



IAIS 25
YEARS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

1 July 2019

Prof. Arnold Schilder,
Chairman
International Auditing and Assurance Standards
Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York
10017 U.S.A.

RE: IAASB Exposure Drafts on Audit Quality Management (ISQM 1/2/ISA 220)

Submitted via IAASB website

Dear Professor Schilder:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Auditing and Assurance Standards Board's Audit Quality Management exposure drafts (ISQM 1/2/ISA 220).

The IAIS is supportive of the work of the IAASB in this area. It is important that suitable standards are in place to ensure that the quality of audits is managed, reviewed and assessed. In particular, the IAIS supports:

- A principle based (and risk based) approach to issues that may affect the quality of audits. However, the IAASB should ensure that judgements by the audit firm can be subject to review and enforcement by audit regulators where appropriate.
- Greater emphasis on the importance of the public interest in managing the quality of audits.
- The provision of new guidance with regards to engagement quality reviews, including the eligibility of engagement quality reviewers.
- Greater clarity as to the monitoring and remediation process with the firm now required to investigate the root causes of identified deficiencies so that appropriate action can be taken.

That said, we do have some comments in specific areas as noted below.

Quality of management at an audit firm network level

Many insurers and other organisations are audited by firms that are part of a larger audit network. In such cases, the quality management systems and processes that are

established at the network level have a direct impact on the quality of audits by firms within the network. For these reasons, it is important that quality management systems and processes at the network level are within scope of audit inspections. This would help to ensure that the network contributes appropriately and positively towards audit quality.

In order to increase the effectiveness of such network inspections, the IAASB should give further consideration to whether requirements can be enforced against networks of audit firms. If this is not possible, the IAASB should consider whether weaknesses in the systems and processes of the audit firm network can give rise to enforcement action against audit firms collectively that are part of that network.

Component auditors

Insurance groups may have several audit firms that contribute to a group audit, particularly where an insurer has international operations. In these cases, the audit firms used may or may not be part of the same audit network. There is currently no explicit text in the exposure drafts which set out the interaction of the group and component auditor in relation to quality management. As a result, it may be unclear how quality management arrangements should operate where component auditors are used. The IAASB should consider providing some additional clarity in this area.

Scope of Engagement Quality Review (EQRs)

The IAASB's exposure draft ISQM 1 does not mandate that Engagement Quality Reviews are carried out for specific firms (including insurance firms). Rather, it is for the audit firm to determine the public interest firms that are within scope of the review. We think that there would be a clear public interest for audit firms to carry out engagement quality reviews on insurers – particularly where these have significant scale. We would encourage the IAASB to make this clear in the standards to reduce the risk of audit firms taking a very narrow view of the appropriate scope for engagement quality reviews.

Other Issues:

There are several other areas where the IAIS believes improvements can be made:

- ED-ISQM1 refers to reasonable assurance being obtained when the firm's system of quality management reduces risk to an acceptably low level. The current text would seem to leave it to the audit firm to determine an acceptable level of risk. It should be clarified that this level of risk should be determined in the public interest. This assessment should also have regard to the various stakeholders of the firm – in particular audit, securities and financial services regulators.
- ED-ISQM 2 is clear that an engagement quality reviewer must not have been the audit's engagement partner. However, it does not currently rule out the possibility that they had some other senior role on the audit team or as part of the engagement review. The IAASB should consider tightening these criteria in order to provide a more complete and consistent set of limitations and help to avoid perceptions of conflicts of interest.

This response letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG's membership represents a subset of all IAIS

members. If you have further questions regarding this letter, please contact Jay Muska at the IAIS Secretariat (tel: +41 61 280 8953; email: jay.muska@bis.org) or Markus Grund, Chair of the IAIS AAWG (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Victoria Saporta'.

Victoria Saporta Chair, Executive Committee

A handwritten signature in blue ink, appearing to read 'Elise Liebers'.

Elise Liebers, Chair, Policy Development Committee