



KPMG LLP
Audit
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 3908
Fax +44 (0) 20 7311 3311

Ms Kate Dalby
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Your ref -

Our ref **jb/kb/**

19 March 2021

Dear Ms Dalby

Proposal to Revise the UK's Quality Management Standards: Consultation

We welcome the opportunity to comment on the FRC's proposal to revise the UK's quality management standards through the adoption of ISQM (UK) 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*, ISQM (UK) 2 *Engagement Quality Reviews*, and the revisions of ISA (UK) 220 (Revised November 2019) *Quality Control For An Audit Of Financial Statements*.

Our over-arching comments on key aspects of the proposed standards are set out below. Appendix 1 to this letter provides our responses to the specific questions raised in the consultation.

We believe that the proposals represent considerable enhancements to the extant standard, ISQC (UK) 1, and will help generate the benefits outlined in paragraph 6 of the introduction to the FRC's *Consultation Paper and Impact Assessment*. Proposed ISQM (UK) 1 provides a robust, risk-based approach to establishing and evaluating the system of quality management that forms the foundation for consistent engagement quality, while proposed ISQM (UK) 2 and the revised ISA 220 clarify and strengthen aspects of the relevant requirements for a more robust engagement quality review. We are therefore fully supportive of the proposals to adopt the new and revised standards.

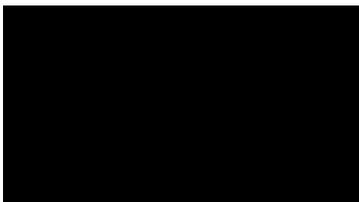
We do have, however, some points of concern regarding the manner in which a number of the supplementary UK requirements have been incorporated into ISQM (UK) 1. The supplementary requirements proposed in ISQM (UK) 1 derive from the existing additions in ISQC (UK) 1, which were included to implement certain requirements of the EU Audit Regulation and Directive. While we understand the FRC's desire to retain those requirements, we would suggest that further analysis should be undertaken to determine whether ISQM (UK) 1 remains the most appropriate place for them and, if so, to consider the manner in which they should be incorporated. We have set out our observations in

relation to this matter in our response to Question 2 of the consultation, with detailed comments on each addition to ISQM (UK) 1 included at Appendix 2.

Many firms, including KPMG, will already have started to implement the requirements of these draft standards and we welcome the FRC's encouragement for early adoption. Nevertheless, the changes proposed by ISQM (UK) 1, in particular, are significant and will have broad-reaching implications, and there are a number of reasons why full early adoption may not be achievable, as further outlined in our response to Question 3 of the consultation. While early adoption is to be encouraged, we do not believe that it should be the expectation.

Please contact me if you would like to discuss this further.

Yours sincerely,



John Bennett
Chief Risk Officer

Appendix 1 – Response to consultation questions

Question 1 - Do you agree that ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK)? If not, please give your reasons.

We support the adoption of ISQM (UK) 1, ISQM (UK) 2 and the revised ISA (UK) 220 in the UK. In particular, we support the approach within ISQM (UK) 1 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 system of quality management that will benefit engagement quality. This risk-based approach and ability of individual firms to apply their judgement will be key to the success of the implementation of the new standard.

We do, however, have some concerns regarding the proposed UK additional requirements to the international version of ISQM1 as set out in our response to Question 2 below.

Question 2 - If you agree that the ISQMs (UK) and ISAs (UK) should be revised to adopt the revisions to the underlying international standards, do you agree that the proposed UK supplementary material is appropriate? If not, please give your reasons and explain what further additions or subtractions should be made.

We agree with the supplementary UK material included in ISQM (UK) 2 and the consequential amendments to the ISAs, but believe ISQM (UK) 1 requires some further consideration.

ISQM (UK) 1

While we understand why the FRC has taken the approach of transposing all the UK supplementary material currently included in ISQC (UK) 1 into ISQM (UK) 1, we are not convinced as to the appropriateness of this approach. As highlighted in the FRC's Impact Assessment, these additional requirements originally derived from the implementation of the EU Audit Regulation and Directive and their incorporation into ISQC (UK) 1 may have been appropriate at the time since ISQC (UK) 1 is largely a list of requirements. However, we believe there are a number of factors that should be considered in determining whether the simple transposition of many of these requirements from ISQC (UK) 1 into ISQM (UK) 1 is the most appropriate approach:

- The IAASB has invested a significant amount of time and resource in developing an international version of ISQM1 that is fit for purpose. There should therefore be limited need to incorporate additional requirements to achieve the purpose of the new standard in the UK.

