

2021

# Consultation Paper

Proposal to Revise the Irish Quality  
Management Standards

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## **Mission**

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

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## 1. Summary

The purpose of this consultation paper is to obtain stakeholders' views regarding IAASA's proposal to issue:

- International Standard on Quality Management ('ISQM') (Ireland) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- International Standard on Quality Management (Ireland) 2, *Engagement Quality Reviews*; and
- International Standard on Auditing ('ISA') (Ireland) 220 (Revised), *Quality Management for an Audit of Financial Statements*.

The new standards will replace IAASA's current quality control standards:

- International Standard on Quality Control ('ISQC') (Ireland) 1 (Revised November 2020), *Quality Control for firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; and
- ISA (Ireland) 220 (Revised November 2020), *Quality Control for an Audit of Financial Statements*.

It is also proposed to make conforming amendments to other standards to reflect these changes.

The proposed effective date of the new standards is 15 December 2022, with early adoption permitted. This date is in line with both the Financial Reporting Council ('FRC') and International Auditing and Assurance Standards Board ('IAASB').

The main proposals are summarised in section 3 below.

The proposed ISQM standards are available [here](#).

The proposed ISA (Ireland) 220 is available [here](#).

The proposed conforming amendments can be found [here](#).

## 2. Background

The ISAs (Ireland) are based on the ISAs (UK) which, in turn, are based on the corresponding standards issued by the IAASB. IAASA's policy is to make minimal amendments to the UK standards. Amendments are considered where there is a conflict with Irish or EU law or where there are distinct differences between the Irish and UK markets which impact on the applicability of a standard in Ireland.

In December 2020, the IAASB issued final versions of ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2, *Engagement Quality Reviews*, and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, together with related conforming amendments to other ISAs. ISQM 1 and ISQM 2 replaced ISQC 1, the standard that dealt with a firm's responsibilities for its system of quality control.

The FRC issued a consultation on the revised UK quality management standards in December 2020. In July 2021, the FRC issued ISQM (UK) 1, ISQM (UK) 2, revised ISA (UK) 220 and a feedback statement on its consultation (details of which can be found [here](#)). The changes reflected the IAASB standards with the insertion of some additional material, primarily to retain requirements in the FRC's extant quality control standards reflecting EU audit legislation that has been retained in UK law post-Brexit.

In line with IAASA's policy to adopt the UK standards, IAASA intends to adopt the suite of quality management standards and conforming amendments with minimal amendments (section 4 refers). IAASA does not propose to add any new Irish requirements to the standards.

### 3. Overview of proposed revisions

Text in the exposure drafts that is highlighted in grey supplements the text of the underlying IAASB international standards. It indicates the additional material inserted by the FRC, which IAASA also proposes to adopt with changes where considered necessary to reflect Irish law and market conditions.

The proposed standards introduce a new quality management approach that is focused on proactively identifying and responding to risks to quality. The new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs. It also requires firms to transition from policies and procedures that address standalone elements, as required by extant ISQC (Ireland) 1, to an integrated approach that reflects upon the system of quality management as a whole. The benefits of this new approach include:

- A system that is tailored to the nature and circumstances of the firm and the engagements it performs;
- A proactive response by the firm to changing circumstances and proactively managing or mitigating risks, and promoting continual improvement and responsiveness;
- Increased emphasis on monitoring the system as a whole and timely and effective remediation; and
- Improved integration of the components of the system of quality management.

IAASA intends to issue public consultations on proposals to issue Standards for Investment Reporting ('SIRs') (Ireland) and International Standard on Review Engagements ('ISRE') (Ireland) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, later in the year. In this context, the exposure drafts contain references to both the SIRs (Ireland) and ISRE (Ireland) 2410 to indicate where the proposed quality management standards are intended to be applicable to these assurance standards, when issued by IAASA.

#### ISQM (Ireland) 1

ISQM (Ireland) 1 will apply to all firms that perform engagements under IAASA's performance standards. It will replace ISQC (Ireland) 1 (Revised November 2020), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. ISQM (Ireland) 1 moves firms from a compliance based approach to quality control to a quality management framework requiring a risk-based, proactive and tailored approach to managing the quality of audit engagements.

ISQM (Ireland) 1 requires firms to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. The components of a system of quality management are:

- The firm's risk assessment process;
- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources;
- Information and communication; and
- The monitoring and remediation process.

ISQM (Ireland) 1 requires firms to design and implement a risk assessment process to:

- Establish quality objectives;
- Identify and assess quality risks; and
- Implement responses to address those quality risks.

