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Professor Arnold Schilder
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue
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Our ref SRA/288

1 July 2019

Dear Professor Schilder

Re: Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB. We have consulted with, and this letter represents the views of, the KPMG network.

We recognise the significant effort and detailed considerations that the IAASB has made in developing the proposed revised standard and appreciate its outreach to key stakeholders. We are supportive of the objectives of the IAASB regarding this project and recognise the importance of a firm's system of quality management (SoQM) to audit quality.

Our overarching comments, which provide our views on key aspects of the proposed standard, are set out below. The appendix to this letter provides our responses to the specific questions posed in the ED.

We believe that the proposals represent considerable enhancements to the extant standard, as it provides a robust risk-based approach to establishing and evaluating the SoQM that forms the foundation for consistent engagement quality. We are generally supportive of the changes proposed in the ED, however, we set out below areas of concern regarding certain amendments as well as suggestions for further consideration and clarification to drive consistency in the interpretation and implementation.

Approach to Quality Risks and Objectives

We are supportive of the enhancements to the extant standard in introducing a risk-based approach to quality management requiring the identification of quality objectives, quality risks and relevant responses to those quality risks.

However, the ED's approach to prescribing required responses without having prescribed risks may cause confusion, as it may be viewed as counter-intuitive to not have the related risks as required in the risk-based approach.

In addition to the above, we also note there is an inconsistency in the level of granularity of the various prescribed responses between the components. For example, some components, such as "Resources" contain no prescribed responses, some components, such as "Relevant Ethical Requirements", contain very detailed control descriptions such as 33(d), whilst others are higher level, such as 33(b). While we understand the IAASB's preference to retain the existing requirements from extant ISQC1 (in the form of required responses), we propose deleting prescribed responses from the requirements and including these into the Application Guidance of the ED.

Scalability

We support the objective of the IAASB to allow scalability and to enable firms to apply it in a manner that is commensurate with their size and the nature and complexity of engagements they perform. However, in our view in aiming to be scalable the standard has introduced elements of flexibility that may result in differing interpretations of what the SoQM is intended to accomplish and may drive inconsistent implementation. Therefore, we believe it would be beneficial to include more examples in the Appendix to the standard on how to apply it for a large and complex audit firm and a small and non-complex audit firm, with guidance regarding factors to consider between the two. We believe this will facilitate the consistent application of the standard.

Deficiencies

We do not believe the ED is sufficiently clear concerning the definition of findings deficiencies, their interaction, and the consistency of the use of these terms. In addition, we understand that a definition of "significant deficiencies" was eliminated from a previous draft of the standard in order to reduce complexity. We believe it is important for the revised standard to include a clear definition of "deficiencies" and how to assess their impact on the overall evaluation of the effectiveness of the SoQM.

Given the lack of clarity, this could lead to inconsistencies in what audit firms identify as findings to further evaluate, how audit firms evaluate deficiencies and the impact on the overall assessment of the effectiveness of the SoQM. Whilst we recognise this requires application of judgement, in order to drive consistency in the implementation, as

included above, we believe that it is important the revised standard include definitions for both “findings” and “deficiencies”, and the criteria for consideration to evaluate the impact of those deficiencies in determining whether the SoQM provides reasonable assurance that the objectives of the standard have been achieved.

Furthermore, we propose the standard also includes a clear statement that: not all negative findings, from the performance of monitoring activities, constitute a deficiency in the SoQM that would require audit firms to perform root cause analysis, and the view of the IAASB in paragraph 68 of the explanatory memorandum that “findings that do not rise to the level of a deficiency do not need to be subject to additional actions, such as investigating the root cause of the finding or remediating the finding”.

Documentation of system of quality management

The ED does not explicitly reference a requirement to “test” operating effectiveness of the SoQM’s controls (performance or documentation). We believe that in order to conclude that the SoQM provides reasonable assurance that the objectives of the standard have been achieved, some element of testing the operating effectiveness of the controls within the SoQM would need to take place. Testing can take many forms and, as such, we recommend that the standard clarify the requirements related to testing of operating effectiveness and provide some examples of the forms those tests could take. Without a clear statement, the ED is open to misinterpretation and inconsistent implementation by audit firms.

