



**The Japanese Institute of
Certified Public Accountants**

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July 1, 2019
Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017 USA

Dear Mr. Botha,

Re: JICPA Response to the Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

The Japanese Institute of Certified Public Accountants (JICPA) is grateful for the opportunity to comment on the Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1).

Major Points

Our major points are as follows:

Our Comments on “Request for Comments”

- ***Understandability of the standard:*** We are concerned that it is difficult to gain an overall understanding of the standard, including the flow of requirements, from just reading the standard. Therefore, we suggest rewriting the Introduction section and Appendix 1 based on the descriptions in the Explanatory Memorandum. (Comment to Question 2)
- ***The eight components and the structure of ED-ISQM 1:*** We do not support the order and level of eight components and the structure of ED-ISQM 1. We believe that the eight components should be positioned at different levels in the system of quality management. However, ED-ISQM 1 positions all components at the same level. As a result, the structure of the standard and the underlying quality management approach are very difficult to understand. We believe that, at a minimum, the description of “the firm’s risk assessment process” should be included in the first

section in ED-ISQM 1 among the eight components in the same manner as the Explanatory Memorandum. (Comment to Question 4)

Other Significant Comments

- ***Relationship between ED-ISQM 1 and ED-ISQM 2:*** We believe that it is unclear in ED-ISQM 1 that ED-ISQM 2 is on the premise that the firm applies ISQM 1. It is necessary to clarify in ED-ISQM 1 the relationship between ED-ISQM 1 and ED-ISQM 2, and to simplify the standards by avoiding duplication of the descriptions. (Comments to paragraphs 1 and 16)
- ***Consistency between ED-ISQM 1 (paragraph 20) and ED-ISQM 2 (paragraph 12):*** We believe that it is necessary to consider consistency between paragraph 20 of ED-ISQM 1 and paragraph 12 of ED-ISQM 2 with regard to who is required to have an understanding of the standards. (Comment to paragraph 12)

The attached are our comments on “Request for Comments”, and other matters that we consider to be addressed.

We hope that our views will be of assistance to the IAASB.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards
The Japanese Institute of Certified Public Accountants

Overall Questions

- 1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:**
- (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?**
 - (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?**
 - (c) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?**

(Our Comment)

We support the new quality management approach. With regard to our view on the difficulty of understanding the overview of the standard, and the order of the eight components, see our comments on questions 2, 4, and 6.

- 2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?**

(Our Comment)

We are concerned that it is difficult to gain an overall understanding of the standard, including the flow of requirements, from just reading the standard. Therefore, we suggest rewriting the Introduction section and Appendix 1 based on the descriptions in the Explanatory Memorandum.

We believe that the Introduction section and Appendix 1 of the exposure draft do not explain clearly the quality management approach in the standard, which impair the understandability of the standards. In contrast, we found that the Explanatory Memorandum is easy to understand, as it starts with descriptions of the firm's risk assessment process. Without reading the Explanatory Memorandum, we believe that it is difficult to understand the structure of the objective of the standard, and the relationships of the eight components in the system of quality management. As the Explanatory Memorandum will not be included in the final standard, we believe that the Introduction section and Appendix 1 need revision.

With regard to our comments on the structure of the objective of the standard and the eight components, see our comments on questions 4 to 6 below.

3) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

(Our Comment)

We believe that the application material in ED-ISQM 1 is not sufficiently helpful in supporting a consistent understanding of the requirements. As we stated in our comment to question 2, we suggest rewriting the Introduction section and related application material and Appendix 1 based on the description in the Explanatory Memorandum, in order to clarify the overview of the standard. In addition, we are concerned that the application material is very long and complex. As a result, it is difficult to gain an overall understanding of ED-ISQM 1, which makes it difficult for each firm to determine which requirements and application material are relevant. We suggest that the IAASB reconsider whether the following guidance is really necessary, as we believe they are not useful.

- The third sentence of A12, A21, A31, A32, the last sentence of A34, A35, A36, A39, A41, A57, A94, A97, A116, A121, A122, A137, A154, the first sentence of A172, the last paragraph of A180, A187 (excluding the last paragraph), and A188

Specific Questions

4) Do you support the eight components and the structure of ED-ISQM 1?

