



1 July 2019

Arnold Schilder  
Chairman  
International Auditing and Assurance Standards Board  
545 Fifth Avenue  
New York  
10017 USA

Dear Arnold

**Comments on the IAASB's Proposed International Standards on Quality Management 1 (ISQM 1)**

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the proposed International Standards on Quality Management 1 (ISQM 1), developed by the International Auditing and Assurance Standards Board (IAASB).

Our response has been prepared by the Audit Research and Development Business Unit of the Auditor General of South Africa's office.

Our comments are presented under the following sections:

1. General comments; and
2. Request for specific comments and responses

If further clarity is required on any of our comments, kindly e-mail us at [ardsupport@agsa.co.za](mailto:ardsupport@agsa.co.za). Alternatively, phone us directly on +27 12 422 9819.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alice Muller', written in a cursive style.

Alice Muller (CA) SA

**Acting National Leader: Audit**

## **General Comments**

1. The Auditor General South Africa (AGSA) welcomes and supports the IAASB's introduction of International Standard on Quality Management 1 to serve public interest by setting high-quality auditing standards for enhancing quality and consistency of practice throughout the world.
2. The new approach focusing on quality management will assist firms in establishing effective systems of quality management needed for the nature and circumstances of each firm and the engagements it performs.
3. The new requirement for firms to establish quality objectives, identify and assess risks to the achievement of these objectives as well as respond to those identified risks will enhance quality management by ensuring that the firms responses are appropriate and focused on what is important for the system of quality management.
4. Including requirements for firm governance and details of what is expected from firm leadership will enhance the system of quality management as leadership need to set the tone at the top.

## **Request for specific comments and responses**

### ***Overall questions***

#### ***Question 1***

Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard?

5. Yes, the ED-ISQM 1 substantively enhances firms' management of engagement quality, and at the same time improve the scalability of the standard. The move to a 'principle-based' approach to quality management allows for a firm to apply the principles of quality management in a non-prescriptive manner for which the identification and response to quality risks can be tailored to the firm and its divisions based on professional judgement.

#### ***Question 1(a)***

Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

6. Yes, we support the new quality management approach. The new approach will prompt firms to identify risks that impact the firm's own strategy and management of quality control objectives based on a respective firms unique operating environment and client portfolios and risks identified therein. This approach is therefore

anticipated to be more effective in achieving the overall objectives set by the standard.

**Question 1(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?

7. Yes, the risk-based approach will increase the exercising of professional skepticism, however more guidance and emphasis is required on the following;
- Leadership culture of exercising professional scepticism,
  - Definition of professional skepticism to be brought back into ISQM
  - Paragraph 22 dealing with the considerations of the nature and circumstances of the firm of the explanatory memorandum to be brought into standard.

**Question 1(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?

8. Yes, the requirements and application material of proposed ED-ISQM 1 is scalable such that it can be applied by firms of varying size, complexity and circumstances as the firms are required to identify quality objectives and quality risks that are applicable to the nature and circumstances of the audit engagements they perform and to respond appropriately to those identified and assessed quality risks.

**Question 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?

9. No, there appear to be no aspects of the standard that may create challenges for implementation considering that the standard is scalable for all firm sizes and provides very practical guidance on how to implement the proposed system of quality management.

### **Question 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?

10. Yes, the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. The application material is voluminous but the referencing of the application material to the requirements of the standard provides an efficient manner to work through and find the appropriate material. It would be more beneficial to also include examples of risks to quality objectives and the assessment thereof in the application guidance.

### **Specific questions**

#### **Question 4**

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

11. Yes, the eight components of the system of Quality Management is comprehensive in describing the building blocks which brings about the system of quality management and the structure of ED-ISQM 1 in line with these components describes how each area is linked to quality objectives.

#### **Question 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?

12. Yes, we do support the objective of the standard, which includes the objective of the system of quality management as the achievement of these objectives will signify an effective system of quality management.
13. Paragraphs 7 and A2 refers to the term "public interest" but does not explain what is meant with the term e.g. who might be included in the definition of public and which types of interests need to be considered by the auditor?
14. We are of the view that the term "public interest" needs to be explained or guidance provided on factors to consider that are in the public interest to enable linking the achievement of the objective of the standard to the firm's public interest role.

**Question 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?

15. Yes, we believe that the application of a risk assessment process will drive firms to establish quality objectives, quality risks and responses which are relevant to the nature and circumstances of the engagements that the firm performs, such that the objective of the standard is achieved.