Monitoring of completed engagements

We acknowledge that the IAASB expressed the intention to enhance monitoring activities to address a broader base than completed engagements e.g. in-process monitoring is now part of the monitoring and remediation component. However, despite the increased emphasis on other monitoring (e.g. in-process monitoring) the requirements still require a cyclical review of “completed” engagements for each engagement partner, and the Application Guidance to the ED still includes a reference to a 3-year cycle for monitoring of completed engagements which we assess as explicit and granular guidance and, therefore, may be interpreted as a “de facto” requirement.

Enhancing other monitoring, including in-process monitoring activity, gives an opportunity to employ a risk-based approach to monitoring, one which embraces technological developments enabling better in-process monitoring, and reduces the need for the strict requirement for completed files monitoring on prescribed timeframe. In keeping with the risk-based concepts underpinning the ED, we would support the standard enabling a risk-based approach to monitoring of completed engagements and in-process engagements, rather than a requirement to review completed engagements and a prescribed period. We would also support removing reference to the 3-year cycle as this may detract from the aims of the risk-based approach of the standard and



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recommend replacing with “on a basis determined by the firm”. Such an enhancement would improve the scalability of this requirement.

Implementation Date

The ED proposes significant changes to the extant standard and will have broad reaching implications. Given the significance of the changes that the IAASB is proposing we believe that consistent implementation, to meet the objectives of the changes, will require that firms are given sufficient time to implement the new requirements to achieve the intended objectives of the IAASB. We agree with the IAASB comment in the Explanatory Memorandum that “*rushed implementation may exacerbate risks to quality ...and would be inconsistent with the objectives of the quality management standards*”.

Please contact Sheri Anderson at +44 (0) 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

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Copy: Len Jui, KPMG LLP

Appendix: Responses to Questions

Overall Questions

1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:

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

We are supportive of the ED and in particular we support the intention to move towards an approach to drive identification and proactive management of risks, with an emphasis on addressing the more significant risks, with more targeted and relevant responses. We believe a risk-based approach provides an appropriate framework that, if well executed, should result in a more relevant and comprehensive SoQM. We have set out throughout this response specific considerations for the Board to clarify a number of requirements.

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?

We believe that the ED covers the appropriate components that support and drive audit quality at the engagement level. In our view the proposals will benefit engagement quality by providing a framework for the identification of quality risks and appropriate responses.

We support the emphasis on professional skepticism in paragraph 36(b) of the Engagement Performance component. However, we believe the aim of ISQM1 is to help support the appropriate exercise of professional skepticism by creating an environment and culture that supports and enhances the application of professional skepticism. We therefore encourage the Board to consider emphasising the exercise of professional skepticism within paragraph 23(a) of the ED, as well as including a clear reference between ISQM1 and ISA 220, where professional skepticism is appropriately dealt with in detail.

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?

We understand that the element of flexibility in the ED is important to achieving scalability. A risk-based standard should be self-scaling to enable audit firms to customise their SoQM. Whilst the ED includes some consideration of the size and nature of the audit firm or its services, as mentioned in our overarching comments, the inclusion of predetermined responses in our view may limit the scalability and the design of the framework as “risk-based”.

We also note that the counter-intuitive approach (as mentioned in our overarching comments) taken in the ED of prescribing responses (in certain components) contradicts the scalability ambitions and the approach of customising the SoQM based on the audit firm’s own circumstances and risks. The ED requires audit firms to “proactively identify and respond to risks” however the pre-determined responses included in the ED may be interpreted as implying that a response is necessary, even if a relevant risk is not identified for an audit firm. We view this as a contrary to the proactive risk management approach of the ED. We believe the inclusion of prescribed responses could hinder scalability by requiring audit firms to implement a response when there is no related identified risk.

As we noted in our overarching comments, the inconsistency in the level of granularity of the various prescribed responses makes the ED overly long and complex. In our view a simpler, concise, more scalable standard would be one that does not prescribe a set of responses. However, as mentioned above we understand the IAASB considerations regarding the preference to retain existing requirements (responses) from extant ISQC1.

