



International Organization of Securities Commissions
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Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

18 July 2019

Mr. Thomas Seidenstein
Chairman
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2019/MS/C1/IAASB/31

**IAASB: Proposed International Standard on Auditing 220 (Revised)
Quality Management for an Audit of Financial Statements;
Proposed International Standard on Quality Management 1 (Previously International
Standard on Quality Control 1),
Proposed International Standard on Quality Management 2
Engagement Quality Reviews (Previously International Standard on Quality Control 2)**

Dear Mr. Seidenstein,

Tom
The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to provide input on the International Auditing and Assurance Standards Board's (IAASB's) *Proposed EDs on ISA 220, ISQM 1 and ISQM 2*. As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing matters, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



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Overall Comments

We support the IAASB in renewing and clarifying the requirements regarding quality management at both audit firm and audit engagement level, as well as the role of the engagement quality reviewer. Equally we believe that adopting the term “quality management” better describes the activities covered by the proposed ISQM 1 and ISQM 2.

We believe that the introduction to ISQM 1 provides more insight into the perspective of the ambitions and intent of the new standard ISQM 1 than the actual material contained in the standard. For proper balance we suggest that this perspective should also be reflected in the wording of the standard, particularly in the requirements and application materials which may be adjusted accordingly.

For convenience, the areas that Committee 1 members believe should be addressed by the IAASB in finalizing ISA 220, ISQM 1 and ISQM 2 are numbered. The order of appearance of the below mentioned items does not represent the level of priority. All items included are considered to be of relevance and significance.

No.	Item	Reference	Comments
1	Addressing public interest considerations	Introduction of ED ISA 220, ED ISQM 1 & ED ISQM 2	<p>The explanatory memoranda to the draft standards put significant emphasis on addressing public interest considerations by encouraging proactive management of quality at the engagement level.</p> <p>The “public interest” is referred to para 19 of the explanatory memorandum to ED ISQM 1. We recognize the importance of a clear definition of what this encompasses yet support the development of the quality management framework prior to the finalization of the discovery of what the most relevant definition encompasses.</p> <p>Regardless of this definition currently lacking the Board should consider whether the public interest should be more prominent in the</p>



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No.	Item	Reference	Comments
			<p>proposed standard and whether references to the public interest framework to be developed by the IOB or the existing IFAC Policy Position 5¹ are appropriate to better understand which public interest considerations are addressed and how they are taken into account.</p>
2	Enforceability	For example: ED ISQM 1 - A 40, A92-93, A 104, A 109 (last sentence)	<p>The objective of ISQM 1 is to design, implement and operate a system of quality management (SQM). We believe that distinct criteria are needed to assess a firm's responsiveness to the objectives of ISQM 1 (as well as compliance with the requirements).</p> <p>This could include the definition of minimum thresholds (for public-interest companies as well as smaller entities) to serve as benchmarks for distinguishing when requirements are complied with or breached.</p> <p>Amongst others this may include certain examples currently only listed in the application material (such as A 40, A92-93, A 104, A 109 (last sentence)) which should be relocated to the requirements section as to introduce enforceable criteria obliging the personnel in charge with corresponding responsibilities.</p> <p>Other requirements may include duties such as documentation or transparency disclosure which could enhance enforceability in view of a predominantly principal based implementation.</p> <p>Currently the standard appears to be tilted towards applicability at firm/network level as opposed to usability for regulators, also when enforcing cases.</p>
3	Documentation	Paragraph 19 t) of ED ISQM 1	<p>Requirements for documentation need to be strengthened as to require policies and procedures to be in written format. Any policies stated in oral communications or implied through actions and decisions dilute potential enforceability.</p> <p>The need for proper documentation is further strengthened in light of a continued and high amount of findings in this area.</p> <p>It would seem relevant to consider adding to paragraph 67 specific</p>

¹ [https://www.ifac.org/system/files/publications/files/PPP%205%20\(2\).pdf](https://www.ifac.org/system/files/publications/files/PPP%205%20(2).pdf)



