



19th March 2021

Kate Dalby
Project Director
Financial Reporting Council
E-mail: AAT@frc.org.uk

Dear Kate

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

1. We have pleasure in providing you with our comments on your consultation on revising the UK's quality management standards for firms that perform audits or reviews of financial statements, or other assurance or related services engagements.
2. We believe most shareholders look to audits of annual financial statements to underpin their confidence and trust in their companies, management and the numbers they report. It appears that the majority of the thousands of audits each year are carried out at an adequate quality level and many are almost certainly good. However, we are mindful of the conclusions from the FRC's July 2020 summary of audit inspections that firms are still not consistently achieving the necessary level of audit quality and it is clear that further progress is required. We recognise that it is difficult to assess audit quality and easier to assess insufficient or lack of quality, especially when this is only indicated by regulatory monitoring inspections or things going wrong afterwards. As a result, a quality audit will be one where confidence and trust of shareholders is not undermined by subsequent events that point to those audited financial statements being not worth the paper they are written on. We welcome the FRC's move to tighten up the UK's audit quality management standards.
3. The AGM is the best opportunity for shareholders, unless for example conflicting AGMs prevent attendance, to question the Chair, Audit Committee Chair and the

Auditor about audit and accounting judgments, and potential risks – both those that have been highlighted to the Board by the Auditor and ones where shareholders have concerns.

4. In the context of the previous two paragraphs, we answer your five consultation questions as follows.
5. 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.
 - 5.1. Based on your consultation document, but not a detailed reading of the three proposed quality management standards, we support the introduction of a new quality management approach that is focused on proactively identifying and responding to risks to quality. Therefore we 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).
6. 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.
 - 6.1. We also agree that the ISQMs (UK) and ISAs (UK) should be revised to include the proposed UK supplementary material.
 - 6.2. As generalists with an active interest in audits and their quality, we do not feel sufficiently qualified to comment on whether ISQM (UK) 1 or ISQM (UK) 2 should include additional requirements or enhancements.
 - 6.3. However, we sense a possible omission of a requirement for firms to report to key stakeholders of audits, principally shareholders, on their quality management systems and any assessment of audit quality for a relevant reporting period. We do not know whether this requirement should be in auditing standards but would welcome the FRC finding some way for us to obtain such reports, including any annual report flag that would enable requests at AGMs, as mentioned above.
7. 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.
 - 7.1. In the interests of improving audit quality, we recommend strongly that the effective date of the proposed quality management standards should be a year earlier than that proposed, ie 15th December 2021, because waiting for

them to be applied for audits of financial statements ending on or after 31st December 2023 (effectively three years from now) seems to us too far away.

8. 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.

8.1. No response.

9. 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.

9.1. No response.

10. **UKSA (UK Shareholders' Association)** is the oldest shareholder campaigning organisation in the UK. We are a not-for-profit company that represents and supports shareholders who invest in the stock market.

11. There are many agents and intermediaries active in financial markets. Unlike them, we are an organisation solely representing people who are investing their own money.

12. UKSA was formed to provide private shareholders with a voice, influence and an opportunity to meet like-minded fellow investors. It is structured as a non-profit making company with annual subscriptions. An elected Chairman and Board of Directors (all volunteers and individuals with a wide range of backgrounds and experience) monitor a regional organisation. Each region benefits from oversight by an elected regional Chairman and Committee.

13. We build relations with regulators, politicians and the media to ensure that the voice of individual shareholders is reflected in the development of law, regulation, and other forms of public policy.

14. **ShareSoc (UK Individual Shareholders Society)** is the UK's largest retail shareholder organisation, acting in all areas of the UK stock market, with more than 7,000 members. It is a not-for-profit company.

15. ShareSoc is dedicated to the support of individual investors (private shareholders as opposed to institutional investors). We aim to make and keep investors better

informed to improve their investment skills and protect the value of their investments. We won't shirk from tackling companies, the Government or other institutions if we think individual shareholders are not being treated fairly. See www.sharesoc.org

16. If you wish to clarify any of our comments or discuss our thoughts further, please contact Charles Henderson at [REDACTED] and Cliff Weight at [REDACTED].

Yours sincerely

Charles Henderson, Director, UK Shareholders' Association

Direct phone: [REDACTED]; Email: [REDACTED]

Cliff Weight, Director, ShareSoc

Direct phone: [REDACTED]; Email: [REDACTED]