2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

We view the following as some of the emerging implementation challenges:

- We note that there are, in practice, varying degrees of severity of deficiencies (discussed further in 12.c), therefore the ED requires clarification regarding the framework for findings and deficiencies in the SoQM, including guidance on determining what is a “finding” versus a “deficiency” and some recognition of the various degrees of severity of deficiencies.

- We believe it is important, given the significant changes to the extant standard that will have broad reaching implications and the extent of change and preparation necessary that audit profession is given sufficient time to get the design and implementation right. We agree with the IAASB comment in the Explanatory Memorandum that *“rushed implementation may exacerbate risks to quality ...and would be inconsistent with the objectives of the quality management standards”*. We believe the proposed 18 month implementation window is challenging for the profession given the extent of the changes proposed by the ED.
- We believe the ED is not sufficiently clear as to the level or extent of documentation required to evidence that the controls designed to respond to quality risks are operating effectively, which could lead to inconsistencies in interpretation and application by audit firms. We view this as potentially driving inconsistent levels of documentation which brings a risk that the standard has the opposite effect to that intended, i.e. it is viewed as more compliance-based approach rather than a risk-based approach to quality management.
- We are supportive of paragraph A.211 that states *“it is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management”*, however, we believe audit firms will benefit from clarification in this regard. A helpful counter balance to this statement might also be to include, in the Application Guidance, the concept within the COSO framework that states, *“it is important to keep in mind that controls, such as those embedded within monitoring activities or risk assessments, cannot be performed entirely within the minds of senior management without some documentation of management’s thought process and analyses”*.
- The ED does not explicitly reference a requirement to “test” operating effectiveness of the SoQM controls (performance or documentation). However, in order to conclude the SoQM is operating effectively, some element of testing the operating effectiveness of the controls within the SoQM would need to take place. Absent a clear statement to this effect, the ED is open to misinterpretation and inconsistent implementation by audit firms.

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?

We find the application material to the ED to be well written and helpful. It provides guidance around the nature of the objectives and respective responses, which could be used by audit firms when implementing responses

and scaling the relevant responses to the circumstance of the audit firm (e.g. ISQM 1.A32 clarifies that assignment of roles and responsibilities depends on the complexity of the firm and provides an example of various implementation depending on the size and complexity of the firm, i.e. a smaller firm may have only one managing partner as opposed to a larger firm with multiple levels of leadership).

We also note that some of the statements and graphics included in the Explanatory Memorandum section of ED are beneficial to understanding an interpreting the ED, such as the “house” image.

We have highlighted some examples throughout this response where additional materials may be helpful, including highlighting some of the content from the Explanatory Memorandum that we would recommend including in the standard.

Specific Questions

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

We support the eight components and the structure of the ED. We particularly find the addition of two new components (to those in ISQC1), Risk Assessment Process and Information and Communication, and the enhancements to Resources a positive change, as they reflect topics that continue to be relevant to quality management and link to the management of quality at the engagement level.

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?

We support the objective of the ED. We believe the firm’s role related to the public interest is clear and that this is served by the consistent performance of quality engagements. We believe that including the Information and Communications component, encouraging transparency, is a positive step towards enhancing an audit firm’s public interest role through more robust communications.

6) Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:

a) Do you agree that the firm’s risk assessment process should be applied to the other components of the system of quality management?

Yes, we agree that the firm's risk assessment process should be applied to the other components of the SoQM. As mentioned in our overarching comments, a risk-based approach provides for scalability and designing a SoQM that responds to the circumstances of the particular audit firm.

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

i. Are the required quality objectives appropriate?

Yes, we believe the required quality objectives are appropriate. They cover the aspects of the SoQM in sufficient detail and are equally applicable for larger audit firms and smaller audit firms.

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

It is clear that an audit firm is expected to establish additional objectives when necessary to achieve the overall objective of standard. We therefore understand there could be certain circumstances that would require an audit firm to establish additional quality objectives beyond those required by the standard.

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

We support the new risk-based approach to quality management. However, as described in our overarching comments, we find it counter-intuitive to the risk-based approach that there are no risks set out in the ED and yet the ED includes required responses.

