 72% of respondents indicated that it would be helpful if the standard includes the diagram, in the explanatory memorandum, illustrating the process for the identification and assessment of quality risks.

41. Respondents commented that the standard should provide more guidance for the identification of risks. The standard does not include prescribed quality risks and one respondent referred to this as a “gap in the ED”. Respondents suggested that the standard should include quality risks in the same manner that objectives and responses are included.

42. Respondents also raised concern on the subjective nature of the risk assessment process and the threshold of a reasonable possibility of the risk occurring (ED-ISQM 1 par 28a). Respondents commented that it is not clear what is meant by “reasonable possibility”. One respondent described the requirement as being “too broad” and another as being “fluffy”. Some respondents were concerned that the process of risk identification is not optimal. A regulator respondent explained as follows: “It makes practical sense to filter out some of the lower risks before going into a more detailed effort of assessing and responding to risks. However, all risks are assessed to some level. Shouldn't all risks identified be thoroughly assessed once and all together, with the decision then made from there that some risks are assessed as low risk and thus don't require a specific response but rather a general response that may address more than one lower risk? It still feels like double work to me while it's all aimed at the same objective. I'm concerned that the system may be circumvented by excluding some risks at an early stage, with some risks not filtering through to the next step as it should be”. A concern was raised about the judgement required to interpret the threshold (as risk appetite varies) because poor judgement could result in key risks not being addressed. Some respondents suggested more guidance (and practical examples) on how to determine whether there is a reasonable possibility of a risk occurring. Other respondents referred to the value of using a risk-rating table and one respondent believed that it would be impossible to build such a tool. From a regulatory perspective, respondents also expressed concerns. This is clear from the following comment: “what will happen in the case of the firm failing to identify their risk appropriately?”

(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?

43. (45 valid responses, thus the following answer is based on a response rate of 47% (45/95))

Only 18% of the respondents believed that firms would be proactive in designing and implementing responses tailored to and appropriately addressing the assessed quality risks. The majority (82%) of respondents believed that firms would not design and implement such responses. Reasons provided by these respondents were (1) the process is too complicated (24%), (2) it is easier to outsource the function to an external party that can provide generic responses (16%) and (3) firms will merely rely on the prescribed responses included in ED-ISQM (31%).

44. This matter raises concern as the design and implementation of responses is integral to proper implementation of the SoQM, and it questions whether firms are really committed to the QMA.

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?

45. (46 valid responses, thus the following answer is based on a response rate of 48% (46/95))

The vast majority (91%) of the respondents understood that firms are expected in all circumstances to design and implement responses in addition to those required by the standard.

7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

46. (46 valid responses, thus the following answer is based on a response rate of 48% (46/95))

Nearly all (98%) of the respondents indicated that ED-ISQM 1 appropriately addresses firm governance and the responsibilities of firm leadership. These respondents supported the change as illustrated by the following two comments: "it is fantastic that this section is beefed up" and "*I absolutely 'love' the focus on the enhanced 'governance and leadership', because I personally believe that without that, the system cannot be effective at all*". Some respondents (22%) raised concerns. These include whether leadership will be evaluated by an external party and on which basis will the evaluation be done, related cost implications, more guidance (rules) are needed to determine for what management will be held accountable.

47. Respondents (89%) supported that firms had to assign ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firms' managing partner (or equivalent) or, if appropriate, the firms' managing board of partners. Respondents commented that this/these individual/s set the tone at the top ("*lead by example*") and therefore they must be held accountable and responsible for the QMA. Some respondents made it clear that although one individual would be ultimately responsible ("*the buck stops here*"), quality remains a matter of concern for the whole firm.

48. Sixty percent of the respondents perceived practical challenges with the implementation of the requirements relating to the governance and leadership component. Respondents commented that

implementation in SMPs will be difficult as they do not have the necessary resources and time to comply. One respondent commented: *“in smaller firms partners are so busy running the business and servicing clients that they don't always have the time and resources to spend the necessary energy and time on quality management”*. SMPs will most likely outsource some of the functions or will have to obtain additional resources. As previously mentioned, outsourcing has cost implications for these firms.