- In our view specific UK additions should not duplicate the existing requirements of the IAASB version of the standard and should only be included where these are specifically relevant to the system of quality management in the context of ISQM (UK) 1, using language that is consistent with the rest of the standard.

For example, paragraph 19-1(b)-(d) would appear to relate to the existing components and requirements in the standard and therefore appear duplicative and unnecessary. Paragraph 56-1 requires the firm to carry out an annual evaluation of the internal quality control system for audits of financial statements, which could either be considered duplicative of paragraph 53 of the standard, or potentially imply that a separate evaluation has to be carried out for the system of quality management for audits of financial statements, as well as for the system of quality management as a whole.

- A simple transposition ignores the fundamentally different nature of ISQM (UK) 1 as compared to ISQC (UK) 1. While these “*specific UK legal and regulatory requirements*” may have fitted into the structure of ISQC (UK) 1, which requires the establishment of specific policies and procedures, they do not necessarily align with the risk-based approach of ISQM (UK) 1. As such, the inclusion of certain mandatory responses based on other EU and UK legislation may actually detract from the risk-based approach of the new standard;
- Adding a list of selective required responses is arguably inconsistent with the required approach of ISQM (UK) 1 for a firm to “*customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs*”.
- In our view, many of the supplementary requirements would form part of a firm's natural response to quality risks identified in relation to the objectives of a system of quality management. There is therefore no need to identify them as additional required responses.

For example, the required responses in paragraph 34-(c) regarding matters to be considered before accepting or continuing an audit engagement are natural responses to quality risks that firms are likely to identify in respect of the specified objectives in the Acceptance and Continuance component of ISQM (UK) 1.

- Other requirements do not appear related to the component structure of the standard or in some instances, directly to the system of quality management.

For example, paragraph 34-1(e), which addresses the provision of access to relevant information to a successor statutory auditor, appears to be a purely regulatory requirement rather than one related to the SoQM. Paragraphs 34(g)-(h) which relate to group audits, might be better placed as part of ISA (UK) 600 to the extent they are not already included there. We do not believe that ISQM (UK) 1 should seek to modify ISA requirements as this is likely to cause confusion.

Generally, we do not believe it is appropriate for selective legal and regulatory requirements to be included in ISQM (UK) 1, particularly as paragraph 4 of the

standard already states that “*Law, regulations or relevant ethical requirements may establish responsibilities for the firm’s system of quality management beyond those described in this ISQM (UK)*”.

Some of the supplementary requirements may consequently result in confusion in respect of how firms are expected to implement the standard and, contrary to the intent expressed by the FRC in its impact assessment, could result in additional work effort. Further, any decisions by local regulators to amend the international standard could present practical difficulties for those firms that are part of an international network in determining which version of ISQM1 should be applied by individual member firms involved in group audits.

We therefore believe further work should be undertaken by the FRC to assess whether ISQM (UK) 1 is the right place for these supplementary requirements and if so, to determine how they can be positioned appropriately. For example, where the requirements clearly link back to an existing objective in the standard and would be part of any natural response to a related quality risk, could they be removed altogether or moved to the Application and Other Explanatory Material as matters the firm should consider or include when determining its response to identified quality risks? Duplication with the requirements of the international standard should be removed and specific (e.g. Companies Act) requirements should be removed altogether.

We have particular concerns around paragraph 19-1(a) which requires the firm to have “*sound administrative and accounting procedures.*” While this is clearly a necessary requirement for the firm, it is unclear how it fits into the structure of the components of the system of quality management as set out in ISQM (UK) 1 and whether the FRC expects UK firms to develop objectives, risks and responses in relation to these general areas. Such a requirement would significantly extend the scope of ISQM (UK) 1 compared to the international version.