(Our Comment)

We do not support the order and level of eight components and the structure of ED-ISQM 1. Although ED-ISQM 1 positions all “components” at the same level in the system of quality management, we believe that they should be positioned at different levels. In addition, ED-ISQM 1 includes descriptions of “the firm’s risk assessment process” which is the foundation of the quality management system, between the descriptions of the other components. As a result, the structure of the standard and the underlying quality management approach are very difficult to understand.

We believe that “the firm’s risk assessment process,” which is the core of the proposed quality management approach, and “governance and leadership,” “resources,” “information and communication” and “monitoring and remediation process,” which support “the firm’s risk assessment process,” should not be positioned at the same level as the other three components (i.e., “relevant ethical requirements,” “acceptance and continuance of client relationships and specific engagements” and “engagement performance”). The other three components, which relate to the performance of the individual engagement, should be treated as the processes to which the firm’s quality management approach is applied.

We believe that, at a minimum, the description of “the firm’s risk assessment process” should be included in the first section in ED-ISQM 1 among the eight components in the same manner as the Explanatory Memorandum. In addition, we suggest that the components of the quality management approach (i.e., “the firm’s risk assessment process,” “governance and leadership,” “monitoring and remediation process,” “resources” and “information and communications”) be positioned at a different level from the processes related to the performance of the individual engagement (i.e., “relevant ethical

requirements,” “acceptance and continuance of client relationships and specific engagements” and “engagement performance”) or alternatively, the Introduction section (paragraph 11 of ED-ISQM 1) be expanded to explain this.

5) Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm’s role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm’s public interest role?

(Our Comment)

We have the following comments regarding the objective of the standard and the firm’s role relating to the public interest.

- Objective of ED-ISQM 1

We support the description in paragraph 18. However, without reading the explanation in paragraphs 16 and 17 of the Explanatory Memorandum, it is difficult to understand that the objective of ED-ISQM 1 consists of the objective of the firm and the objective of the system of quality management. Accordingly, we suggest the following changes:

"18. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm,

The objective of the system of quality management is to ~~that~~ provides the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances."

In addition, we believe that it is difficult to distinguish the following similar wordings which are used in the Explanatory Memorandum and ED-ISQM 1:

- “The objective of the system of quality management” (singular “objective”): To provide the firm with reasonable assurance of the matters described in paragraphs 18(a) and (b) (the charts in paragraphs 16, 27, 31 and 37 of the Explanatory Memorandum, and paragraph 18 of ED-ISQM 1)
- “The objectives of the system of quality management” (plural “objectives”): The statements in paragraphs 18(a) and (b) (paragraph 17 of the Explanatory Memorandum, and paragraphs 7, 10(a) and 12 (last sentence) of ED-ISQM 1)

- “The purpose of a system of quality management” (“purpose”): To support the consistent performance of quality engagements, by providing the firm with reasonable assurance that the objectives of the system, stated in paragraphs 18(a) and (b), are achieved (the first sentence of paragraph 7 of ED-ISQM 1)

For the sake of clarity, the wordings “the objectives of the system of quality management” and “the purpose of a system of quality management” should be changed to other appropriate wordings. For example, with respect to paragraphs 7, 10(a) and 12 of ED-ISQM 1, we suggest the following changes:

"7. ~~The purpose of a system of quality management is to support~~ the consistent performance of quality engagements, by providing the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances. ~~the objectives of the system, stated in paragraph 18(a) and (b), are achieved.~~

The public interest is served by the consistent performance of quality engagements. ~~Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving quality engagements the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, exercising professional skepticism. (Ref: Para. A2–A4)~~

...

10. In taking a risk-based approach to quality management, the firm applies the firm's risk assessment process to the other components. The firm's risk assessment process consists of:

- (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with achievement of ~~reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved...~~

...

12... The monitoring and remediation process provides information that is the basis for the evaluation of whether the objective of the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved."

- The firm’s role relating to the public interest (paragraphs 7 and A2)

We believe that the descriptions about the firm’s role relating to the public interest can be made clearer. The second sentence in paragraph 7 states only that “the public interest is served by the consistent performance of quality engagements,” and it does not sufficiently explain why the consistent performance of quality engagements serves the public interest. We suggest adding an explanation in the application material (paragraph A2) to state that the audits of the listed entities influence a wide range of stakeholders and therefore, the consistent performance of quality audits of the listed entities will be of particular benefit to the public interest. Our suggested wording is as follows:

"A2. The IESBA Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest. Although nature and extent of the professional accountant's role to act in the public interest vary dependent on the engagements performed, all professional accountants have a responsibility to act in the public interest. For example, in the case of the audits of the listed entities, the intended users include investors in the financial market. Therefore, for the firm that performs the audits of the listed entities, consistent performance of quality audits of the listed entities is a top priority to meet its responsibility to act in the public interest. (see paragraphs 23(c) and 37(e)(ii))"

6) Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:

(a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?

(b) Do you support the approach for establishing quality objectives? In particular:

i. Are the required quality objectives appropriate?

ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

(c) Do you support the process for the identification and assessment of quality risks?

(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

(Our Comment to (a))

We agree that the firm's risk assessment process should be applied to the other components of the system of quality management. However, as stated in our comments on question 4, we believe that the firm's risk assessment process is the core concept underlying the system of quality management, and it should not be positioned at the same level as the other components. In addition, as ED-ISQM 1 describes the firm's risk assessment process after governance and leadership, it is difficult to understand that the firm's risk assessment process should be applied to the other components. Therefore, in order to improve the overall understandability of the standard, we believe that, at a minimum, the firm's risk assessment process should be described in the first section of the requirement. Indeed, the firm's risk assessment process is firstly described in the Explanatory Memorandum. As we commented on question 2, the Explanatory Memorandum is easier to understand than the Introduction section of the standard.

(Our Comment to (b) to (d))

We agree with the proposal.

7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

(Our Comment)

We believe that the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership.

8) With respect to matters regarding relevant ethical requirements:

(a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

(b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

(Our Comment to (a))

It is vital to take a proactive measure to ensure compliance with relevant ethical requirements within the firm in a consistent manner. Therefore, we believe that ED-ISQM 1 should require firms to assign responsibility for relevant ethical requirements to an individual in the firm. In order to ensure scalability, the application material can explain that the firm may appoint a person who is responsible for relevant ethical requirements as well as independence requirements.

(Our Comment to (b))

We believe that the standard appropriately addresses the responsibilities of the firm regarding the independence of other firms or persons within the network.

9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

(Our Comment)

We believe that ED-ISQM 1 has been appropriately modernized to address the use of technology by firms in the system of quality management.

10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

(Our Comment)

We agree with the proposed requirements for communication with external parties.

11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

(Our Comment)

We agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review.

12) In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:

- (a) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?**
- (b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?**
- (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?**
- (d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:**
 - i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?**
 - ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?**
- (e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?**

(Our comment to (a))

We agree that the proposals will improve firms' monitoring of the system of quality management as a whole. However, we believe that clarification is necessary relating to matters in our comments on (b),

(c) and (e) below.

(Our Comment to (b))

We agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews. However, we believe paragraph A169 needs clarification. The first sentence of paragraph A169 states that "...for example, the firm may determine that the cyclical period for an engagement partner performing audits of financial statements is every three years..." The final sentence of paragraph A169 also states that "the cyclical period may also be affected by the nature, timing and extent of inspection of in-process engagements and the results thereof." It is unclear whether such statements are intended to indicate that a three-year period may be extended by conducting the inspection of in-process engagements, or are intended to indicate that a period should be shorter than 3 years depending on the results of the inspection of in-process engagements.

In this respect, we believe that the requirements and application material use the following similar wordings, which result in the unclearness of the guidance in paragraph A169:

- Ongoing monitoring activities (paragraph 44)
- The inspection of in-process engagements (paragraphs 45, A156 and A169)
- In-process review (paragraph A157)

For example, paragraph 45 explains that "engagement inspections may include the inspection of in-process or completed engagements" and paragraph 45(b) requires the inspection of the completed engagement for each engagement partner on a cyclical basis. On the other hand, the second bullet of paragraph A156, which is the application material of the requirement addressing ongoing and periodic monitoring activities (paragraph 44), states that one of the ongoing monitoring activities is "inspection of in-process engagements that are focused on specific aspects of completed work." We believe that such statements may result in misunderstandings that "inspection of in-process engagements" is conducted for "completed engagements."

