

19 March 2021

Kate Dalby
Project Director
Financial Reporting Council
125 London Wall
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By email only to: AAT@frc.org.uk

Dear Kate

Proposal to Revise the UK's Quality Management Standards

We are pleased to respond to your consultation paper and impact assessment with regard to the Proposal to adopt 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 revise ISA (UK) 220 (Revised November 2019) Quality Control For An Audit Of Financial Statements.

We agree with the FRC's proposal to revise the UK's quality management standards and support the adoption of ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220. We have set out our responses to the feedback questions in the attached appendix 1.

If you would like to discuss any of our responses in more detail, please do not hesitate to contact Alan Chaudhuri ([REDACTED]).

Yours sincerely

Alan Chaudhuri
Deloitte LLP

Appendix 1 – Responses to consultation questions

Q1. 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.

Yes.

Audit quality is of critical importance to the capital markets, regulators and every stakeholder that demands confidence in the audit process. Deloitte is committed to delivering high quality audit work in support of the public interest. Since the issue of the extant standards, there have been considerable changes in the delivery of audits and the regulatory landscape in which Audit firms operate. We support the move to the new suite of standards that respond to these changes and act to drive a proactive, risk-based focus on quality management.

Q2. 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.

Yes.

We agree that the proposed supplementary material is appropriate and supportive of the new standards.

Q3. Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISQMs and ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

Yes, the proposed effective date of 15 December 2022 is considered appropriate.

We note the FRC has included in its effective date paragraph that “Early adoption is strongly encouraged”. The Deloitte ISQM1 implementation approach is agile, which will enable many of the enhancements required to deliver ISQM1 to be implemented prior to the effective date. Deloitte is committed to taking swift action to implement required changes and where possible in advance of the implementation date. With our Firm being part of the global Deloitte network, and the new requirements regarding Networks introduced by ISQM1, full compliance will not be achievable prior to the effective date of 15 December 2022.

Q4. 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 identify, evaluate and respond to positive outcomes and opportunities? Please give reasons for your response.

Yes – we agree with the approach current approach set out by the international standard.

We would not recommend including an additional specific requirement regarding positive outcomes. We would support consistency wherever possible and consider the proposed additional requirement would be of limited benefit given this concept is already recommended by the current international standard (paragraph A158).

Q5. 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-[audit] 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.

We understand from the FRC staff that this question should refer to non-audit assurance engagements rather than non-audit engagements, and are answering accordingly.

No. We do not believe that ISQM 2 needs to be enhanced through further requirements and/or application material for non-audit assurance engagements. This is because the majority of the standards for such engagements have been revised recently and both you as the FRC and those of us commenting considered the likely shape of the Quality Management Standards at the time.

ISQM 2 is the framework standard for EQRs, and ISA 220 governs what an EQR should do on an individual audit; indeed, arguably the IAASB should have moved some of the audit-specific differential requirements in ISQM 2 into ISA 220. The range of other engagements to which ISQM (UK) 2 will, as a minimum, apply has a potentially broad range of different subject matters and specifying additional EQR requirements at a generic level would be hard. If changes were to be needed, they should be implemented by amending the relevant operational standard (SIRs 2000-6000, ISRE (UK) 2410, Client Asset Assurance Standard or ISAE (UK) 3000). In that spirit, we have considered each of these standards:

- The SIRs have each been recently revised (or, in the case of SIR 6000, developed) and we considered the likely requirements of the Quality Management Standards when we commented on them. SIR 1000 already cross-refers to ISA (UK) 220 and we do not think that requires modification for the revised ISA (UK) 220. SIR 1000.23 should, however, be updated to refer to

ISQM (UK) 1 and ISQM (UK) 2 rather than ISQC (UK) 1, and the term EQCR should be replaced by EQR.

- ISRE (UK) 2410 is the subject of a recent consultation by the FRC relating largely to going concern. The IAASB have not proposed any consequential amendments as a result of the Quality Management Standards. We have agreed with the FRC that a wider update of the standard would be helpful, in conjunction with the IAASB; until then, the requirements in ISRE (UK) 2410 should suffice other than changing terminology.
- The Client Asset Assurance Standard has, again, been recently revised by the FRC and you (and those of us who commented on it) considered the likely content of the Quality Management Standards at the time. On that basis, we think that other than changing terminology and standard references to refer to the Quality Management Standards, no further changes are necessary.
- The IAASB is now consulting on conforming amendments to standards other than the ISAs, which includes proposed changes to ISAE 3000. We ask that the FRC make the parallel changes to ISAE (UK) 3000.

If the FRC's due process does not allow for confirming amendments to these non-audit assurance engagements without further consultation, we suggest that at the very least an editorial footnote be added to explain that references to ISQC (UK) 1 should be read as to ISQM (UK) 1 and ISQM (UK) 2 and references to Engagement Quality Control Reviewer be read as references to "Engagement Quality Reviewer".