

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

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG
T +44 (0)20 7383 5100
F +44 (0)20 7184 4301

16 March 2021

Dear Kate

Proposal to revise the UK's Quality Management Standards

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Financial Reporting Council's (FRC) Proposal to revise the UK's Quality Management Standards which includes adoption of International Standard on Quality Management (ISQM) (UK) 1, 'Quality Management For Firms That Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services' (ED-ISQM (UK) 1), ISQM (UK) 2, 'Engagement Quality Reviews' (ED-ISQM (UK) 2) and revision to ISA (UK) 220 (Revised November 2019), 'Quality Control for an Audit of Financial Statements' (ED-ISA (UK) 220) (the quality management standards).

Overall, we are supportive of the adoption of the quality management standards and we see this as a positive step towards improving firms' internal quality systems and processes through a focus on proactive quality management rather than reactive quality control.

We are, however, of the view that, in light of the comprehensive revisions resulting from the development of a new quality standard, ISQM 1,¹ a new engagement quality review standard, ISQM 2² and the adoption of EU legislation³ as UK legislation, there is an opportunity to reflect on how this legislation could be incorporated into the ISQMs (UK) and ISAs (UK) in a more holistic and cohesive manner, rather than merely transferring these additional requirements from extant International Standard on Quality Control (ISQC) (UK) 1⁴ and extant ISA (UK) 220 (Revised November 2019).⁵ This will result in not only a standard that is easier to understand but will also facilitate full compliance with the proposed

¹ ISQM 1, *Quality Management for Firms that perform Audits and Reviews of Financial Statements or Other Assurance or Related Services*

² ISQM 2, *Engagement Quality Reviews*

³ European Audit Regulation (EU Regulation No 537/2014) and Directive (EU Directive 2014/56/EU)

⁴ ISQC (UK) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Services Engagements*

⁵ ISA (UK) 220 (Revised November 2019), *Quality Control for an Audit of Financial Statements*

standard. We have elaborated further on certain requirements from UK legislation, in this respect, in our detailed response below.

We set out in the appendix to this letter our detailed responses to the FRC's questions in the Exposure Draft. We would be pleased to discuss those responses with you. If you have any questions, please contact me or Sara Ashton at [REDACTED] or at +44 [REDACTED] or Nick Flux at [REDACTED] or at +44 [REDACTED].

Yours sincerely

[REDACTED]

Fiona Baldwin
Partner, Strategic Leadership Team
Grant Thornton UK LLP
T 01908 359561
E Fiona.baldwin@uk.gt.com

Enc

Responses to the Proposal to Revise the UK's Quality Management Standards

- 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.**

We agree that ED-ISQM (UK) 1, ED-ISQM (UK) 2 and ED-ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK).

- 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.**

Overall, we agree that the proposed UK supplementary material included in ED-ISQM (UK) 1, ED-ISQM (UK) 2 and ED-ISA (UK) 220 is appropriate as most of this material is consistent with the requirements derived originally from the EU legislation.

We are of the view that, in light of the comprehensive revisions resulting from the development of a new quality standard, ISQM 1, a new quality control standard, ISQM 2, and the adoption of EU legislation into UK legislation, there is an opportunity to reflect on how this legislation could be incorporated into the ISQMs (UK) and ISAs (UK) in a more holistic and cohesive manner, rather than merely transferring these requirements from extant ISQC (UK) 1 and extant ISA (UK) 220 (Revised November 2019). In this respect, we have a number of comments in relation to the proposal to incorporate this supplementary material into ED-ISQM (UK) 1, which we have included in our detailed drafting comments below. Further, we would recommend that consideration is given to a more integrated way to incorporate the requirements specific to public interest entities into ED-ISQM 2.

- 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.**

We believe that a timeframe of 18 months is sufficient for firms to prepare and implement the necessary changes to meet the requirements of the proposed quality management standards and therefore agree with the proposed effective date of 15 December 2022. We also support the evaluation of the system of quality management required under ED-ISQM (UK) 1 being performed in the year following implementation. Given the current COVID-19 situation and the need for network firms to co-ordinate some elements of the response to the quality management standards, especially in respect of ED-ISQM (UK) 1, we believe it would be inappropriate for the UK to accelerate these effective dates.

- 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.**

We agree with the approach in ED-ISQM (UK) 1 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. We do not believe there is a need for a formal requirement to identify, evaluate and respond to positive outcomes or opportunities. We believe that firms will seek to learn from high quality audit work and that any requirement to do this formally would create an unnecessary burden, especially for smaller firms. As quality improves a requirement to identify,

evaluate and respond to positive outcomes and opportunities is likely to become increasingly burdensome.

We further note that it is unclear what the FRC means by “positive outcomes and opportunities”. Should the FRC determine, based on other responses to this consultation, that it is appropriate to include a requirement to identify, evaluate and respond to positive outcomes and opportunities, we recommend that, at a minimum, these terms are defined and a framework for their application is developed.

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.