(Our Comment to (c))

We support defining deficiency in three categories: quality objectives, quality risks, and responses. However, since the latter part of paragraph 19(a)(ii) states that "... such that a response that addresses that risk has not been appropriately designed or implemented," a deficiency relating to the design or implementation of the response can be categorized as both paragraph 19(a)(ii) and (iii). Therefore, we believe that it is necessary to clarify the distinction between paragraph 19(a)(ii) and (iii).

(Our Comment to (d))

We agree with the new requirements for the firm to investigate the root cause of deficiencies. With regard to positive findings, although we do not oppose if the standard seeks to explicitly address them in the requirement or provide more guidance in the application material, we do not think such additional enhancement is necessary.

The second sentence in paragraph 12 states that "the findings arising from the monitoring may also highlight positive practices that the firm uses to enhance its system of quality management." We suggest deleting it, as it is a mere statement of fact and therefore is not necessary.

(Our Comment to (e))

It is not sufficiently clear how to apply annual evaluation as required by paragraph 56. We suggest that the application material clarify that a personnel with ultimate responsibility and accountability for the system of quality management should evaluate the achievement of the objective of the system of quality management at least annually based on ongoing monitoring and remediation processes and information communicated relating to those processes, but it does not mean that such personnel is required to evaluate all aspects of the system of quality management at a particular date.

13) Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

(Our Comment)

We support the proposals addressing networks.

14) Do you support the proposals addressing service providers?

(Our Comment)

In order to clarify when the requirements addressing service providers relate to the firm, we suggest the following:

- We suggest adding a definition of “service providers” in paragraph 19.
- Paragraph A206 describes factors to be considered in determining whether and to what extent paragraph 64 relates to the firm. Therefore, we suggest including the elements of paragraph A206 into the requirement (paragraph 64).

15) With respect to national standard setters and regulators, will the change in title to “ISQM” create significant difficulties in adopting the standard at a jurisdictional level?

(Our Comment)

We believe that the change in the title will not create significant difficulties in Japan.

Other Comments on Individual Paragraphs of ED-ISQM 1

- Paragraph 1 (Relationship between ED-ISQM 1 and ED-ISQM 2)

We believe that it is unclear in ED-ISQM 1 that ED-ISQM 2 applies to the engagements for which the firm determines that the engagement quality review is required to be performed in accordance with ED-ISQM 1, and therefore ED-ISQM 2 is on the premise that the firm applies ISQM 1. In ISAs, the authority of ISAs is only described in ISA200 to avoid duplicated descriptions in other ISAs. ISQMs should be structured in the same way. To clarify the relationship between ED-ISQM 1 and ED-ISQM 2, and to simplify the standards by avoiding duplication of the descriptions, we suggest the following changes:

"1. This International Standard on Quality Management (ISQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. ISQM 2, which applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ISQM 1, deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews. This ISQM is to be read in conjunction with relevant ethical requirements."

With regard to our suggestion to delete duplication of the descriptions related to the above change, please see our comment on paragraph 16 below and our comment on ED-ISQM 2 (Question 2).

- Paragraph 16 (Relationship between ED-ISQM 1 and ED-ISQM 2)

Paragraph 16 overlaps with paragraph 8 of ED-ISQM 2. Given that ED-ISQM 2 addresses the requirements for the engagement quality review with respect to the engagement for which an engagement quality review is required to be performed in accordance with ED-ISQM 1, we believe that the matters described in ED-ISQM 1 do not necessarily need to be repeated in ED-ISQM 2. As stated in our comment to paragraph 1 above, in order to clarify the relationship between ED-ISQM 1 and ED-ISQM 2 and to simplify the standards, we believe that paragraph 16 of ED-ISQM 1 should be changed as follows and paragraph 8 of ED-ISQM 2 should be deleted:

"Authority of ~~this~~ ISQMs

16. ~~This~~ ISQMs contains the objective of the firm in following ~~this~~ ISQMs, and requirements designed to enable the firm and the engagement quality reviewer (in the context of ISQM 2) to meet that stated objective...."

- Paragraph 19(e)

The definitions of "engagement quality reviewer" in ED-ISQM 1 (paragraph 19(e)) and ED-ISQM 2 (paragraph 11(b)) differ from the definition in ED-220 (paragraph 10(c)); they should be aligned.

