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Submitted via IAASB's website

Zurich, 15 July 2019

IAASB's Request for Comments: "Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews"

Dear Sir

We thank the IAASB for the opportunity to give our view on the important subject of the quality management at the firm and engagement level, including engagement quality reviews and for the extension of the submission deadline. We hereafter provide you with our comments on your respective Request for Comments: "Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews".

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as some 800 professional services firms managed by them. Our members are directly affected by the implications which are discussed in your document and in this regard we comment on the proposals as follows:

1. General Remarks

As a member of IFAC we welcome that the IAASB is reflecting the important subject of quality control and quality management at the firm and engagement level, including Engagement Quality Reviews (EQRs) and we see quality as an important subject to promote the relevance and reputation of audit and assurance as well.

We encourage the IAASB's endeavours to improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and to put an emphasis on the performance of engagement quality reviews. Furthermore, we highly welcome the IAASB's focus on scalability of the quality management standards as the majority of our members as well as the majority of members of the global profession are SMPs.

Nonetheless, we also have concerns. We have seen a tremendous increase in complexity of International audit, assurance and quality control standards over the last decade and we doubt that ever more elaborated standards per se increase the service delivery and audit quality. We

observe that it has become very difficult for smaller practices as well as sole practitioners to digest and implement those standards and any changes to them. In our view, this has led to some resistance in the SMP arena and also to the ongoing debate about scalability and appropriateness of International Standards in less complex environments. This has just recently led the IAASB to issue a Discussion Paper titled “Audits of Less Complex Entities - Exploring Possible Options to Address the Challenges in Applying the ISAs”. The IAASB herewith recognizes the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the International Standards on Auditing. However, a comparable discussion on the issues of complexity, proportionality and “fit for purpose” of quality control or quality management standards has not been initiated by the IAASB, at least to our observation.

We urge the IAASB to start a debate on these strategic issues as well. In the aforementioned discussion paper, developing a separate auditing standard for audits of less complex entities has been described as a potential possible action. We would like to see the IAASB also discuss whether a separate quality control standard for SMPs would also be an option.

In our opinion, the existing ISQC 1 is a robust standard with broad international application and acceptance. We therefore ask whether a total new quality approach is necessary, at least in the SMP environment. Has the current standard failed to deliver on its promise and purpose? One might guess so, considering that the proposed revised standard has more than doubled in size (and one must not forget that the newly developed ISQM 2 adds on top to this). We therefore ask ourselves whether the proposed new standard is fully applicable in the SMP arena and whether scalability is sufficiently given.

2. Specific Remarks

Notwithstanding the foregoing we would like to share the following specific thoughts:

Regarding the proposed implementation period of 18 months, EXPERTsuisse in general supports this in case of auditors of public interest entities, but proposes to extend the implementation period for SMPs, as they lack the internal resources to implement radical changes to the quality control procedures.

In the opinion of EXPERTsuisse, practical examples as well as FAQs and perhaps easy-to-use templates and checklists would be most helpful for SMPs to enable them to implement the new quality management standards. For national standard setters “track change” versions of the standards, which are revised (e.g. ISQC 1 and ISA 220), would be useful to better identify the new requirements and be able to develop guidance and support materials for local SMPs. The implementation material for SMPs should focus on the proportionality and scalability elements of the standards’ application. Again, we would be supportive of a separate quality control standard for SMPs and would also like the IAASB to discuss whether the existing ISQC 1 could be “frozen” for SMPs, i.e. auditors with less complex audit engagements.

“Outsourcing” the issue of a firm’s engagement quality review (EQR) into a separate standard (ISQM 2) is understandable and in line with the aspect of scalability, as engagement quality reviews are primarily an aspect of more complex audits, as seen in the segment of Public Interest

Entities (PIEs). However, care must be taken not to overemphasize the role of the EQR, in contrast to the role of the firm and the role of the engagement partner. EQR is one potential response to quality risks in engagements but there are also other possible responses which should not be neglected compared to an EQR, especially for SMPs.

Regarding the scalability of the requirements and application material of proposed ISQM 1, in our opinion scalability is principally embedded but we would like to point out that the requirement to document the reasons why certain elements of the quality management system are not adopted means an additional (maybe not useful) effort for audit firms. We therefore suggest taking a different focus, which means to compose the standard from the view of SMPs and to add certain (mandatory) requirements for larger practices on top of these basic requirements. In our opinion International Standards sometimes miss the “bottom up”-approach, but to the contrary are designed from the perspective of larger practices auditing PIEs, leaving SMPs with difficulties in downsizing the requirements to their specific situations.

