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International Auditing and Assurance Standards Board (IAASB)

529 5th Avenue
New York, New York
United State of America.

28th June 2019

Dear Sir,

RESPONSES TO EXPOSURE DRAFT ON ISQM 1, 2 AND ISA 220 (REVISED).

We refer to the above invitation for response toward the exposure draft, on behalf of the Audit & Assurance Committee for CAS International, are pleased to submit our responses as follows;

- a) Response Template – covering EM
- b) Response Template ISQM 1
- c) Response Template ISQM2
- d) Response to IAASB ED ISA 220.

We hope the responses are useful for the standard setting process and please do not hesitate to contact us if you require any clarification.

About CAS International

CAS International is a network comprises of accounting and consulting firms serving a wide range of clients globally. The network operation is supported by more than 700 partners and professional staff from local and overseas firms, International committees, task force and frequent meetings, and seminars, which in turn lead to consistent high standards. Website: www.casinternational.net

Thank you.

Yours faithfully,

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Mr. Chen Voon Hann
Chairman of Audit and Assurance Committee
CAS International

Response Template: Proposed ISQM 1

Note to Respondents:

- The questions below are from the exposure draft of proposed International Standard on Quality Management (ISQM) 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*, which is available at www.iaasb.org/quality-management.
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software, we use to help analyze respondents' comments.

General Comments on Proposed ISQM 1

[Please include here comments of a general nature and matters not covered by the questions below.]

Overall Questions

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

Response:

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?**

Response:

Yes, we support the new quality management approach recommended

- (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?**

Response:

We do believe that the proposals in the standard will generate the benefits for engagement quality as intended, as well as supporting the exercise of professional skepticism by firms at the engagement level.

On the other hand, we are concern about the real benefits to be derived by the small and medium practitioners.

- (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?**

Response:

We take note of the examples and explanation given in the exposure draft. We look forward to observe the real challenges during the real implementation. The knowledge and experience gap will be the biggest challenge to overcome.

- 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?**

Response:

Under 'Requirements', paragraphs 21 states that "the firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements".

The above certainly is viewed as a provision to enhance the scalability of this standard. However, in its implementation, the interpretation may differ among various authorities. This will have real challenge to the practitioners, clearer guidance is required.

- 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?**

Response:

Yes. It is helpful.

Specific Questions

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

Response:

Yes. We support.

- 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?**

Response:

The objective of the standard and the objective of the system of quality management is clear.

We view our responsibility to the stakeholders who have specific requirements but not to the public as a whole. We are not appointed to serve the public at large. We must have specific stakeholders, i.e. investors, shareholders, regulators, revenue agency, employee etc.

In the absence of clear definition and explanation:

- (i) We will face tremendous difficulty in designing the system of quality management effectively and efficiently as they will not know who they are serving.
- (ii) We are required to incur unnecessary and additional costs in providing lots of additional information which outweighs the benefit of such additional information.

A good quality system must be clear and balanced in implementation and as such we do propose that the Board considers using the term **“Stakeholders’ interest”** in place of “public interest”.

We appreciate IFAC/IAASB can provide a clear definition on the Public Interest.

We need clarify.

- 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?**

Response:

Yes. We agree and believe it will.

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?**

Response:

Yes. We do agree.

- (b) **Do you support the approach for establishing quality objectives?**

Response:

Yes, we support.

In particular:

i. Are the required quality objectives appropriate?

Response:

Yes. Appropriate.

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

Response:

Yes, additional quality objectives might be established to meet firm objectives.

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

Response:

Yes, we support and welcome more implementation guidance.

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

Response:

Yes, we do support the approach that requires the firm to design and implement responses to address the assessed quality risk.

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?

Response:

Yes, we believe it will encourage firms to design and implement responses that suit the objectives.

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?

Response:

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

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

Response:

Yes, we agree.

- 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?**

Response:

We are agreeable to the firm assigning 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?**

Response:

We do agree that standard appropriately address 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?**

Response:

Yes, adequate for time being.

- 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?**

Response:

Professional service providers do not draw public fund for their operation, therefore we suggest the level of information sharing with public should be decided by the leadership of the firm.

- 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?**

Response:

Yes, we support.

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

Response:

Yes, we agree.

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?**

Response:

Yes, we agree.

- (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?**

Response:

Yes, we agree.

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

Response:

Yes, adequate for time being.

- (d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies?**

Response:

Yes, we do agree with the new requirement for the firm to investigate the root cause of the deficiencies.

In particular:

- i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?**

Response:

We appreciate more guidance can be provided.

- ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?**

Response:

We do agree with this and would support IAASB too if addressing positive finding be made a requirement rather than an option.

- (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?**

Response:

We see no challenges 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.

- 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?**

Response:

We support the proposals addressing network and believe that the proposals will appropriately address the issue of firms placing undue reliance on network requirements or network services.

- 14) Do you support the proposals addressing service providers?**

Response:

We support the proposals addressing service providers.

- 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?**

Response:

We see no issue.

Editorial Comments on Proposed ISQM 1

Not applicable.