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		ED ISQM 1	requirements for documentation of actions and decisions in accordance with paragraph 31, 37 (d) and also requirements for documentation of assessment of the exercise of professional skepticism.
4	Enhance auditor independence	ED ISQM 2 para 16-17	<p>To meet quality objectives auditor independence should be enhanced for engagement quality reviewers (EQR).</p> <ul style="list-style-type: none">• Regarding concerns addressed in the ITC with respect to criteria of the appointment and eligibility of engagement quality reviewers we believe strong wording is needed to avoid potential conflicts of interest.• References to the Ethics code (and/or an improved cooperation with IESBA) seem appropriate to clarify its' importance in delivering the desired engagement quality.• Cooling off periods for individuals who served as engagement partners (as contained in ISQM 2; paragraph A5) need to be reflected properly – especially in cases of listed entities.
5	Focus on enhancements of audit quality objectives rather than compliance		<p>Areas for improved guidance include:</p> <ul style="list-style-type: none">• The need to balance compliance requirements with the aim to assure adequate quality objectives by avoiding compliance focused checkbox-lists of requirements.• The exposure drafts as currently written seem to focus on compliance requirements. Instead focus should rest on setting minimum thresholds for quality objectives to align achievable objectives of firms' engagement partners, engagement quality reviewers or key audit partners charged with responsibilities with the intended overall quality objectives included in the framework.
6	Overall relationship of ISA 220 and ISQM 2 to ISQM 1	<p>Paragraph 1 of ED ISA 220; Para 10 of ED ISQM 2</p> <p>Paragraph 10 of ED</p>	<p>The relationship between the objectives of ISQM 2 and ISA 220 with the overall objective to improve audit quality needs further attention, as ISA220 only repeats ISQM1's objective instead of explaining their relationship. The objective of ISQM 2 does not explain <i>how</i> the overall objective (contained in ISQM 1) is to be achieved. A clear differentiation of the various main objectives of the three standards as well as an explanation of their interrelationship could therefore add value.</p> <p>The objective at engagement level could be enhanced by stating that</p>



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		ISQM 2	<i>"the objective is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements."</i>
7	Quality objectives /Sufficient level of rigor	Paragraph 18 of ED ISQM 1	<p>The IAASB should address the need for a <i>high standard</i> to be required as a minimum threshold.</p> <p>IOSCO considers that the Board's expectations with regard to the auditor's appropriate responsibility for quality are considered to be of a high level and, thereby, the level of assurance could be increased from just being '<i>reasonable</i>'.</p>
8	Give more prominence to ethical requirements	Paragraph 14 of ED ISQM 2	<ul style="list-style-type: none"> Ethical requirements need to be more prominently reflected in ED ISQM 2 The underlying concept of current paragraph 14 of the application material of ED ISQM 2 could be transformed into a principle-based requirement of the standard. EQRs should be required to take responsibility for adverse findings from internal or external quality reviews.
9	Scalability	Paragraph 5 of ED ISQM 1	<p>The objective (as suggested in the ITC) to improve the scalability of the standard ISQM 1 is supported to deal with differences in the size of firms and the services they provide.</p> <p>It should however be clearly stated that the scalable approach cannot be applied to audit and other assurance services for public interest entities, including listed companies.</p> <p>While the complexity and formality of firms' systems will vary, any risk based approach in the design, implementation and operation of the system of quality management must entail key concepts such as ethics, public interest considerations or the application of professional skepticism, which serve as integral parts of any quality management systems of audits.</p> <ul style="list-style-type: none"> Large audit firms are encouraged to do significantly more in addressing matters of audit quality beyond the minimum requirements as defined in ISQM 1 based on their nature, size and client base.
10	Application of professional	ED ISA 220, paragraph 12 (e)	ED ISA 220 contains only one mentioning of the term (or better yet concept) ' <i>professional skepticism</i> ' (see paragraph 12 e.)



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	skepticism		<ul style="list-style-type: none"> More prominence should be given to the application of professional skepticism (a key concept of auditors) It should appear not only in the introduction (as it does quite frequently) but also in the standard. Currently any mentioning reads “...<i>should apply professional judgment and, where applicable to the engagement, professional skepticism.</i>” <p>ISA 220 spends an entire paragraph on <i>impediments</i> on professional skepticism, yet states it <i>only</i> should apply professional judgment and, where applicable to the engagement, <i>professional skepticism</i>.</p>
11	Dedication to continuous improvement / learning environment		<p>ISA 220/ ISQM 1 should encourage firms to have a learning culture by sharing findings by EQRs and applying root cause analysis.</p> <p>The ability to learn from mistakes and errors made is an essential element of quality management. A learning/improvement-oriented environment has certain cultural requirements and behavioral aspects to it, which are not addressed in the current ED.</p>
12	Governance	ED ISA 220, paragraph 37 (b) ED ISQM 1 ED ISQM 1; paragraph 9	<ul style="list-style-type: none"> We believe that the overall responsibility for managing and achieving quality lies with the engagement partner. Therefore paragraph 37 (b) of ISA 220 depicts a pivotal role in the functioning of any quality management concept. Firms should be encouraged to consider appropriately qualified and experienced external persons on governing boards with a focus on audit quality. The firm’s commitment to quality through governance and leadership should not only be limited to the expected behavior of personnel within the firm but should be extended to all parties involved in the audit (such as external servicers etc).
13	Project management		Firms should be required to centrally monitor progress on engagements against milestones to ensure that audits are adequately planned and executed on a timely basis and address possible issues for quality audits with deadline pressures.



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Thank you for the opportunity to comment on the IAASB's exposure drafts on ISA220, ISQM 1 and ISQM 2. If you have any questions or would like to further discuss these matters, please contact Michael Porth at ph. + 49[0]0228 4108 4013 (email: michael.porth@bafin.de).

Sincerely,

Makoto Sonoda
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions