



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

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(Submitted electronically)

Technical Director
International Auditing and Assurance Standards Board (IAASB)
529, Fifth Avenue, 6th Floor
New York, USA

Comments on the Proposed 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 Institute of Chartered Accountants of Pakistan (ICAP) is pleased to comment on the 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' (ISQM 1) published by the International Auditing and Assurance Standards Board (IAASB) in February 2019.

We fully support IAASB's focus and efforts to introduce ISQM 1 for enhancing quality management of firms.

Our responses on the questions contained in the ISQM 1, are presented in the 'Appendix' to this letter.

We hope our comments are helpful to the IAASB's deliberation on the proposal.

Should you require further clarification on our comments, please contact the undersigned at sohail.malik@icap.org.pk

Yours truly

Sohail Malik
Director Technical Services



'Appendix'

General Comments on Proposed ISQM 1

[No comments]

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

We have concerns on the scalability and transition period of the proposed standard, specifically in context of small and medium size practices (including sole practitioners).

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

We have reservations about ISQM proposals as in their current form these reflect a major change from extant requirements. This shift which will create a major compliance burden most notably for sole practitioners and SMPs which represent a very substantial portion of Pakistan practice. In Pakistan perspective we foresee that small firms will face difficulties finding resources to implement the revised standard.

We support the new quality management risk based approach. However, as explained in response to question 2 (below) first time establishment and implementation would be a challenge for the SMPs.

Further, the transition period of 18 months requires reconsideration as this period would create unnecessary pressure on the firms. We also suggest that more guidance on implementation is provided through application material and examples. In context of technological advancements and their impact on accounting profession, we suggest consideration of the likely future developments of technology and its impact on quality management.

- (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 believe that intended benefits require further explanation for stakeholder understanding. In this context a comparison of extant ISQC 1 requirements with draft ISQM 1 and 2 would be helpful. This comparison would clearly identify how existing policies and procedures could be



adapted / tailored under the proposed framework. This would help in identifying which existing requirements and guidance in the extant standard can be incorporated into the new framework and highlight additional requirements or documentation to be developed.

- (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

It would be helpful if more implementation tools like illustrative guidance with scenario based examples and templates are made available including short webinars. This would help in implementation especially the small firms.

- 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

The aspects of the new standard that could pose implementation challenges to SMPs include implementation of structural changes in the firm, development of policies, procedures, carrying out the risk assessment and developing or refining the annual assessment processes.

Further, the involvement of judgement in determining outcome based quality objectives would be challenging for SMPs though this addresses the scalability. A broad template for establishing quality objectives as outlined in the Standard would be helpful.

The transition period of 18 months would be a challenge.

- 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

The application material would be helpful in supporting a consistent understanding of the requirements. However, in its present form the application material seems to be too lengthy to encourage readers to go through the entire application material. We suggest IASB to reconsider the content, length and interaction of the application guidance to further refine the guidance.

Specific Questions

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

Response

We support components and the structure of proposed standard.



- 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

As noted earlier we have concerns on the implication of enhanced quality management requirements of the proposed standard on the SMPs (including sole practitioners). However, we support the objective of the standard, which includes the objective of the system of quality management and we also 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.

- 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 support the overarching principles of a risk-based approach in the risk assessment process. However, as mentioned earlier risk assessment would be challenging area especially for SMPs. Further, the involvement of judgment and subjectivity would increase the challenge and divergent approaches.

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 support IAASB's proposal but we are concerned that it will not be an easy task for firms to apply risk assessment process to other components of the system of quality management.

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

Response

We support the approach for establishing quality objectives but it will be very judgmental to select a threshold for identifying quality risks. Further, even after selecting a threshold, determining certain areas as high risk or low risk is also judgmental. Further, the scalability would be a challenge.

In particular:

- i. Are the required quality objectives appropriate?

Response

Yes.



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

Response

Although it is clear but it would be judgmental and subjective to apply.

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

Response

Yes, we support the process for the identification and assessment of quality risks.

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

Response

We support the approach that requires the firm to design and implement responses to address the assessed quality risks. However, as discussed earlier, for SMPs, it will be challenging to do so and would involve substantial additional cost.