We agree with the approach set out in the ED to identify the reasonable possibility of occurrence and significance of the effect when evaluating identified quality risks, thereby allowing audit firms to focus resources on risks that will have a significant impact on achieving the objective of the standard.

However, the interpretation of various elements of the ED and the assessment of those risks requires judgement, and therefore may drive inconsistent implementation by audit firms. Additional guidance may be helpful in particular related to paragraph 28 of the ED, including a description of what is considered to have a "significant effect" on the achievement of a quality objective(s).

We note that paragraph 32 of the Explanatory Memorandum states that the “IAASB is of the view that a consistent approach to identifying and assessing risks helps to reinforce key concepts of a risk based approach” and therefore the approach taken in ISQM1 for identifying and assessing risks echoes ISA 315 – *Identifying and Assessing the Risks of Material Misstatements*”. However, this presents challenges that in an audit engagement “significance” is grounded in financial statement materiality, while no such evaluation tool is provided in the ED for assessing significance.

d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks?

We support the approach in the ED to designing and implementing responses to address the assessed quality risks.

However, the definition of responses currently included with the ED includes policies or procedures, but does not explicitly refer to controls. We would welcome further clarification of the meaning of the view that “responses to quality risks are analogous to controls” as included in paragraph 36 of the Explanatory Memorandum, and encourage the Board to reflect this concept in paragraphs A59-64 of the Application Guidance.

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?

We agree with the concept of proactively identifying risks and designing and implementing responses to address only those risks that warrant it (i.e. the assessed risks). However, and as mentioned in our response to question 1.c) above we find it counter-intuitive that in some cases the ED prescribes required responses without identifying the risks they are addressing.

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?

We believe the ED is clear that the firm is expected to design and implement responses in addition to those required by the standard, however we note and as included in our overarching comments, the inconsistency in the level of granularity of the various prescribed responses between the components. For example, some components, such as “Resources” contain no prescribed responses, some components, such as “Relevant Ethical Requirements”, contain very detailed control descriptions such as 33(d), whilst others are

higher level, such as 33(b). While we understand the IAASB's preference to retain the existing requirements from extant ISQC1 (in the form of required responses), we would propose deleting prescribed responses and including these into the Application Guidance of the ED.

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

We believe the ED is clear that responsibility lies with the Senior Leadership of the audit firms. We also believe it is clear that operational responsibility may be delegated, however ultimate responsibility and accountability for the SoQM is retained by Senior Leadership. We are supportive of the enhancements made in the ED as it drives a focus on accountability and achieving the correct quality focused mindset.

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?

We believe that the IAASB has included the Independence role to retain existing ISQC1 requirements, however, given the focus and emphasis on SoQM Leadership roles within the Governance and Leadership component of the ED, we believe that the Independence role does not need to be separately identified or treated in a different way than other leadership roles existing within the SoQM.

We believe it may be more appropriate to address the assignment of responsibility for both independence and ethical requirements in the IESBA Code of Ethics. If the IAASB determines that either role should be addressed in ISQM1, we believe a cross reference to the IESBA would be sufficient and appropriate clarification.

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

Paragraph 33(a) states that the firm's responses must include: "*Identifying the relevant ethical requirements and determining the applicability of the relevant ethical requirements to the firm, its personnel and others, including, as applicable, the network, network firms, personnel in the network or network firms, or service providers*". We believe this matter is dealt with at a sufficiently

high level within the ED and believe that such matters should be covered in more detail by the IESBA Code of Ethics and cross-referred in the standard.

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

We believe that including technology resources as part of the “Resources” component, will emphasise the importance of technology, and quality management of it, in modern day audit.

However, as technological resources is a new component of the SoQM we would welcome more clarity in paragraph 33(e), or within the Application Guidance, with respect to the nature and extent of technological resources that would be within the scope of the standard. The ED should clearly state the extent to which technological resources that are to be documented as part of the SoQM are those that are specifically designed to enable the performance of engagements as well as the overarching SoQM – which would therefore include independence tools, performance management tools, audit delivery tools, etc.

