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KICPA's Comments on IAASB's Exposure Draft for 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

Dear Willie Botha,

KICPA is pleased to have an opportunity to comment on the Exposure Draft (ED) issued by the International Auditing and Assurance Standards Board for Accountants (IAASB), regarding proposed ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements. KICPA is a strong advocate of IAASB for your relentless efforts to serve the public interest by setting high-quality international standards for auditing, assurance, and other related standards, and by facilitating the convergence of international and national auditing and assurance standards.

Please see the below for our responses to the specific questions.

<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?

As we understand, ED-ISQM 1 is established, adding requirements of extant ISQC 1 with new ones, and introduces the risk-based approach incorporating the quality management approach (QMA) to improve scalability. Given that ED-ISQM includes enhanced requirements, it is not certain whether the adoption of the QMA could end up with the collective improvements in scalability of the standards to cover SMPs. After all, the QMA selected by ISQC 1 mostly takes into account practices of major global firms, and they are also facing difficulties with adopting and implementing the QMA in practice.

Considering such difficulties, it would be desirable for the IAASB to identify first whether ED-ISQM 1 results in actual enhancement of quality management before finalizing the proposal, and conduct pilot tests for SMPs to evaluate scalability of the standards, thereby making it possible to reflect test results and implications.

<Specific Questions>

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

We support firms applying their risk assessment process, reflecting information and communication and a risk-based approach, on components of extant ISQC 1 as essential aspects that enable the operation of each of the other components of a QMS.

However, firms' quality assessment process is a one applied when setting up quality objectives, identifying and assessing risks and designing responses, which are a bit different from other components. Given this, it is not certain whether the component is on an equivalent level with other components.

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?

If ED-ISQM 1 should retain the eight components for consistency with extant ISQC 1, it would be more appropriate to just apply requirements demanding the design and implementation of responses to assessed risks and provide more detailed quality objectives and responses as a form of consideration, which would be more aligned with the principles-based approach and give flexibility in accepting other risk management system, thereby making it possible to improve practical scalability, rather than going ahead with the extant ED-ISQM 1 proposal that provides individual requirements on quality objectives and

responses and demands the inclusion of additional requirements if they occur.

We believe that the requirements, in particular, that require firms to design and implement quality objectives and responses, if ED-ISQM 1 necessitates additional ones demanded by the standards, could invite heated discussion, especially when regulators and firms are not on the same page with additional quality objectives and responses.

(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?

We believe ISQM 1 providing specified quality objectives and responses as considerations, instead of requirements, could be aligned with the principles-based approach, thereby resulting in designing and implementing tailored responses that are appropriate for assessed quality risks.

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?

Assigning responsibilities for relevant ethical requirements to an individual in the firm is not appropriate, as we consider, taking into account excessive responsibilities to be shouldered to the individual. In case of small firms, in particular, it would not be meaningful to assign responsibilities for ethical requirements to individuals.

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

(c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?

We support the circumstances in which deficiency exists. The application material mentions what needs to be taken into account when determining whether negative findings are a deficiency or not, from the perspective of framework identifying deficiencies, but not mentions the illustrative examples of negative findings that are not deficiencies, thereby creating the need for the development of application materials dealing with such examples.

(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?

Taking into account the nature of identified deficiencies and possible severity could give flexibility to the nature, timing and extent of the procedures to investigate the root cause. However, the IAASB should be mindful of the fact that large-sized firms are also facing difficulties in practice with establishing such policy, and consider the necessity of developing the root cause analysis framework, thereby supporting firms to implement it in an easy manner.

(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?

The requirement on evaluating a QMS at least annually along with the implementation of the monitoring and remediation process could add heavy pile of burdens in practice, and raise a question whether benefits of the requirement would outweigh costs arising from it.

Unlike other risk process frameworks, including COSO, ED-ISQM 1 includes deficiencies in relation with quality objectives and risk assessment. To evaluate the QMS and provide reasonable assurance that the objectives of the system have been achieved, common understanding and awareness of the evaluation of quality objectives are required.

As mentioned in our response on the above question 6, the lack of common understanding and awareness of requirements on quality objectives and responses could create unnecessary audit quality review risks, thereby leading to undermining social credibility over firms.

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?

We believe that the purpose and role of ISQM are not much different from those of extant ISQC 1, thereby creating no need for changing the title. In addition, relevant legislations use the extant title in several jurisdictions under which case changing title could lead to the revision of such legislations, which sounds somewhat difficult.