

15 March 2021

Kate Dalby
Project Director
Financial Reporting Council
8th Floor, 125 London Wall
London EC2Y 5AS

Our Ref: NB/SJG

Dear Kate

FRC Consultation and Impact Assessment re Proposal to Revise UK's Quality Management Standards

We are pleased to provide Crowe's response to the above Consultation.

Crowe is one of the top 10 audit firms in the UK by audit fee income with just over 1,000 people across a number of offices in England. Crowe is also the UK member of Crowe Global, one of the top ten global accounting networks.

In summary we support the FRC's approach to the implementation of the quality management standards but would make the following observations.

Given the focus there is on networks within ISQM 1 in particular, the extent to which there are modifications to the standards issued by the IAASB should be kept to a minimum and be solely where there are additional requirements within UK legislation and regulation. It is for this reason that we do not agree with a suggestion that ISQM (UK) 1 should include a requirement for firms to adopt a monitoring and remediation process that would "identify, evaluate and respond to positive outcomes and opportunities". We also believe such a requirement could be overly burdensome for small firms.

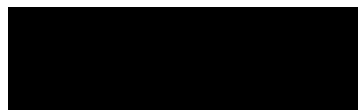
We have provided a response to each of the five consultation questions in the appendix to this letter.

We trust that you will find our contribution of assistance.

Yours sincerely



Nigel Bostock
Chief Executive
Crowe U.K. LLP



Steve Gale
Head of Audit
Crowe U.K. LLP

Appendix - Response to Consultation Questions

FRC Consultation and Impact Assessment re Proposal to Revise UK's Quality Management Standards

Consultation question	Crowe response
<p>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.</p>	<p>Yes, we agree that ISQM (UK) 1, ISQM (UK) 2 and the revised ISA (UK) 220 should be adopted in the UK. We have been monitoring the progression of the IAASB's development of these standards and consider that they are progressive standards that will ultimately enhance audit quality.</p> <p>The conforming amendments appear to make appropriate changes to other ISAs (UK) to align with the proposed ISQMs (UK) and ISA (UK) 220.</p>
<p>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.</p>	<p>Overall we are satisfied that the proposed UK supplementary material is suitably appropriate.</p> <p>We would encourage the FRC to ensure that the UK supplementary material is restricted to matters that are required by UK legislation and regulations.</p>
<p>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.</p>	<p>Yes, the proposed effective date is appropriate and we believe it is important that it aligns with the IAASB's proposed effective date.</p> <p>We question why the FRC has seen the need to "strongly encourage" early adoption of ISQM (UK) 1 as this exhortation is not consistent with other standards when early adoption is permitted.</p> <p>If the FRC's desire is that firms should start their implementation process as soon as possible and introduce new processes, where appropriate, ahead of a point where the firm might feel it is fully compliant with the standard, then we fully support that.</p> <p>We do not believe that this sentiment comes across in the current wording and would suggest that this should be revisited. For firms to be able to get their systems of quality management in place is likely to take a significant amount of time and effort even for the smallest of firms, and the use of "strongly encourage" might lead some firms to feel compelled to claim early compliance where there is still further work to be done.</p>

Consultation question	Crowe response
<p>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.</p>	<p>We refer to our response to question 2 above. This would be a supplementary requirement not driven by UK legislation or regulations and so we do not believe this should be a requirement.</p> <p>We do understand and accept the importance identifying and responding to positive outcomes, effectively using a 'what does good look like?' approach but we do not believe it appropriate to make this a requirement.</p> <p>There is a risk that this approach could be unduly onerous for firms with limited resources and, indeed, there is a risk that undue focus, time and attention may be placed by firms on the 'positives' at the detriment of addressing the deficiencies. If deficiencies are not addressed this will not achieve an aim of continually improving audit quality.</p> <p>Accordingly, we would be satisfied if the standard included an encouragement for firms to identify, evaluate and respond to positive outcomes and opportunities but it should not be a requirement.</p>
<p>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- 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.</p>	<p>We consider that ISQM (UK) 2 is appropriately focused on all engagements for which an engagement quality review is required to be performed.</p> <p>We envisage that there are circumstances where firm's may want to follow the principles of ISQM (UK) 2 for non-audit assurance engagements where ISQM (UK) 2 does not mandate this requirement, but would recommend that this should be a decision for the firm and individuals as part of their quality management system.</p> <p>Accordingly, the FRC should consider including an encouragement to apply the principles of ISQM (UK) 2 to non-audit assurance engagements rather than a requirement. Application material to cover such circumstances would be helpful.</p>