The requirements of the EU Audit Regulation and Directive in the extant ISQC (Ireland) 1 have been aggregated in paragraphs 34D-1 and 34R-2, organised by components of the quality management system.

Paragraph 34(f) requires the firm to establish policies and procedures that require an engagement quality review for certain engagements, including audits of financial statements of public interest entities. It is proposed to expand this requirement to include public reporting engagements carried out in accordance with the proposed Standards of Investment Reporting (Ireland), when issued.

## **ISQM (Ireland) 2**

ISQM (Ireland) 2 will apply to all engagements for which an engagement quality review is required to be performed in accordance with ISQM (Ireland) 1. It deals with the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review. Currently, these requirements are covered across the extant ISQC (Ireland) 1 (Revised November 2020) and ISA (Ireland) 220 (Revised November 2020).

The main revisions are listed below.

- Strengthened eligibility criteria for appointment as an engagement quality reviewer. A reviewer is required to:
  - Have competence, capabilities (including sufficient time) and appropriate authority;
  - Comply with relevant ethical requirements, including objectivity and independence; and
  - Comply with provisions of law and regulation relevant to eligibility of engagement quality reviewers.
- Strengthening of the engagement quality reviewer's responsibilities relating to the performance and documentation of the engagement quality review.

- Requirement for the engagement quality reviewer to “stand-back” to determine whether the performance requirements in ISQM (Ireland) 2 have been fulfilled.
- Some of the extant requirements in ISQC (Ireland) 1 (Revised November 2020) and ISA (Ireland) 220 (Revised November 2020) have been revised and relocated to ISQM (Ireland) 2, including:
  - The requirements from the EU Audit Regulation along with the corresponding application material; and
  - Paragraph 24R-1 requires the engagement quality reviewer to consider the relevant ethical requirements, the safeguards applied and the corresponding audit documentation. New application material has been added (paragraph A27-3) to cross-refer this requirement to the documentation required by ISA (Ireland) 220 (Revised).

### **ISA (Ireland) 220 (Revised)**

The proposed ISA (Ireland) 220 (Revised) deals with the engagement partner’s and the engagement team’s responsibilities for quality management for an audit of financial statements. It integrates the quality management concepts in ISQM (Ireland) 1 and requires the engagement partner and the engagement team to be proactive in managing and achieving quality.

The substantive proposals are summarised below.

- The requirements related to engagement quality reviews have been relocated to ISQM (Ireland) 2, including the additional requirements and application material relating to the requirements of EU audit legislation.
- The definition of engagement team has been changed to recognise that, regardless of where individuals are located or how they are related to the firm, an individual performing audit procedures is to be appropriately directed and supervised and the work reviewed in accordance with ISA (Ireland) 220 (Revised).
- The engagement partner’s overall responsibility to manage and achieve quality on the engagement is demonstrated through sufficient and appropriate involvement throughout the audit engagement.
- The requirements and application material are more explicit about what the engagement partner needs to review, including a list of examples of significant judgments in relation to the audit engagement.
- New material on the importance of professional scepticism and professional judgment in performing audit engagements.
- The engagement partner is responsible for determining that sufficient and appropriate resources are assigned or made available on a timely basis and for taking appropriate action when they are not provided by the firm.
- The inclusion of introductory material on scalability to state that the standard is intended to be applied in the context of the nature and circumstances of each audit.

### **Conforming amendments**

The other ISAs (Ireland) to which it is proposed to make conforming amendments are listed below. They are in line with the changes made by the IAASB and FRC.

- ISA (Ireland) 200 (Updated December 2018), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*
- ISA (Ireland) 210 (Revised November 2020), *Agreeing the Terms of Audit Engagements*

- ISA (Ireland) 230 (Updated December 2018), *Audit Documentation*
- ISA (Ireland) 250 (Revised November 2020), *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*
- ISA (Ireland) 260 (Revised November 2020), *Communication with Those Charged with Governance*
- ISA (Ireland) 300, *Planning an Audit of Financial Statements*
- ISA (Ireland) 315 (Revised October 2020), *Identifying and Assessing the Risks of Material Misstatement*
- ISA (Ireland) 500 (Updated December 2018), *Audit Evidence*
- ISA (Ireland) 540 (Revised December 2018), *Auditing Accounting Estimates and Related Disclosures*
- ISA (Ireland) 600 (Revised November 2020), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- ISA (Ireland) 610, *Using the Work of Internal Auditors*
- ISA (Ireland) 620 (Revised November 2020), *Using the Work of an Auditor's Expert*
- ISA (Ireland) 700 (Revised November 2020), *Forming an Opinion and Reporting on Financial Statements*
- ISA (Ireland) 701 (Revised November 2020), *Communicating Key Audit Matters in the Independent Auditor's Report*
- ISA (Ireland) 720 (Revised November 2020), *The Auditor's Responsibilities Relating to Other Information*
- ISA (Ireland) 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

#### Proposed effective date

The proposed effective date of the revised standards is 15 December 2022, with early adoption permitted. This is the same effective date as the IAASB and FRC quality management standards and will apply to each standard as set out in the table below.

