



PROPOSAL TO REVISE THE UK'S QUALITY MANAGEMENT STANDARDS

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ICAEW welcomes the opportunity to comment on the Proposal to revise the UK's Quality Management Standards published by FRC on 22 December 2020, a copy of which is available from this [link](#).

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ANSWERS TO SPECIFIC 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.

1. Yes, we agree that the proposed standards should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK) for firms that perform engagements undertaken in compliance with UK standards issued by the FRC. In our view, implementing these Quality Management standards will, however, be challenging, particularly for smaller firms and those with few audit engagements. It will therefore be important that firms have appropriate implementation support materials and are given sufficient time to implement the new requirements – see our answer to question 3.

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.

2. Yes, the supplementary material is appropriate though we believe that the FRC should monitor the Quality Management implementation materials developed by the IAASB with a view to determining whether there is a need for additional support based on feedback from UK stakeholders and, in particular, to support smaller audit firms, who may struggle most with the new approach and requirements.

Question 3. 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.

3. On balance, yes, we agree that it would be helpful to have a proposed effective date that is in line with the IAASB's revised standards, and those UK firms whose networks are part of the forum of firms will be obliged to follow this implementation date in any case. The proposed UK standards will, however, be challenging for auditors to apply by the proposed effective date, particularly given the continuing impact of the Covid-19 pandemic on auditor time and resource, other significant revisions to ISAs (UK) and anticipated changes in relation to audit reform. Indeed, we consider that it would be unhelpful if firms were to spend significant time and effort implementing the requirements in these proposed standards now only to find that their policies had to be rewritten and processes changed as a result of new audit reform requirements.
4. We also anticipate that it will be challenging for training and methodology providers to develop appropriate training and support materials in advance of this effective date to help audit firms with implementation.
5. With the above in mind, and if the proposed effective date is retained, we believe that it is unlikely that many audit firms will be in a position to adopt the standards early, at least not in their entirety. Quality management by its very nature is about continuous enhancement to systems to improve quality and while there may be certain elements of the standards that firms could adopt early, other aspects are likely to take considerably longer to consider and implement. If the FRC is of the view that it would be helpful to prioritise some aspects of the standards for early adoption, then it would be helpful to share this with audit firms rather than strongly encouraging early adoption of the full set of standards.

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

6. We agree with this approach. While it might be helpful to encourage firms to identify, evaluate and respond to positive outcomes and opportunities through mechanisms such as FRC news alerts or ad hoc guidance we do not believe that the standard should specifically include requirements or application material on this. Our outreach suggests that mandating such an approach could place undue burden on firms for, in some cases, limited value and reinforce reservations about working on more challenging audits.

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.

7. We assume that this question is meant to refer to 'non-audit assurance engagements'. Assuming that is the case we do not believe that further enhancements through additional requirements or application materials in ISQM (UK) 2 are necessary for non-audit assurance engagements such as engagements to provide assurance on client assets to the Financial Conduct Authority or reporting accountants acting in connection with an investment circular.