We have set out specific comments on each of the supplementary requirements in ISQM (UK) 1 in Appendix 2 including some that we consider can be removed due to their duplicative nature. An alternative approach would be to acknowledge the source of these items and then link them to the paragraphs within the IAASB standard that meet the specific requirement. This would provide clear guidance on how these supplemental matters are met by the requirements of the standard without adding similar or duplicate obligations that are only likely to add confusion.

ISQM (UK) 2

Our only observation with regard to the supplementary UK material in ISQM (UK) 2 is that the subject matter of paragraph 18-1 and 18-2(a) appear to relate to the responsibilities of the engagement quality reviewer rather than the “Appointment and eligibility of Engagement quality reviewer” (which is where the requirements are currently located) and may be better relocated to the section addressing the ‘Performance of the Engagement Quality Review’.

Question 3 – Is the proposed effective date, which is consistent with the effective date for the IAASB's revised ISQM1 and ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

We agree with the proposed effective date of 15 December 2022 for the new suite of standards. The changes proposed by ISQM (UK) 1 in particular, are significant and will have broad-reaching implications. Given the significance of the changes we believe 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 standard's intended objectives. We agree with the comment made by the IAASB in its Explanatory Memorandum to the Exposure Draft on the international version of ISQM1 that *“rushed implementation may exacerbate risks to quality...and would be inconsistent with the objectives of the quality management standards.”*

We agree that firms should seek to comply with ISQM (UK) 1 as soon as possible, but note that full early adoption may be challenging due to the extent of changes required, both for smaller firms who may have limited resources, for those firms who are part of a larger network and therefore are partly dependent on their network and other member firms implementing their responses and for those firms who utilise service providers. It is important that sufficient time is allowed for network firms involved in group audits to implement a consistent control framework. For these reasons, we believe that early adoption should be encouraged, but not expected.

Question 4 – ISQM (UK) 1 requires the auditor to establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management. Do you agree with this approach or should the standard include requirements for firms also to identify, evaluate and respond to positive outcomes and opportunities? Please give reasons for your response.

While we agree that the monitoring and remediation process may identify positive outcomes and opportunities that the firm may consider as part of its programme of continuous improvement in relation to the system of quality management, we do not believe that this should be included as a formal requirement under the standard. Identified positive outcomes and high-quality engagements, as well as an effective system of quality management, are more often a result of following the relevant guidance and requirements that firms have put in place, rather than being the result of separate innovation. The risk-based nature and inter-connectivity of the components of the system of quality management will also mean that improvements in one area should naturally benefit others. We therefore believe that the proposed approach of ISQM (UK) 1 to focus on the identification of deficiencies and remediation of those deficiencies is the right one.

Question 5 – The requirements in ISQM (UK) 2 are currently applicable to all engagements for which an engagement quality review is required to be performed. Do you believe that ISQM2 could be enhanced through further requirements and/or application material for non-assurance engagements? If so, please give your detailed reasons and explain how ISQM (UK) 2 could be enhanced, in the context of a non-assurance engagement.

The specific question being asked as part of the consultation appears unclear. Paragraph 17 of the consultation states “We have included a consultation question for respondents to consider whether the requirements are able to be fully applied to non-audit engagements as well as audit engagements.” Question 5 above amends “non-audit” to “non-assurance”. In responding to this question, we have assumed that the reference is intended to be “non-audit”. There are specific aspects of ISQM (UK) 2 that directly relate to the performance of audit engagements, and indeed some that are relevant solely to the audit of consolidated financial statements. As such these would not be relevant to the performance of non-audit engagements. We therefore believe that it would be appropriate to provide an overarching comment that the requirements of ISQM (UK) 2 should be applied to non-audit engagements as appropriate, based on the nature of those engagements, to recognise some will not be applicable to all engagement quality control roles. We do not consider however that, if this comment is provided, it is necessary to identify the application of specific requirements to engagement types on a paragraph by paragraph basis.

