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BY EMAIL: AAT@frc.org.uk

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Dear Kate

Proposal to revise the UK's Quality Management Standards

We are pleased to have the opportunity to respond to the FRC's Proposal to Revise the UK Quality Management Standards. We set out below our overall comments on the proposals, followed by detailed responses to the questions raised.

Overall Comments

We are fully supportive of the FRC introducing the new and revised Quality Management Standards. We are particularly pleased to see the new ISQM (UK) 2, setting out more clearly the Engagement Quality Review requirements, which form an important aspect of the quality management arrangements.

We urge the FRC to consider providing implementation materials to support firms in adopting the new standards. Smaller and medium-sized firms adopting the new standards may have more restricted resources to dedicate to implementation activity. As the IAASB is planning to provide implementation material, the FRC should consider what additional support may be helpful, especially for the UK supplementary material. Such support materials would need to be provided in a timely manner to enable firms to develop their policies, procedures and quality management systems in time for the implementation date in December 2022.

We would also like to thank the FRC for the opportunity to discuss the consultation on the roundtable events, which we found helpful.

Response to 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.

Response

Yes, we agree that the three standards should be adopted in the UK, alongside the related conforming amendments, for engagements performed in compliance with the FRC standards as set out in ISQM (UK) 1.5.

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

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appropriate? If not, please give your reasons and explain what further additions or subtractions should be made.

Response

We agree that the UK supplementary material is appropriate. We are pleased to see the FRC has expanded the prescribed responses for areas where it is expected that firms would require policies and procedures. However, whilst we appreciate that risks may be specific to different firms, we do think it is unfortunate that neither the IAASB or FRC has been able to provide a clearer steer on prescribed quality risks to align with the prescribed objectives and responses.

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.

Response

In principle, we agree that the proposed effective date, consistent with the effective date of the IAASB's revised standards, is appropriate. Furthermore, we appreciate the need for auditor's to be seen to be taking action to enhance audit quality at the present time. We do, however, have concern over the capacity of audit firms, particularly smaller and medium sized firms, to address these requirements alongside the other significant changes to auditing standards (in particular ISA (UK) 540, ISA (UK) 570, ISA (UK) 315) as well as responding to the audit reform agenda. Any support that the FRC can provide in relation to implementation materials will be greatly beneficial to successful implementation of these standards.

From conversations already taking place within the profession, we would also highlight a concern that methodology, software and training providers may not have sufficient time, or capacity, to develop, implement and train on new arrangements by the effective date.

We note that the FRC is strongly encouraging early adoption of these standards. Given the pressures outlined above, it is unlikely that many firms will be in a position to adopt the standards in full. If the FRC has views on aspects of the standards which it considers to be a priority, it would be beneficial to highlight those specific aspects for firms to consider early adoption. Any support that the FRC can provide to assist with early adoption of aspects of the standards would also be very welcome.

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.

Response

We support the suggestion that firms' quality management systems should take account of positive outcomes and opportunities and focus on remediating deficiencies. We see this as a "best practice" activity and indeed are planning to incorporate this into our own arrangements. We would, however, not support including the evaluation and response to positive outcomes being included as a requirement as many smaller firms may struggle to implement this requirement, on top of the already extensive changes being introduced in the standards. Furthermore, where firms use external providers to undertake quality reviews and root cause

analysis, including positive outcomes may increase the financial cost of such work without a perceived benefit.

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-audit assurance engagement.

Response

We do not believe that ISQM requires enhancement for non-audit assurance engagements. Any requirements or application material for non-audit assurance engagements would be better located in the relevant standards.

Yours faithfully



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