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Financial Reporting Council  
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Dear Ms Dalby,

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

We welcome the opportunity to comment on the 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.

We generally support the proposals to adopt the published International Standards on Quality Management and revisions to the international standards on auditing issued by the International Auditing and Assurance Standards Board (IAASB).

We respond to the specific queries within the consultation document as follows.

### **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 ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK. The International Standards provide a comprehensive and robust approach to Quality Management and it is unnecessary for the UK to diverge from this. The standards are a significant enhancement and it is important that the UK continues to provide the same level of rigour to quality management as that observed internationally. It also aids clarity and comparability when considering international engagements such that the same level of standards which are widely understood can be expected amongst firms from different jurisdictions.

### **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.**

The UK supplementary material is helpful in clarifying the position for UK audit firms, in particular in identifying specific engagements for which an engagement quality review would be required in the UK.

**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.**

It is expected as per the consultation document that the systems of quality management are designed and implemented by 15 December 2022 with the revisions to ISQM (UK) 2 and ISA (UK) 220 being adopted for accounting periods commencing on or after 15 December 2022. This gives less than two years for implementation and by the time the consultation period closes and the standards are adopted possibly 3 or 4 months less than the international community has to adopt the international standards. We consider this to be a tight timetable for implementation.

Whilst we support the FRC's programme to improve standards and enhance the reputation of the audit profession the speed with which changes are being expected to be adopted risks undermining the quality of adoption. The FRC should consider the timetable of implementation against the other changes recently implemented or proposed. These include the post implementation phase for revised ISA (UK) 540 (Auditing Accounting Estimates) and revised ISA (UK) 570 (Going Concern), the revisions to ISA (UK) 315 (Identifying and Assessing the Risks of Material Misstatement through Understanding of the Entity and its Environment), the consultation on changes to ISA (UK) 240 (The Auditor's Responsibilities relating to Fraud) in addition to any other amendments to international standards that may be adopted in the UK for example ISA 600 (Group Audits). It is also necessary to contemplate the wider reform of the audit market now under consultation.

Whilst it may be efficient for auditing standards to be adopted together, the proposals in ISQM 1 should not be considered in the same manner, since they require whole firm changes across departments and functions, policies, procedures and training. Other changes including ensuring there is a sufficiently trained and eligible engagement quality review pool will require a longer lead time especially if the assessment of the criteria for an engagement quality review increases the number of assignments requiring a review.

Whilst the consultation acknowledges the impact of COVID on audit firms it does not consider the other constraints on resources arising from potential audit market reform and the other auditing standards currently in the process of being adopted. Smaller firms do not necessarily have the same ability to re-deploy staff or draw on international knowledge-sharing in the same way as larger firms do. We believe that an additional 12 months will allow for a more robust implementation which will also be able to take into account changes arising from reform of the audit market.

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

We agree with the approach for the firm to identify, evaluate and respond to findings that result in one or more deficiencies in the firm's system of quality control. However, it should be at the discretion of individual audit firms to identify, evaluate and respond to positive outcomes and opportunities rather than a requirement of the standard. Sharing best practice and responding to positive outcomes will assist in improving quality and will likely be a natural result of monitoring and remediation but in a risk-based approach the focus should be on addressing the weaknesses in the system. We do not feel that addressing positive outcomes and opportunities is necessary.

28 January 2021

**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.**

Assuming that this question relates to non-audit assurance engagements yes additional application guidance would be helpful. The UK supplementary material incorporates additional assignments into the scope of those requiring engagement quality review and therefore there should be supporting material where there are additional relevant expectations of the reviewer for these assignments. It is likely that the general application guidance can be applied but to the extent that the FRC expects specific responses these need to be addressed.

If you have any questions regarding this letter, please contact me at [donna.caira@saffery.com](mailto:donna.caira@saffery.com)

Yours sincerely

A solid black rectangular box used to redact the signature of Donna Caira.

Donna Caira  
For and on behalf of Saffery Champness LLP