



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

28 June 2019

Mr Matt Waldron

Technical Director, International Auditing and Assurance Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, 10017 USA

Dear Matt,

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB")
EXPOSURE DRAFT, INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1,
QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF
FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES
ENGAGEMENTS**

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA" or "the Institute") welcomes the opportunity to provide its comments on the International Auditing and Assurance Standards Board ("IAASB") Exposure Draft, International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Appendix 1 set out our responses to the questions contained in the proposed ISQM 1.

Please do not hesitate to contact Mr. Simon Tay at technical@mia.org.my should you require further clarification on the responses.

Thank you.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR. NURMAZILAH DATO' MAHZAN

Chief Executive Officer

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

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?

Response:

The ED-ISQM 1 does substantively enhance firms' management of engagement quality and 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?

Response:

Yes, MIA supports the quality management approach adopted in the exposure draft.

- (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 certainly 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. However, we are skeptical of the benefits that will be reaped by all firms as small and medium practitioners may find the compliance of the proposals challenging.

- (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:

For a larger or a more established practice, the requirements and the application materials can be easily understood. However, though the standard does attempt to be scalable, smaller practices may find it challenging due to limited resources and as such, we would request for more guidance with examples on how to perform risk analysis/assessment and root cause analysis.

- 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 is certainly viewed as a provision to enhance the scalability of this standard. However, in its implementation, when compliance of this standard is being regulated by various authorities, question arises regarding how a firm may be challenged about the sufficiency of evidence that the "nature and circumstances" of the firm does not require certain requirements to be complied. Additionally, more guidance needs to be provided on the form of documentation that is required and what is considered sufficient documentation. Without clear guidance, firms with similar situations may deal with them differently.

Therefore, to ensure that there is consistency in the application of the provision, 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:

We do believe that the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements.

Specific Questions

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

Response:

We support the eight components and the structure of ED-ISQM 1.

- 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 wish to raise our members' concern on the term "significant public interest". There appears to be confusion surrounding the usage of the term. The standard states that "public interest is served by the consistent performance of quality engagements." Further in the application paragraph A23, it explains that "...an entity may be of significant public interest because it has a large number and wide range of stakeholders or due to the nature and size of its business." There is, however, no clear guidance or criteria on the term with specific examples.

Practitioners generally view their responsibility to their stakeholders who have different expectations and not to the public as a whole. If the practitioner's role is to serve a "public interest" role, there must be a clear definition of what public interest intends to cover as the term "public interest" is very wide and subject to different interpretation and application.

In the absence of a clear and well-defined term:

- (i) the practitioners will face tremendous difficulty in designing the system of quality management effectively and efficiently as they will not know who they are serving.
- (ii) The practitioners may be incurring additional costs' in providing lots of additional information which outweigh the benefits of such additional information.

A good quality system must be clear and balanced in implementation.

- 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:

We do believe that the 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?

Response:

We do agree that the firm's risk assessment process should be applied to the other components of the system of quality management. However, based on feedback obtained from smaller practitioners, we would appreciate more implementation guidance on the application of the provisions.

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

Response:

Yes, we do support the approach for establishing quality objectives.

In particular:

- i. Are the required quality objectives appropriate?

Response:

The required quality objectives are appropriate. However, it would be useful if more granular quality objectives and responses for smaller firms are provided. With this, smaller firms will be able to understand better what is required of them and therefore it will ensure that the objectives of the standard are achieved.

- 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, the provision requiring the firm to establish additional quality objectives beyond those required by the standard in certain circumstance, is clear.

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

Response:

Yes, we do support the process for identification and assessment of quality risk. However, as mentioned above, more implementation guidance on the application of the provisions would be useful.

- (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:

We believe that to ensure that the approach results in a firm designing and implementing responses that are tailored to and appropriately addresses the assessed quality risk, more implementation guidance is required on the application of the provisions here to ensure that the objective of the standard is achieved.

- 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:

The revisions in the standard dealing with governance and responsibilities are addressed appropriately.

- 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 the standard appropriately addresses 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:

The ED only deals with technology in its discussion on the Resources component. In light of Industrial Revolution 4.0, most operations in firms may be digitalized. As such, more technology related objectives and responses should be included within other components too.

- 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:

The requirements for communication with external parties will promote the exchange of insightful information about the firm's system of quality management with stakeholders, where required.

However, we are of the view that the requirement should not be made mandatory and firms can decide to communicate, via a transparency report or otherwise, based on their willingness to do so.

Additionally, further guidance on the format of communication may be provided by national regulatory bodies.

- 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:

We agree with the scope of engagements that are subject to an engagement quality review as addressed in the ED. The requirements will result in the proper identification of engagements to be subject to an engagement quality review.

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

Response:

The monitoring and remediation proposal will certainly improve the robustness of firms' monitoring and remediation process.

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:

We believe the proposals will improve firms' monitoring of the system of quality management and it will promote a more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques.

- (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:

We do agree that 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, be retained in the proposed standard.

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

Response:

The provisions for evaluating findings and identifying deficiencies are clear in the standard.

- (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:

The current provision in paragraph 48(a) with further guidance in paragraphs A178 to A182 is clear and does appear sufficiently flexible. However, to echo our earlier responses, an example in the form of guidance to deal with the application of this, would be extremely helpful.

- 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:

The change in title will not create a significant difficulty in adopting the standard in Malaysia.

Editorial Comments on Proposed ISQM 1

Not applicable.