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?

We are supportive of enhanced communications and agree with the inclusion of “Information and Communication” as a new component within the ED. We believe a principles-based approach that provides flexibility is important within this component given the wide and differing range of internal and external stakeholders.

While we support transparency and the objectives of communication with external parties, we propose deleting the specific reference to “*transparency reports*” in paragraph 41(c)(iv) as it could be construed that these reports are mandatory.

11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

We are supportive of the proposals addressing the scope of engagements that should be subject to an engagement quality review and agree the approach of allowing flexibility for the audit firms to determine the entities that are of significant public interest for the purpose of requiring an EQCR. Such flexibility allows firms to identify the population that would be Significant Public Interest within their

jurisdiction, and hence respond to local legal and regulatory requirements that may not be applicable globally.

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?

Taken as a whole, we believe the proposals are explicit and promote different approaches to monitoring, including more continuous, proactive monitoring processes.

Our specific comments related to elements of the monitoring and remediation component are set out below.

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?

We acknowledge that the IAASB expressed the intention to promote the importance of in-process monitoring activities, e.g. paragraph 45(b) states that: "Engagement inspections may include the inspection of in-process or completed engagements".

Monitoring completed elements of in-process engagements can often be more proactive and preventative than monitoring completed engagements. However, the continued focus on completed engagements in the ED may reduce the ability of audit firms to dedicate resources to more innovative, timely and meaningful forms of monitoring and may inhibit efforts to design more innovative approaches to preventative, real-time, in-process monitoring. We believe the standard should support a risk based approach to monitoring of engagements to enable firms to focus effort and resources on monitoring of the remaining components of the SoQM. However, we do recognise the importance of inspections of completed engagements as other types of review do not allow for the overall "stand back" view of an engagement.

As mentioned in our overarching comments, paragraph A169 of the Application Guidance to the ED still includes reference to a 3-year cycle for monitoring completed engagements which, being explicit and granular, we believe may be interpreted as a "de facto" requirement. We believe monitoring over the whole

SoQM under the new standard is likely to require significant resources, in addition to maintaining monitoring over completed engagements, as required by the current ED. In keeping with the risk-based concepts underpinning the ED, we would support a risk-based approach to monitoring, of both completed engagements and in-process engagements, rather than a requirement to review completed engagements over a prescribed period. We would support removing reference to the 3-year cycle as this may detract from the aims of the risk-based approach of the standard and recommend replacing with “on a basis determined by the firm”. We would recommend IAASB to include guidance in the Application Guidance that may help audit firms to determine the appropriate cycle. Such an enhancement would improve the scalability of this requirement.

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

We suggest the IAASB provides further clarity with regard to the definition of, and guidance on, identifying deficiencies and evaluating findings. In particular, we note the following:

- It would be helpful to provide a definition of the term “findings”, as audit firms may not interpret findings in the same way given the various interpretations that already exist within different jurisdictions.
- The ED contains no threshold of the extent to which findings constitute deficiencies. We propose the Board add to the ED the definition of the term finding included in A.172 of the ED.
- We believe the wording of paragraph A.174 which states that a negative finding is not always indicative of a deficiency in the SoQM is an important statement and it should be in the standard.
- The ED does not distinguish or establish any severity of deficiencies making it challenging to evaluate individual deficiencies and also to conclude, at least annually as required by the ED, on the overall SoQM. We recommend that the IAASB includes additional guidance on evaluating the severity and pervasiveness referred to in paragraph 55(a) and supporting Application Guidance paragraphs A.183-185.
- We recommend that the standard provides guidance explaining factors to consider in understanding the difference between a deficiency and a significant deficiency.
- We believe the ED is not clear on the impact of deficiencies on the overall assessment of the effectiveness of the SoQM. Whilst we recognise this

requires application of judgement, in order to drive consistency in the implementation, we believe that it is important that the ED include a clear definition of deficiencies, and the criteria for consideration to evaluate the impact of those deficiencies in determining whether the SoQM provides reasonable assurance that the objectives of the standard have been achieved. Paragraph 75 of the Explanatory Memorandum references “circumstances when there is an indication that the system is not effective”. Further examples or indicators of when a firm’s SoQM is not effective would be helpful. We suggest that the IAASB explores whether, in the event of deficiencies, a robust, well documented remediation plan addressing the deficiencies, put in place before the date of the assessment, would be considered sufficient to conclude the SoQM provides reasonable assurance that the objectives of the standard are achieved, even where the remediation plan may not have fully remediated issues by the date of the assessment.