Perhaps for some practitioners it is not clear enough what needs to be done in the future on top of the currently performed procedures under ISQC 1. Practitioners will be looking out for new requirements and will search for differences between ISQM 1 and ISQC 1. Therefore, it would be helpful if the IAASB would share information on the significant changes made to its standard(s).

In general, we believe that the required quality objectives are correct, but the list of quality objectives is very exhaustive, and we would support an approach with fewer quality objectives per quality management area, but strong and overarching objectives.

Paragraph A54 of ED-ISQM 1 states that “not every quality risk needs to be identified and further assessed”. This statement is key regarding the scalability of the standard, whereas the likelihood of occurrence of a quality risk defined as “more than remote” leaves room for interpretation.

Principally it is clear, that the firm in certain circumstances is expected to establish additional quality objectives beyond those required by the standard. Perhaps it would be helpful for SMPs if it would be clearly worked out that, for SMPs in general, no additional quality objectives are likely to be needed.

In general, we support the process for the identification and assessment of quality risks as it is very prescriptive and does not leave a lot of room for interpretation, though it may be difficult for SMPs to apply.

Generally, it is clear that the audit firm is expected to design and implement responses in addition to those required by the standard. It seems also clear in ED-ISQM 1 that the firm is expected to establish additional quality objectives beyond those required, in certain circumstances only. It would improve scalability if the IAASB made it clear that, for many smaller firms, no additional objectives are likely to be needed.

Regarding the aspect of modernization of ED-ISQM 1 to address the use of technology by firms in the system of quality management, in our view this subject has been well addressed. As smaller firms may not be at the same stage as larger ones regarding access to and use of technology, the modernization of ED-ISQM 1 must be designed to allow for a scalable application.

In our view the requirements for communication with external parties do promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. A transparency report may not be compulsory according to local regulations but EXPERTsuisse supports the encouragement of this instrument as it addresses the public interest and helps to improve the value and relevance of the audit. However, we would suggest to better place these explanations outside the standard as these are not mandatory and this would streamline ED-ISQM 1. Also, transparency reporting should be limited to audit firms with a strong exposure to PIEs and the content and structure of such reporting should be left to the discretion of the audit firm.

We would like to point out that perhaps the differentiation between findings and deficiencies is not clear enough for every practitioner. Some firms might classify every finding as a deficiency, while this is not intended by the standard. We encourage the IAASB to better work out the criteria for the differentiation between a finding and a deficiency.

In our opinion, for smaller and probably also for mid-tier firms a three-year evaluation of the system of quality management should be enough and this could be mentioned in ED-ISQM 1 – as it is the case in present ISQC 1.A66 - so that the practitioners have a practical guideline in this regard.

Principally, EXPERTsuisse supports the separate standard ED-ISQM 2 for engagement quality reviews. Nevertheless, we would welcome to differentiate more clearly between the responsibilities of the engagement quality reviewer and the ones of the firm. The limits of the role of the engagement quality reviewer should be properly defined.

In general, we support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the same but see some challenges for SMPs in this regard. We encourage the IAASB to reconsider the requirements for eligibility in straightforward audits and to express this differentiation clearly in the standard itself. In general, we are supportive of the idea of a “cooling-off” period for an auditor before being able to act as the engagement quality reviewer for reasons of independence. In our view, an appropriate “cooling-off” period would be two to three years for the engagement quality reviewer himself and one to two years for an assistant to the engagement quality reviewer. However, in our opinion, this guidance should be located in the IESBA Code of Ethics as the IESBA Code should remain the only reference document regarding independence regulation and there is no need to duplicate such requirements in another standard.

In our opinion, the ED-ISQM 2 does not propose a scalable approach to the work programme of the EQR. We think that the standard should be clearer on the fact that the work programme should be tailored to the firm's quality risks and their potential impact in the individual engagement circumstances.

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity and welcome the fact that a separate standard is established for engagement quality reviews as this subject rather concerns audits of listed entities or entities that are of significant public interest. Nevertheless, separate sections in the standard which show facilitations for SMPs would be helpful in adoption of the standard in this area.

In ED-ISA 220 (revised) we welcome the provisions in paragraph A14 and A15 for small and medium sized practices, e.g. that a smaller firm's policies and procedures may be less formal.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Kind regards

EXPERTsuisse



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