- Paragraph 19(m) (the definition of "personnel")

We believe that it is necessary to clarify whether the definition of "personnel" includes individuals, other than partners and staff, who perform procedures in professional service engagements. "Personnel" is defined as "partners and staff" and "staff" is defined as "professionals, other than

partners, including any experts the firm employs.” Accordingly, the definition of “personnel” does not include, for example, individuals other than professionals who support the work performed by the staff. On the other hand, “engagement team” is defined as “all partners and staff who perform the engagement, and any other individuals who perform procedures on the engagement...” Therefore, there is inconsistency regarding “any other individuals who perform procedures on the engagement” between the definition of “personnel” and the definition of “engagement team.”

- Paragraph 19(s)

Relevant ethical requirements should be complied with not only by professionals but also by the firms. Accordingly, we suggest the following amendments to paragraph 19(s) of ED-ISQM 1 (see our comments to ED-ISQM 2):

“Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants and firms when undertaking ...”

- Paragraph 20

(Consistency with paragraph 12 of ED-ISQM 2)

We believe that consistency between paragraph 20 of ED-ISQM 1 and paragraph 12 of ED-ISQM 2 needs to be reconsidered. Paragraph 12 of ED-ISQM 2 requires the firm as well as engagement quality reviewer to have an understanding of ISQM 2, while paragraph 20 of ED-ISQM 1 requires the individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm’s system of quality management to have an understanding of ISQM 1. Therefore, there is inconsistency between those requirements with regard to the treatment of “the firm.”

(Required understanding of the individual(s) assigned ultimate responsibility and accountability)

Paragraph 20 states that the individual(s) assigned ultimate responsibility and accountability and the individual(s) assigned operational responsibility, are required to have an understanding of ISQM 1 relevant to their responsibilities. To avoid the misunderstanding that merely a superficial understanding is sufficient, we suggest the following changes:

"20.The individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm's system of quality management shall have an understanding of this ISQM ~~relevant~~in order to fulfill their responsibilities, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly."

- Paragraph 23(c)

Paragraph 23(c) states that “the firm’s strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm’s role in serving the public interest, by consistently performing quality engagements.” We suggest that the requirements for quality objectives be divided between “commitment to quality” and “commitment to the firm’s role in serving the public interest.”

- Paragraphs 23(c) and (e) and paragraph 38 (Quality objectives for resources)

Resources are addressed in paragraphs 23(c) and (e) (governance and leadership) and paragraph 38 (resources). We believe it is necessary to clarify the distinction and relationships of these requirements.

- Paragraphs 41(b), A62 and A141

We believe that it is necessary to consider whether the wordings “design” and “operate” are used in a consistent manner in the following sentences:

- Paragraph 41(b): “Communicating the responsibility for implementing the firm’s responses to relevant personnel, including engagement teams. (Ref: Para. A141)”
- Paragraph A62: “The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level in order for a response to operate as designed”
- Paragraph A141: “Responsibility for operating the responses designed and implemented by the firm may be assigned to: ... The engagement team, as described in paragraph A62”

- Paragraph 50

The reference to paragraph A163 should be amended to the reference to paragraph A184.

- Paragraph 51 (findings about a particular engagement)

We suggest moving paragraph 51 after paragraph 47 as it relates to evaluating findings and identifying deficiencies, which is addressed in paragraph 47.

- The last sentence of paragraph A13

Because the text is long and difficult to read, we suggest that the text be bulleted as follows:

“For the purposes of this ISQM, “network requirements or network services” includes:

- Requirements established by the network regarding the firm’s system of quality management; and
- Services or resources provided by the network that the firm chooses to implement or use in its system of quality management. Network services are obtained from the network, network firms or another structure or organization in the network.”

- Paragraph A73

We believe it is necessary to clarify the distinction between the third bullet (“The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable”) and the fifth bullet (“Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach”).

- Paragraph A90

Paragraph A90 is referenced from the requirement when the firm is obligated by law or regulation to accept the client relationship or specific engagement (paragraph 35). However, paragraph A90

describes the principle of integrity in the IESBA Code and therefore is not relevant to paragraph 35. Therefore, we suggest that the IAASB reconsider the appropriateness of the reference.

- Paragraphs A186 and A187

Paragraphs A186 and A187 should be referenced from paragraphs 52 to 53 and not from paragraph 54. They do not address communication to external parties which is addressed in paragraph 54.