**Question 6 (a)**

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

16. Yes, we agree that the firm's risk assessment process should be applied to the other components of the system of quality management. It is also important for the IAASB emphasise that the risk assessment can be a stand-alone or incorporated in each of the other elements.

**Question 6 (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?

17. Yes, we support the approach for establishing quality objectives.
18. The required quality objectives in paragraph 23, 32, 34, 36, 38, 40 and 42 of the ED-ISQM 1 are appropriate in addressing the aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management.
19. Paragraph 26 of the ED-ISQM 1 clearly states that the firm is expected to establish additional quality objectives beyond those required by the standard when this is necessary to achieve the objective of ISQM 1.

**Question 6 (c)**

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

20. Yes, we support the process for the identification and assessment of quality risks. However, we recommend that practical examples of quality risks be provided in the

application material.

**Question 6 (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?

21. Yes, we do support the approach that requires the firm to design and implement responses to address the assessed quality risks. We also do believe that this approach will result in a firm designing and implementing responses that are tailored to appropriately address the assessed quality risks.

22. It is clear throughout the ED-ISQM 1 that the firm is expected to design and implement responses in addition to those required by the standard.

**Question 7**

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

23. Yes, the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership.

**Question 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?

24. The ED-ISQM 1 assigns responsibility for quality management system to the chief executive officer or the firm's managing director (or equivalent). Furthermore, the components of the proposed system of quality management include relevant ethical requirements. Therefore, the chief executive officer or firms managing director (or

equivalent) are ultimately responsible for the responsibility for relevant ethical requirements. Assigning a specific individual in the firm for relevant ethical requirements is too prescriptive and may not result in scalability.

25. The standard does appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network.

**Question 9**

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

26. Yes, the ED-ISQM 1 has been appropriately modernised to address the use of technology by firms in the system of quality management.

**Question 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?

27. Yes, the requirements for communication with external parties do promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. The proposals to communicate, via a transparency report or otherwise, when appropriate will encourage firms to communicate.

**Question 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?

28. Yes, we agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review. The requirements for types of audits or clients subject to an engagement quality review in paragraph 37(e) of the ED-ISQM 1 are appropriate and will result in the firm's proper identification of these engagements.

**Question 12**



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

29. Yes, the proposals for monitoring and remediation will improve the robustness of the firms' monitoring and remediation.

**Question 12 (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?

30. Yes, the proposals will improve the 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.

**Question 12 (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?

31. Yes, 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.

**Question 12 (c)**

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

32. Yes, the framework for evaluating findings and identifying deficiencies is clear and we do support the definition of deficiencies.

**Question 12 (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?

33. Yes, we do agree with the new requirement for the firm to investigate the root cause of deficiencies. The fact that the ED-ISQM 1 states that the firm does not need to investigate root causes for all findings but for all deficiencies will enable firms to spend resources on what matters.
34. The nature, timing and extent of the procedures to investigate the root causes for deficiencies are sufficiently flexible in that the firm exercises professional judgement based on the evidence available, the nature of the deficiencies and their possible severity.
35. The manner in which ED-ISQM 1 addresses positive findings is appropriate in that, it is not a requirement for firms to determine root causes for positive findings because the priority is for firms to remediate deficiencies. The ED-ISQM 1 however does discuss the benefits of investigating the root causes of positive findings to encourage the firms include that as part of their investigation, as this may help the firm to identify the root causes or identified deficiencies that existed in other engagements.

**Question 12 (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?

36. There are instances in some firms where the CEO/managing partner may not be a professional auditor registered with the accounting/auditing profession body, this could create a situation where the CEO or equivalent does not meet the requirement of the ED-ISQM on the skills required.

**Question 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?

37. Yes, the ED-ISQM 1 specifically indicate that each firm is responsible for its own systems of quality management, and should ensure that these systems are in accordance with the standard. Therefore, firms will not blindly place reliance on the network quality management requirements. The firms will now assess whether the network's requirements are in accordance with the standard and only place reliance on them once they have confirmed this.

**Question 14**

Do you support the proposals addressing service providers?

38. Yes, we support the proposals addressing service providers. However, we recommend that guidance and clarity be provided with respect to the nature, timing and content of the service provider assessments as well as the primary method of confirming reliance on the service providers quality management processes. Also, further guidance needs to be provided with respect to the remedial actions where a service provider fails to meet quality standards.

**Question 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?

39. No, the change in the title to "ISQM" will not create significant difficulties in adopting the standard at a jurisdiction level.