We are of the view that ED-ISQM (UK) 2 does not need to be enhanced for further requirements and/or application material for non-assurance engagements. ISQM 2 was designed to apply to all engagements for which a quality review is determined to be necessary, either due to law or regulation or due to the firm’s policies or procedures. As such, the requirements and application material therein are designed to be applied to all engagements, with the exception of a small number of requirements and related application material that is designed to address additional matters specific to audits of financial statements. Additional requirement and application material for non-assurance engagements would make this standard unnecessarily complicated.

Detailed drafting comments in respect of the Exposure Drafts of the UK Quality Management Standards

ED-ISQM (UK) 1

Para No.	Description	Comment
16 (b)	"In the UK, engagement documentation shall include all documents, information, records and other data required by ISQMs (UK) and ISAs (UK) and applicable legal and regulatory requirements.	If this expansion to the definition is determined to be necessary, it should also be reflected in the FRC's Glossary of Terms.
16 (c)	"The engagement partner is a key audit partner"	Based on the FRC's definition of "key audit partner", we do not believe that this definition applies in every circumstance. As such we would recommend that the addition is redrafted as 'The engagement partner may be a key audit partner'
16 (p)	"In the UK, professional standards in the context of ISQC (UK) 1 are the performance standards issued by the FRC"	This should read "In the UK, professional standards in the context of ISQM [emphasis added] (UK) 1 are the performance standards issued by the FRC"
16 (t) (also repeated in ED-ISQM 2, paragraph 13 (c) and ED-ISA (UK) 220)	"In the UK, the firm and its personnel are subject to ethical requirements from two sources: the FRC's Ethical Standard concerning the integrity, objectivity and independence of the firm and its personnel, and the ethical pronouncements established by the auditor or assurance practitioner's relevant professional body."	We do not believe it is necessary to include this in ED-ISQM (UK) 1. Whilst individuals are subject to two sources, there may be others that an individual firm or engagement are subject to. Consistent with our comments to previous consultations, we do not see the need to create overlapping requirements.
34-1 (d)	"Before accepting or continuing an audit engagement of a public interest entity, or an other entity of public interest, the firm assesses: (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."	We believe these requirements are adequately addressed in other standards, for example, the FRC Revised Ethical Standard 2019, or are subject to legislation. Consistent with comments to previous consultations, we do not see the need to create overlapping requirements.
34-1 (f)	"Engagement Performance	ISQM 1 paragraph 18 requires that ultimate responsibility and accountability for the system of quality management be assigned

	<p>(f) For audits of financial statements, the firm:</p> <p>(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);</p> <p>(ii) Ensures that responsibility for the internal quality control system lies with a person who is eligible for appointment as a statutory auditor;</p> <p>...</p>	<p>to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent).</p> <p>The proposed amendment in ED-ISQM (UK) 1 requires that responsibility for the internal quality control system lie with a person who is eligible for appointment as a statutory auditor.</p> <p>Absent further guidance there are a number of potential issues with the ability to apply both of these requirements.</p> <p>Firstly, ED-ISQM (UK) 1 requires that responsibility for the system of quality management lie with an individual, whilst ISQM 1 provides the option for the system of quality management to be allocated to a number of individuals, for example, the firm's managing board of partners.</p> <p>Secondly, ED-ISQM 1 requires that the person allocated responsibility for the system of quality management is eligible for appointment as a statutory auditor. For some firms, this may prohibit responsibility for the system of quality management being assigned to that firm's chief executive officer, or it may result in firms bifurcating responsibility for the system of quality management between responsibility for audits of financial statements and responsibility for other assurance and related service engagements, neither of which would be an optimal solution.</p> <p>We believe that clarification of the interaction of these two conflicting requirements is needed to facilitate compliance with ED-ISQM 1 and UK law and regulation.</p>
35-1	"For audits of financial statements ... established in accordance with this ISQC (UK)..."	This reference should be amended to 'in accordance with this ISQM [emphasis added] (UK)..."
60-1	"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 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."	<p>This paragraph is repetitive of paragraph 60. Consistent with previous comment to previous consultations that simply copying requirements from the EU Regulation and Directive results in repetition, confusion and inconsistencies, we recommend that this paragraph is rewritten to include only that:</p> <p>Documents should be retained for a period of not less than six years from the date of the auditor's report; and</p> <p>Applicable laws and regulations include those relating to data protection and those</p>

		<p>to meet the requirements for any applicable administrative and judicial proceedings.</p> <p>We would also recommend consideration is given to including guidance or requirements in relation to document retention in the event that a report is not issued, for example, in circumstances when an audit is not completed.</p>
A14-1	“... such as positive outcomes or opportunities for the firm to improve, or further enhance the system of quality management.”	We recommend that the terms “outcome” and “opportunities” are defined.
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...”	We recommend that the first sentence should be changed to “When a statutory [emphasis added] audit is carried out by the firm, the firm is required to designate at least one key audit partner in accordance with UK legislation...”
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.”	The proposed addition is a repetition of the application material already included in ISQM 1 as issued by the International Audit and Assurance Standards Board, which clearly indicates the purpose of undertaking monitoring and remediation activities.