ISQM (Ireland) 1	ISQM (Ireland) 2	ISA (Ireland) 220 (Revised)
Systems of quality management in compliance with ISQM (Ireland) 1 are required to be designed and implemented by 15 December 2022 and the evaluation of the system of quality management required by paragraphs 53-54 is required to be performed within one year following 15 December 2022.	Effective for: <ul style="list-style-type: none"> <li>• Audits and reviews of financial statements for periods beginning on or after 15 December 2022; and</li> <li>• Other assurance or related services engagements beginning on or after 15 December 2022.</li> </ul>	Effective for audits of financial statements for periods beginning on or after 15 December 2022.

## 4. Consideration of the Irish market and international developments

The FRC adopted the IAASB's revisions with minimal changes to retain supplementary material in the extant ISQC 1 (UK) and ISA 220 (UK). The supplementary material reflects the requirements of EU

audit legislation that has been retained in the UK post Brexit. Requirements of the EU Audit Regulation and Directive are indicated in the IAASA standards through the use of 'R' and 'D' in the paragraph numbering as appropriate.

All additional material inserted by the FRC in the IAASB standards has been reviewed in detail. IAASA considers that it is appropriate to adopt these changes in Ireland as they address the requirements of EU audit legislation and are included in IAASA's extant quality control standards. We will continue to monitor developments in the UK, including any further changes to the UK auditing framework resulting from the recent Department for Business, Energy and Industrial Strategy consultation, *Restoring Trust in Audit and Corporate Governance*, to assess whether it is appropriate to adopt them in Ireland.

## 5. Additional material

Respondents may find it helpful to refer to the quality management section of the IAASB's website (<https://www.iaasb.org/focus-areas/quality-management>). The IAASB have published first time implementation guidance to guide firms through the process of implementing a system of quality management and understanding some of the detail around this, as well as fact sheets and videos to further support firms.

## 6. Matters on which IAASA is consulting

In light of the above, a number of matters are set out below on which IAASA is seeking views from stakeholders and interested parties **by 5pm on Friday 26 November 2021**.

No.	Matters on which views are sought
1.	<p>In the context of IAASA's policy to make minimal amendments to the UK standards, are there any provisions in the proposed quality management standards that, in your opinion, conflict with Irish or EU law?</p> <p>If so, please:</p> <ol style="list-style-type: none"><li>Identify the relevant legal provisions;</li><li>Give reasons for your view; and</li><li>Explain what actions, if any, you believe should be taken to revise the quality management standards in Ireland in respect of the matters concerned.</li></ol>
2.	<p>In the context of IAASA's policy to make minimal amendments to the UK standards, are there any areas not identified in this consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed quality management standards in Ireland?</p> <p>If so, please:</p> <ol style="list-style-type: none"><li>Give your reasons;</li><li>Identify the market sectors, audited entities etc. in Ireland impacted by the proposed amendments; and</li></ol>

iii. Explain what actions, if any, you believe should be taken to revise the quality management standards in Ireland in respect of the matters concerned.

3. Is the proposed effective date of 15 December 2022, as set out in section 3, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

## 7. Making your submission

IAASA invites comments on the proposed revisions to the quality management standards.

In particular, comments are sought on the specific matters set out in section 6 above.

Stakeholders and interested parties are invited to provide responses to the above questions by e-mail only to **submissions@iaasa.ie** no later than **5pm on Friday 26 November 2021**.

Comments are most helpful if they:

- Respond directly to the specific question posed;
- Provide a clear rationale for the position adopted by the respondent;
- Provide supporting evidence underpinning the views expressed/rationale proposed; and
- Describe in detail any alternative options you wish IAASA to consider.

All responses from identifiable individuals and organisations received by the deadline will be considered by IAASA. Depending on the nature and scale of responses, IAASA may publish a feedback statement summarising the content of the responses. Respondents should note that, in the interest of transparency, their responses may be published in full or in part (and may be attributed to the respondent) by IAASA in that feedback statement.



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