8) With respect to matters regarding relevant ethical requirements:

(a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

Response:

49. (45 valid responses, thus the following answer is based on a response rate of 47% (45/95))

Sixty percent of the respondents indicated that ED-ISQM 1 should require firms to assign responsibility for relevant ethical requirements to an individual in the firm. For these respondents such a requirement will ensure that *“the correct tone from the top in respect of the importance of ethics is upheld and integrated in the culture of the firm”*. Respondents also perceived such a requirement as relevant in the South African context where ethical breaches are prevalent.

50. The counter argument raised by 40% of the respondents is that each individual should take responsibility for his/her own ethical and moral behavior. Therefore, it is not *“fair”* to assign all ethical conduct to one person. Suggestions made to overcome this concern include assigning a committee rather than an individual and to introduce levels of approval or assessment, but in SMPs these could be challenging.

51. Nearly sixty percent (59%) of the respondents agreed with the proposal to assign responsibility for compliance with independence requirements to an individual. A respondent from a large audit firm commented as follows: *“there must be a chief ethics officer and a chief independence officer”*. As in the case of the ethics responsibility, various respondents argued that all staff members of a firm are responsible for compliance with independence requirements, but such compliance need to be documented and monitored by a single individual to *“ensure compliance at all times”*. SMP respondents expressed concerns about this requirement alluding to their resource constraints. For example, one respondent asserted: *“This would be pushing it too far.....making it a requirement for smaller firms would be excessive and impractical”*.

52. Some respondents referred to the interconnectedness of ethical requirements and independence and suggested that the same individual is responsible for these matters, whilst others argued that such a responsibility is *“too broad”* and should be carried by a team, board or committee.

53. Respondents' comments also raised concern. Some respondents perceived ethics and independence requirements of ED-ISQM 1 to be already fully covered and no change is required, whilst another respondent suggested that in a SMP such responsibility could be assumed at a lower administrative level.

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

54. (39 valid responses, thus the following answer is based on a response rate of 41% (39/95))

Seventy-four (74%) of the respondents indicated that ED-ISQM 1 appropriately addresses the responsibilities of the firm regarding the independence of other firms or persons within the network.

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

55. (44 valid responses, thus the following answer is based on a response rate of 46% (44/95))

Nearly all (95%) of the respondents believed that ED-ISQM 1 has been appropriately modernised to address the use of technology by firms in the SoQM. Respondents were comfortable with the principle-based nature of the requirement and one respondent commented that the principle-based nature of the requirement (which is not prescriptive) made it *“adaptable and scalable for all firms”*. Furthermore, respondents were familiar with the concepts because they used it in audits and they realized that technology continuously evolves and should be dealt with on a principle-basis.

56. Some respondents were more critical. They perceived the discussion on technology to *“generalized”* or even *“vague”* and that *“not enough detail direction is given”*. One respondent claimed that ED-ISQM 1 only covers situations *“where there is human intervention and not when is fully automated”*.

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?

57. (43 valid responses, thus the following answer is based on a response rate of 45% (43/95))

The majority (75%) of the respondents indicated that the requirements for communication with external parties would encourage their firms to exchange valuable and insightful information about firms’ systems of quality management with stakeholders and 65% of the respondents indicated their willingness to communicate via a transparency report. A respondent from a medium audit firm described transparency reporting as a *“useful tool in demonstrating that audit firms are adhering to quality standards and that they are focused on serving the public’s interest”*. A regulator respondent however questioned whether firms would exchange valuable and insightful information, arguing that from his viewpoint *“firms are not keen to share information”*. He ascribed firms’ reluctance to communicate with its stakeholders to them being *“scared that the clients will not understand the monitoring results properly and therefore the firm’s reputation may be affected”*.

58. Concerns were raised about the relevance of transparency reporting in the SMP environment. SMP respondents questioned whether their clients would find such communication beneficial. A big firm respondent acknowledged that bigger firms are already producing these reports, but the content remains questionable and guidance that is more prescriptive *“was hoped for”*. Other respondents shared this sentiment and requested more prescriptive guidance in terms of the information that needs to be communicated. One respondent stated that without proper guidance *“firms will only want to communicate positive outcomes”*.