Appendix 2 – Analysis of proposed ISQM (UK) 1 supplementary requirements

<i>Paragraph</i>	<i>Additional UK text</i>	<i>Observation / Comment</i>
Scope of this ISQM (UK)		
5	<p>In the UK, this ISQM (UK) applies to firms that perform engagements undertaken in compliance with performance standards issued by the FRC which comprise:</p> <ul style="list-style-type: none"> a) Audits of financial statements undertaken in compliance with International Standards on Auditing (UK); b) Reporting accountants acting in connection with an investment circular; c) Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK and Ireland) 2410); d) Engagements to provide assurance on client assets to the Financial Conduct Authority; and e) Assurance engagements specified by the FRC as 'public interest assurance engagements' performed in accordance with International Standard on Assurance Engagements (UK) (ISAE (UK)) 3000 (July 2020). 	
13	Early adoption is strongly encouraged	Covered in response to Q3
Definitions		No comments other than to query whether 16(p) should refer to ISQM (UK) 1 rather than ISQC (UK) 1?
Requirements – System of Quality Management		
19-1	<p>The firm shall have:</p> <ul style="list-style-type: none"> a) Sound administrative and accounting procedures; b) Internal quality control mechanisms which are designed to secure compliance with decisions and procedures at all levels of the firm's working structure; c) Effective procedures for risk assessment; and 	<p>It is unclear how the additional requirement in paragraph 19-1 fits into the components of the system of quality management and the risk assessment process of establishing relevant objectives, risks and responses and monitoring requirements.</p> <p>Does the FRC expect firms to identify an additional component and develop objectives / risks / responses in relation</p>

	<p>d) Effective control and safeguard arrangements for information processing systems.</p>	<p>to 'administrative and accounting practices' and monitor those responses in line with the standard? This would significantly extend the scope of ISQM1 in the UK and the amount of effort required to comply, potentially impacting firms' ability to be compliant by the effective date.</p> <p>While b), c) and d) can be matched to specific components in ISQM (UK) 1, it is unclear how the FRC expects firms to address these requirements. e.g. does the FRC expect that additional objectives should be established?</p>
Specified responses		
<p>34f</p>	<p>[The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM (UK) 2, and requires an engagement quality review for:]</p> <p>(iv) Audits of financial statements of public interest entities;</p> <p>(v) Public reporting engagements carried out in accordance with the Standards of Investment Reporting; and</p> <p>(vi) Engagements for which an engagement quality review is required by the FRC's Providing Assurance on Client Assets to the Financial Conduct Authority standard.</p>	<p>No specific comments</p>
<p>34-1</p>	<p>The firm shall include the following responses:</p>	
<p>34-1a)-b)</p>	<p>Relevant Ethical Requirements</p> <p>a) The firm establishes appropriate policies or procedures that:</p> <p style="margin-left: 20px;">i. Ensure that no partner, director, member or shareholder of the firm, or partner, director, member or shareholder any affiliate of the firm, intervenes in the carrying out of an engagement in any way which jeopardizes the firm's independence and objectivity in carrying out such work.</p> <p>b) The firm establishes appropriate and effective organizational and administrative arrangements:</p>	<p>Could a) and b) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as they are either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Relevant Ethical Requirements component.</p>

	<ul style="list-style-type: none"> i. For dealing with and recording incidents which have, or may have, serious consequences for the integrity of the firm's audit or other public interest assurance activities. ii. To prevent, identify, eliminate or manage and disclose any threats to the firm's independence required by the FRC's Ethical Standard 	
34-1c)-e)	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <ul style="list-style-type: none"> c) Before accepting or continuing an audit engagement, the firm assesses: <ul style="list-style-type: none"> i. Whether the firm complies with relevant independence and objectivity requirements in the FRC's Ethical Standard; ii. Whether there are threats to the firm's independence, and the safeguards applied to mitigate those threats; iii. Whether the firm has the competent personnel, time and resources needed in order to carry out the audit in an appropriate manner; and iv. Whether the key audit partner is eligible for appointment as a statutory auditor. d) Before accepting or continuing an audit engagement of a public interest entity, or an other entity of public interest, the firm assesses: <ul style="list-style-type: none"> i. Whether the firm complies with the audit fees and the prohibition of the provision of non-audit services requirements in the FRC's Ethical Standard; ii. Whether the conditions for the duration of the audit engagement in accordance with UK law are complied with; and iii. Without prejudice to UK anti-money laundering requirements, the integrity of the members of the supervisory, administrative and management bodies of the public interest entity. 	<p>Could c) and d) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as they are either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Acceptance & Continuance component.</p>