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

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

We think a robust root cause analysis of deficiencies is critical, but agree that audit firms should be able to perform this in a manner that is responsive to the nature, extent and severity of findings, both individually and in aggregate. The ED strikes the right balance by requiring audit firms to set policies and procedures around root cause analysis, which gives sufficient flexibility as to the nature, timing and extent of the procedures to investigate the root cause and therefore we are supportive of this approach.

We are supportive of the statements within paragraphs A.174 and A.178 which clarify that not all negative findings are a deficiency in the SoQM, and therefore not all findings require performance of root cause analysis. We believe it would be helpful to also include this statement in the standard itself.

As noted in our overarching comments we do not believe the ED is sufficiently clear concerning the definition of “findings” and “deficiencies”, their interaction, and the consistency of the use of these terms, an example of this would be paragraph A.180. We also believe it would enhance consistency of interpretation if the standard included a clear specific statement in Paragraph 51 (and A.185) echoing the IAASB view in paragraph 68 of the Explanatory Memorandum that “findings that do not rise to the level of a deficiency do not need to be subject to additional actions,

such as investigating the root cause of the finding or remediating the finding”.

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

We are supportive of root cause analysis including consideration of positive findings as an input to the process and believe it is appropriate to emphasise the benefits of including positive findings as an input when performing root cause analysis. We also believe that it is important to allow audit firms to develop a root cause analysis approach that is responsive to the nature, extent and severity of findings, both individually and in aggregate.

e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

We are supportive of an evaluation of the SoQM, though recognise that monitoring of the SoQM will be a continuous, year-around cycle. As such, matters related to the evaluation of the overall SoQM, referred to in paragraph 56, warranting clarification in the Application Guidance are as follows:

- Inclusion in the ED of the term “*at least annually*” could be interpreted as actually meaning that a more frequent evaluation is the expectation. We are unclear whether the expectation of the ED is for audit firms to undertake this evaluation more frequently.
- It is unclear whether the date of the annual evaluation of the overall SoQM is “as of” a certain date versus over a period of time, such as “for the year ended” date.
- As noted in our answer to question 12.c) above, we recommend the standard clarifies the role of remediation plans in the overall evaluation of the SoQM. In particular, clarification would be welcome on the extent to which a robust remediation plan in place would be considered sufficient to conclude positively on whether the SoQM provides reasonable assurance that the objectives of the Standard have been achieved.

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?

We welcome paragraph 58 of the ED which is clear in stating that each audit firm within a network remains responsible for its SoQM, whilst also clearly requiring the audit firm (within the network) to understand the requirements established, and services or resources provided, by the network.

Paragraph 63(b) requires the audit firms within a network to “*understand whether the network’s remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s)*”. We note that the extent to which an audit firm may arrive at their conclusions about effectiveness or remediation and plans implemented at a network level (when not directly part of the process) will be dependent on the level and quality of information received from the network on a timely basis. However, the ED does not explain what would be considered ‘*undue reliance on network requirements or network services*’ as described in Explanatory Memorandum paragraph 77.

14) Do you support the proposals addressing service providers?

We agree with the inclusion of service providers into the scope of the ED. However, we would welcome further examples on what service providers are expected to be in scope. For example, if an audit firm purchases “off the shelf” software and the vendor supplying the software and maintaining is considered a service provider (e.g. the software is supported and managed by a third party and not in-house for the audit firm), we would welcome further guidance and examples on the requirements for testing and documenting the controls around such software.

15) With respect to national standard setters and regulators, will the change in title to “ISQM” create significant difficulties in adopting the standard at a jurisdictional level?

We believe the name change reflects the nature of the new standard and do not believe it will create any difficulties in adopting the standard.