59. Respondents raised other more general concerns. These included; whether firms would be willing to share such information with their stakeholders (especially clients may not understand monitoring and firms could suffer reputational damage), whether firms would be *“honest”* in their reporting, whether firms would avoid such reporting as a non-mandatory requirement to save costs and whether confidentiality requirements in terms of laws and regulations will be maintained. A respondent wanted

more information on who should be considered a firm's external stakeholders? Another respondent suggested that transparency reporting should become a requirement of regulators, such as the JSE.

- 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?

60. (41 valid responses, thus the following answer is based on a response rate of 43% 41/95))

83% of respondents agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review.

61. 75% of respondents however indicated a need for more guidance in the application material to assist them to determine which entities are of significant public interest. This is also evident in the mixed views held by respondents on which entities, within the South African context are significant public interest entities. 49% of respondents indicated that in their view entities of significant public interest will only include entities that meet the definition of a Public Interest Entity as contained in the IRBA Code of Professional Conduct. 7% indicated that they will have a narrower application than that provided in the IRBA Code of Professional Conduct and 44% of respondents indicated they will apply a wider application than contained in the IRBA Code of Professional Conduct.

62. Respondents suggested that significant public interest should be defined more clearly. A clear definition is also important from a regulatory perspective as one respondent commented "*there may be very small entities that somehow fall within the public interest definition and are not seen as significant public interest by practitioners, but regulators may be less accommodating and penalize firms on their interpretation thereof*".

- 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?

63. (45 valid responses, thus the following answer is based on a response rate of 47% (45/95))

More than ninety percent (95%) of the respondents believed that the proposals would improve firms' monitoring of the system of quality management as a whole. A respondent summarised as follows: "*monitoring is ... the most important*" for the effective functioning of a SoQM. Respondents commented that the extent to which the proposals would be implemented depends on the size of the firm and its resources. Monitoring also depends on the willingness of leadership to critically analyze the quality management system instead of just ticking off a list as per ISQC 1.

64. More than half (51%) of the respondents who supported the proposals to improve monitoring of the SoQM as a whole, questioned whether firms would implement the proposals. Most of the concerns expressed related to practical implementation issues in SMPs. Respondents from SMPs viewed the proposals as "*extensive*", "*time consuming*" and "*too expensive*", not being suitable for their practices. One respondent explained that firms would only implement the proposals when a regulatory inspection is due, while another respondent believed that firms would only "*re-shape what is already*

done to try and fit it into the new shape". Such thinking is not in line with the objective of ED-ISQM 1, and it could render the SoQM ineffective.

65. More than eighty percent (84%) of the respondents believed that the proposals would promote proactive and effective monitoring activities and would encourage the development of innovative monitoring activities. Examples provided by respondents of monitoring activities that their firms would implement include:

- A reward system linked to the results of monitoring activities
- Training on specific elements (e.g. IFRS 9) with a follow up review of files to evaluate the success of the training
- Quality questionnaires
- More in-process reviews (or continuous reviews) of audit files in contrast with cold reviews
- Extensive monitoring of audit partners who fail IRBA audit reviews consecutively.
- Unscheduled quality control reviews and the issuance of an unexpected quality control report.
- Extending file reviews to all types of engagements to ensure that quality is not only achieved on assurance engagements, but also for all other engagements undertaken by the firm.

(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?

66. (42 valid responses, thus the following answer is based on a response rate of 44% (42/95))

The vast majority (90%) of the respondents agreed with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis.

67. There was consensus in respondents' comments that inspection drives quality. A respondent suggested that firm's operational activities should be structured accordingly (giving partners sufficient time to participate in the engagement partner review process). Other respondents suggested that the focus of the inspection of completed engagements should be *"high risk public interest engagements"*.

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

68. (45 valid responses, thus the following answer is based on a response rate of 47% (45/95))

Sixty two percent (62%) of the respondents indicated that the framework was clear to evaluate findings and identify deficiencies. Respondents suggested that the diagram included in the explanatory memorandum be included as an appendix to ED-ISQM 1.