	<p>e) For audits of financial statements, where the auditor ceases to hold office as statutory auditor, or ceases to be eligible for appointment as a statutory auditor, the firm provides the successor statutory auditor with access to all relevant information concerning the entity, including information concerning the most recent audit. (Ref: Para. A137-1)</p>	<p>Suggest e) is removed from ISQM (UK) 1 as this is a regulatory requirement rather than a response to a quality risk.</p>
34-1f	<p>Engagement Performance</p> <p>f) For audits of financial statements, the firm:</p> <ul style="list-style-type: none"> i. Establishes an internal quality control system to ensure the quality of the audit which covers at least the policies and procedures required by paragraph 34-1(f)(iii); ii. Ensures that responsibility for the internal quality control system lies with a person who is eligible for appointment as a statutory auditor; iii. Establishes appropriate policies and procedures for carrying out audits, coaching, supervising and reviewing the activities of the firm's personnel and organizing the structure of the audit file; and iv. Uses appropriate systems, resources and procedures to ensure continuity and regularity in the carrying out of the firm's audit activities. 	<p>Suggest f)i) is removed as the system of quality control is what ISQM (UK) 1 addresses as a whole.</p> <p>f)ii) appears to potentially conflict with paragraph 20 which requires ultimate responsibility and accountability to be assigned to the firm's CEO, Managing Partner or Board.</p> <p>Could f)iii) and f)iv) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as they are either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Engagement Performance component.</p>
34-1g)-k)	<p>Engagement Performance — External Monitoring of Group Audits</p> <p>g) Where the firm is subject to a quality assurance review or an investigation concerning a group audit, the firm shall be responsible for complying with, and shall establish policies and procedures which require the group engagement team to comply with, any request by the competent authority:</p> <ul style="list-style-type: none"> i. For relevant audit documentation retained by the group engagement 	<p>The matters addressed by g) and h) appear more related to ISA 600 and this might be a better place to put them. They go into a very granular level of detail that relates more to regulatory / ISA requirements than to 'quality'. ISQM (UK) 1 does not necessarily feel like the right place to include such requirements. There is also an increased risk of inconsistencies between the two standards.</p>

	<p>team concerning the work performed by any component auditor for the purposes of the group audit (including any relevant component auditor's working papers relevant to the group audit);</p> <p>ii. To deliver any additional documentation of the work performed by any component auditor for the purposes of the group audit, including that component auditor's working papers relevant to the group audit, where the competent authority is unable to obtain audit documentation of the work carried out by that component auditor.</p> <p>h) The firm shall establish policies and procedures, which require that, in order to comply with any request under paragraph 52-1(b), the group engagement team shall either:</p> <p>i. Retain copies of the documentation of the work carried out by the relevant component auditor for the purpose of the group audit (including the component auditor's working papers relevant to the group audit); or</p> <p>ii. Obtain the agreement of the relevant component auditor that the group engagement team shall have unrestricted access to such documentation on request; or</p> <p>iii. Retain documentation to show that the group engagement team has undertaken the appropriate procedures in order to gain access to the audit documentation, together with evidence supporting the existence of any impediments to such access;</p> <p>iv. Take any other appropriate action</p> <p>i) The firm:</p> <p>i. Establishes appropriate policies or procedures that ensure that the firm's personnel and any other individuals whose services are placed at the firm's disposal or under the firm's control, and who are</p>	<p>We note that h) references 52-1(b) which doesn't appear to exist.</p> <p>Suggest i) could be removed as the requirements are already covered under the objectives in para 32 of ISQM (UK)1, specifically:</p>
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	<p>directly involved in audit activities, have appropriate knowledge and experience for the duties assigned; and</p> <p>ii. Has in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality, revenue that the firm derives from providing non-audit services to the audited entity shall not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of, the audit.</p> <p>j) For each audit of financial statements, the firm:</p> <p>i. Designates at least one key audit partner; (Ref: Para. A137-2–A137-3)</p> <p>ii. Applies as its main criteria in selecting such a key audit partner the need to secure:</p> <p>a. The quality of the audit; and</p> <p>b. The firm's independence and competence in carrying out the audit;</p> <p>iii. Ensures the key audit partner is actively involved in carrying out the audit.</p> <p>k) For audits of financial statements, the firm provides the key audit partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out the firm's duties appropriately.</p>	<ul style="list-style-type: none"> • 32a: "Personnel are hired, developed and retained and have the competence and capabilities to: (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs" • 32d: "Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements"; and • 32b: "Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives". <p>Could j) and k) be removed or relocated to the Application and Other Explanatory Material and included as a or consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as they are either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Engagement Performance or Resources components.</p>
34-11	<p>Resources—Service Providers</p> <p>l) The firm establishes appropriate policies or procedures that ensure that outsourcing of important audit functions is not undertaken in such a way as to impair the quality of the firm's internal</p>	<p>Could l) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into the design of responses across the system of quality management as part of the firm's risk</p>