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

Subject to our concerns on implementation challenges for SMPs, in general, if applied, 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?

Response

We believe that there would be limited circumstances in which the firm would be expected to design and implement responses in addition to those required by the standard.

- 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

We recognise that firm's leadership is responsible for firm's governance. The increased emphasis on leadership responsibility and governance in the proposed standard are appropriate.

- 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 believe that every individual in the firm is responsible for ethics and independence. This aspect should be clarified that assigning responsibility for relevant ethical requirements and compliance with independence requirements to an individual in the firm would not relieve all others from their responsibility to follow ethics and independence. A senior personnel of the firm should be made responsible to deal with ethics and independence issues at firm and individual level. However, considering varied scale and sizes of firms (more importantly from sole practitioner perspective), we believe that firms should be allowed to use professional judgement to determine how responsibility for aspects of the system are to be assigned or delegated.

- (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

Response

We note that the proposed 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 proposed standard highlights the relevance of use of technology by firms in the system of quality management. However, we suggest that IAASB gives further consideration and guidance on this important but lesser understood area to enable SMPs to meet the proposed requirements.

- 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

We believe that communication with outside parties may involve valuable and insightful information about the firm's system of quality management. However, this area would primarily be under the jurisdictional framework. We believe that unless required by laws and regulations of a particular jurisdiction, there should be no requirement for firms to communicate, via a 'transparency report' or otherwise as it would be cumbersome for firms and may also compromise firm's confidentiality. We also foresee implementation challenges for SMPs as in current form the proposed requirements do



not provide adequate guidance on the assessment criteria. Further, the term 'external parties' is too broad and requires explanation / definition for clarity and common understanding.

- 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 believe that there should be globally acceptable criteria for selection of engagements for quality control review. Firstly, by introducing the requirement for the firm's policies or procedures to require an engagement quality review for audits of financial statements of entities that the firm determines are of 'significant public interest' will make the selection judgmental and firms may misjudge. Accordingly, we do not support the introduction of term 'significant public interest'.

The term 'public interest' has been explained in the IESBA Ethical standard. Independence and other requirements have been outlined for engagements/ relationships with such entities, and engagement quality control requirements should be for the same entities. Accordingly, use of term 'public interest' would align IESBA and IAASB pronouncements.

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

Response

The proposals for monitoring and remediation will improve the robustness of firms' monitoring and remediation. However, adhering to all these requirements will be burdensome for firms (particularly for sole practitioners and SMPs). We suggest the IAASB develops guidance to assist firms on how to implement the monitoring, remediation and evaluation process in practice.

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

In general the proposals will improve firms' monitoring of the system of quality management as a whole. However, we have significant concerns of scalability of the proposed standard.

- (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



Subject to the concern raised in question 3 (above) in respect of application material, we support retaining the requirement for inspection of completed engagements.

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

Response

We agree that the policies, procedures and processes for deficiencies need to be determined by the firm, based on the nature of the firm and how it operates. However, further clarity is required on the term 'findings' and how findings transpire into deficiencies.

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

Response

The root cause analysis is important to remove deficiencies, however, this concept and approach would be a practical challenge for SMPs. This would be owing to the reason that smaller firms do not have resources to carry out such an analysis. We note that this area requires further guidance and education to assist in proper understanding and implementation.

In particular:

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

Response

Subject to above noted concerns, the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible.

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

Response

We note that positive findings are appropriately addressed in the proposed standard.

- (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 support the annual evaluation of the system. The implementation and annual evaluation would be a challenge for sole practitioners and SMPs. There would be number of challenges such as availability of appropriate resources, time and cost that may arise in fulfilling the requirements of the proposed standard and its evaluation.



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- 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

Subject to our comments on scalability, the proposals 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 believe that it will be extremely challenging for firms to ensure appropriate quality standards of every service provider. Doing so would unnecessarily delay their routine business activities in many cases.

- 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 do not anticipate that the change in title to 'ISQM' would create a significant difficulty in adoption of the standard.

Editorial Comments on Proposed ISQM 1

The implementation material could be hyperlinked with the reference in the main standard so at a click you can read it instead of scrolling down the pages,

Further, ISQM standards could also be made available in an E-form for easy navigation for readers.