69. Those respondents (37%) who indicated that the framework was not clear, requested more guidance, or examples, to distinguish between a finding and a deficiency. Some of these respondents perceived the identification of a deficiency as being *"subjective"*, *"tricky"* and *"challenging"*. Furthermore, the concern was raised that some identified findings would not translate into deficiencies. This notion is evident in the following comment: *"there is absolutely no way that people*

will actually admit deficiencies exist, the process is flawed as findings will be down played". Respondents believed that such conduct would negatively influence the remediation process, and would result in firms not performing a root cause analysis.

70. From a regulatory perspective, the subjective nature of identifying a deficiency was also a concern for respondents. This is evident in the following comment from one respondent: *"how will you defend yourselves during regulatory reviews if the reviewer disagrees because of professional judgement"*. A regulator respondent also alluded to differences in opinion and commented as follows: *"I foresee many instances where people will down play the findings to indicate these are not deficiencies thereby bypassing the system"*.

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

71. (42 valid responses, thus the following answer is based on a response rate of 44% (42/95))

The performance of a root cause analysis is not a new requirement in the South African context and 48% of respondents indicated that their firm's current monitoring and remediation process included the performance of a root cause analysis. Of these respondents, 22% indicated that their firms root cause analysis included an investigation of positive findings.

In particular:

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

72. (36 valid responses, thus the following answer is based on a response rate of 38% (36/95))

Nearly two thirds (64%) of the respondents indicated that the nature timing and extent of the procedures to investigate the root cause of identified deficiencies were sufficiently flexible, while the remaining 36% of respondents held a contrasting view.

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

73. (40 valid responses, thus the following answer is based on a response rate of 42% (40/95))

Sixty eight percent (68%) of the respondents indicated that the proposals in ED-ISQM1 would encourage their firms to investigate the root cause of positive findings. More than half of the respondents (54%) agreed that it is not necessary for ED-ISQM 1 to have an explicit requirement to investigate the root cause of positive findings.

- (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?

74. Respondents questioned the practicality of this requirement and various concerns were noted. Some respondents questioned how reasonable assurance over the SoQM would be determined and requested more guidance on the type of procedures that would provide sufficient appropriate evidence to conclude. One respondent suggested that *"limited assurance"* would be more appropriate and another respondent suggested *"there should be an except for option available for making this conclusion"*.

75. Other respondents suggested that this function cannot be performed by the firm and should be outsourced to an independent party. For example one respondent asserted: *“the concept of a firm giving itself the green light on its own internal quality management system when the concept of providing reasonable assurance on something involves an independent party”*.
76. Respondents also questioned the logic. They argued that the individual assigned with the ultimate responsibility and accountability for the SoQM would be reluctant to provide a negative assessment, as it would reflect negatively on the individual's performance. This reasoning is clear from the following two comments: *“who is going to respond “no” to this” “the issue would rather be whether that person would be comfortable in giving any answer other than Yes”*.
77. From a regulatory point of view, respondents raised some challenges based on the premise that reasonable assurance is subjective. They questioned how inspectors would challenge firms on their assessments and how firms would manage such challenges on their assessments.

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?

78. (37 valid responses, thus the following answer is based on a response rate of 39% (37/95))
 Nearly two-thirds (65%) of the respondents supported the proposals addressing networks. These respondents supported more guidance (*“it is good to have more guidance as to the requirements applicable to network firms”*). It makes it clear that firms cannot *“just blindly rely on networks”*. One respondent expressed concern that *“firms join a network for the benefit of receiving guidance/manuals from the network to assist them in complying. I foresee that networks would have to be more explicit in how they are achieving the requirements of the ISQM”*.

79. Other issues were raised and include (1) that the same standards are not enforced across a network, (2) firms will find a way to circumvent networks and structure items to their advantage, (3) the benefit of network firms could decrease and *“it might lead to duplication”* and (4) requirements cannot be developed for network firms and therefore the requirements should be at firm level.

14) Do you support the proposals addressing service providers?

80. (34 valid responses, thus the following answer is based on a response rate of 36% (34/95))
 The vast majority (94%) of respondents supported the proposals included in ED-ISQM 1 addressing service providers.

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?

This question did not form part of the survey.