	quality control and the ability of the competent authority to supervise the firm's compliance with professional standards and applicable legal and regulatory requirements.	assessment under paragraph 25a)1)d) which requires the firm to consider relevant circumstances such as the resources provided by service providers.
34-1m	<p>Information and Communication</p> <p>m) The firm establishes policies or procedures that:</p> <p>i. Apply adequate provision on confidentiality and professional secrecy in relation to all information and documents to which the firm has access when carrying out an engagement; and</p> <p>ii. Ensure that the firm complies with applicable legal and regulatory requirements relating to the confidentiality of information received in the course of the engagement.</p>	Could m) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as it is either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Information and Communication component.
34-2	<p>When complying with the requirements set out in paragraphs 19-1, 34-1, 35-1, 56-1 and 58-1(d)(ii) the firm shall:</p> <p>(a) Take into consideration the scale and complexity of the firm's activities; and</p> <p>(b) Be able to demonstrate to the competent authority that the firm's policies and procedures designed to achieve compliance with the applicable requirements of this ISQM (UK) are appropriate given the scale and complexity of the firm's activities</p>	<p>We suggest that additional clarification / guidance is needed in respect of this paragraph. Specifically:</p> <ul style="list-style-type: none"> • As noted above, it is unclear what the FRC expects to be in place in respect of 19-1. • While this is an existing requirement, additional guidance would be helpful on how the FRC thinks b) might be achieved in the context of ISQM (UK) <p>1</p>
Monitoring and Remediation Process		
35-1	For audits of financial statements, the firm shall monitor and evaluate the adequacy and effectiveness of the firm's systems, internal quality control mechanisms and arrangements established in accordance with this ISQC (UK) and take appropriate measures to address any deficiencies.	<p>Suggest this requirement should be removed as it appears to duplicate the requirements of paragraph 35, which already requires the firm to establish a monitoring and remediation process to:</p> <p>a) Provide relevant, reliable and timely information about the design,</p>

		<p>implementation and operation of the system of quality management; and</p> <p>b) Take appropriate actions to respond to identified deficiencies</p>
Evaluating the System of Quality Management		
56-1	<p>For audits of financial statements, the firm shall carry out an annual evaluation of the internal quality control system, referred to in paragraph 34-1(f)(i).</p>	<p>Suggest this requirement should be removed as it appears to duplicate the requirements of paragraph 53 which already requires the firm to evaluate the system of quality management at a point in time and at least annually.</p> <p>If it remains further clarification is needed. Does the FRC intend for a separate evaluation to be carried out for audit engagements as well as for the firm as a whole?</p>
Documentation		
58-1	<p>For audits of financial statements, the firm shall:</p> <p>a. Retain engagement documentation that is important for monitoring compliance with this ISQM (UK) and other applicable legal requirements;</p> <p>b. Document:</p> <p>i. Whether the firm complies with the independence and objectivity requirements as set out in the relevant ethical requirements;</p> <p>ii. Whether there are any threats to the firm's independence, and the safeguards applied to mitigate those threats;</p> <p>iii. Whether the firm has the competent personnel, time and resources needed in order to carry out the audit in an appropriate manner; and</p> <p>iv. Whether the key audit partner(s) is eligible to be appointed as a statutory auditor.</p> <p>c. Maintain a record which includes in respect of every audit:</p> <p>i. The audited entity's name, address and place of business;</p>	<p>Suggest a) is removed as:</p> <ul style="list-style-type: none"> • The requirement to maintain documentation re compliance with ISQM1 is already covered in ISQM (UK) 1 para 57-58 and should not be limited to 'engagement documentation' • We do not consider it appropriate to include in ISQM (UK) 1 a requirement to retain engagement documentation that is used for monitoring compliance with 'other applicable legal requirements' <p>Suggest b) is removed since this would automatically follow from the implementation of relevant responses and documentation requirements of ISQM (UK) 1.</p> <p>Suggest c) is removed as it relates to a specific regulatory requirement and aspects relevant to the system of quality management (key audit partner, fees) should be addressed as part of the risk assessment for the relevant components.</p>

	<ul style="list-style-type: none"> ii. The name of the key audit partner or, where there is more than one key audit partner, the names of all the key audit partners; and iii. The fees charged for carrying out the audit and for other services in any financial year. d. Keep records of: <ul style="list-style-type: none"> i. Any complaints made in writing about the performance of the audit engagements carried out; ii. The findings of the evaluation required by paragraph 56-1 and any proposed measure to modify the internal quality control system; iii. Any breaches (other than breaches which the firm reasonably considers to be minor breaches) of professional standards and applicable legal and regulatory requirements; and iv. Any consequences of any breach recorded in accordance with paragraph 58-1(d)(iii), the measures taken to address such a breach and to modify the firm's internal quality control system; and e. Prepare an annual report containing an overview of any measures taken under paragraph 58-1(d)(iv) and communicate that report internally. 	<p>Could d)i), d)iii) and d)iv) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response, as they are either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Relevant Ethical Requirements component.</p> <p>Suggest d)ii) is removed as the requirement is already addressed by paragraph 58.</p> <p>Could e) be removed or relocated to the Application and Other Explanatory Material and included as a consideration to be incorporated into responses to relevant quality risks rather than a stand-alone response as it is either duplicative of IAASB ISQM1 requirements or would form part of a natural response to quality risks that firms are likely to identify in respect of the specified objectives in the Information & Communication component.</p>
60-1	<p>For audits of financial statements, the firm shall establish policies and procedures that require retention of audit documentation for a period that is not less than any period necessary to satisfy the requirements of any applicable laws or regulation relating to</p>	<p>Suggest this requirement is either removed as it relates to regulatory requirements applying to a firm and as such ISQM (UK) 1 is not the appropriate place for it.</p>

	data protection and to meet the requirements for any applicable administrative and judicial proceedings, and that is in any case not less than six years from the date of the auditor's report.	
Findings		
A14-1	As set out in the definition, findings are drawn from multiple internal and external sources and indicate that one or more deficiencies may exist. However, as noted in paragraph A15 of this ISQM (UK), findings may indicate other observations about the firm's system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management.	See response to Q4
Statement by Auditor on Ceasing to Hold Office		
A137-1	The auditor of a company in the UK who ceases to hold office as auditor is required to comply with the requirements of sections 519 and 521 of the Companies Act 2006 regarding the statement to be made by the auditor in relation to ceasing to hold office. In addition, the auditor may need to notify the appropriate audit authority in accordance with section 522 of the Companies Act 2006	Suggest remove as ISQM (UK) 1 is not the appropriate place for Companies Act requirements.
Key Audit Partners (Ref: Para. 34-1(i)(i))		
A137-2	When an audit is carried out by the firm, the firm is required to designate at least one key audit partner in accordance with UK legislation. For audits of group financial statements, a key audit partner is also designated at the level of the group audit, and at the level of material subsidiaries (whether or not an audit is required at that level). For the purpose of this ISQM (UK), a material subsidiary is a component as defined in ISA (UK) 600 (Revised November 2019)	Would be better positioned as part of ISA 600.
A137-3	Where a component is determined by the auditor not to be a material subsidiary, the	Would be better positioned as part of ISA 600.

	firm will not need to designate a key audit partner at the level of that component.	
The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))		
A144	The firm undertakes monitoring activities in order to determine whether the monitoring and remediation process is achieving the intended purpose as described in paragraph 35.	Suggest further clarification is needed as this requirement appears to be suggesting monitoring of monitoring.