



**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**



1 July 2019

The Technical Director  
IAASB Technical Director

Dear Sir/Madam

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission –  
Consultation Paper “Proposed International Standard on Quality Management 1-  
International Standard on Quality Management.”**

In response to your request for comments for **Exposure Draft, Proposed International Standard on Quality Management 1**, attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS specialists and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

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Project Director CAA

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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](http://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 firms' management of engagement quality, and at the same time improve the scalability of the standard?

Response:

**Yes**

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 since it is more risk-based aligning with the ISA audit which is also risk based. The new approach emphasizes the responsibility of firm leadership for proactively managing quality, while at the same time being scalable to deal with differences in the size of firms and nature of the services they provide. However, the new approach involves more judgment, if a firm is unable to identify risk their quality management judgement will be incorrect or incomplete therefore, some of the requirements of ED-ISQC 1 the extant standard may not be adapted to the risk-based approach appropriately removing the robustness of ISQC1. There may be need, to get guidance in ED ISQM 1 on basics to cover in 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:

**Yes**

We are of the view that the proposals will generate benefits, in that an objective evaluation will be performed, over the significant judgments the engagement team makes, and the conclusions reached in formulating the engagement report. There will also be a link with ISA 200 which requires the use of professional skepticism as a means of enhancing the auditor's ability to identify risks of material misstatement and to respond to the risks identified.

(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:

**Yes**

The requirements and application material of proposed ED-ISQM 1 are scalable, they pertain to the firm's size and engagements it performs. The eight components of ED-ISQM 1 are interactive and can be combined by the firm for example resources, communication and information. Small firms and sole proprietor firms may have challenges in identifying and assessing risks that they face in risk identification of quality management issues than being able to adapt the responses provided by the IAASB to its circumstances.

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:

**Yes, there are aspects of the standard that may create challenges for implementation**

There is a risk of not prioritising quality especially in those circumstances where there is a conflict between financial objectives of the firm and quality moreso for the small firms and solo practitioners where there is no or very little separation between operations of the firm and those handling finances.

The impact of technology on the competencies of the engagement partner or engagement team may create challenges for implementation if the personnel have poor

technological skills, sole practitioners have limited resources for adaptation to technological advancements

- 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**

The application material is helpful in supporting a consistent understanding of the requirements but there is need to develop further guidance that demonstrates the application of the standard to different sizes or complexities of firms.

**Specific Questions**

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

Response:

**Yes**

We support the eight components and the structure of ED-ISQM 1, the components are interactive, include governance in quality management which engages public interest. The inclusion of resources is good as it addresses intellectual and technological resources being forward looking . The fact that monitoring and rendition is applied in all other components is also good. It is favorable that firms are not required to organize their systems according to the discrete components. Firms are only required to meet all of the requirements of the standard in designing, implementing and operating systems of quality management. The tailor-made approach allows that if all the requirements of the standard are still met, a firm may have different names for the components, may combine the components, or may have additional components meeting the overall objective of the 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:

**Yes**

We support the objective of the standard including the objective of system quality management, the standards explain very well in the introductory stage the firm's role relating to the public interest. It is clear how achieving the objective of the standard relates to the firm's public interest role serving as gatekeepers of financial reporting and disclosure through their independent audits and engagement quality management

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**

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 agree that the firm's risk assessment process should be applied to other components of the system of quality management. The two-step process of preliminary consideration and more detailed consideration in the risk assessment process will adequately assist in identifying appropriate responses to the risks and the objective of the standard is met. If we apply the risk assessment process to all components it will be beneficial in meeting quality management by the firm, for example, the merit in assessing risks associated with resources or communication will provide insight to the firm of the possible dangers and appropriate actions can be taken to achieve quality

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

Response:

**Yes**

In particular:

i. Are the required quality objectives appropriate?

Response:

**Yes**

The quality objectives are appropriate as they provide adequate guidance on the specific level of quality required to meet the objective, that is, what are you measuring, the target goals, how they are recorded and reviewed. Given that firms vary in terms of

the engagements they perform, this requirement will also assist adaptability to a changing environment.

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**

A description of the purpose of each component has been included in each lead-in to the requirement to establish quality objectives. Paragraph 26 of ED-ISQM 1 provides the guidance and the explanation that firms can establish additional quality objectives depending on their circumstances. It is not anticipated that all firms though, might go this route.

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

Response:

**Yes**

The purpose of assessing the quality risks is to assist the firm in designing and implementing responses, because the reasons for the assessment of the quality risks affect the nature, timing and extent of the responses. We support the process for the identification and assessment of quality risks because in practice, firms do not identify and assess all possible risks but rather focus on key risks judging the chance of the risk occurring and the likely impact should the risk occur. The approach for identifying and assessing quality risks in ED-ISQM 1 echoes the principles in the IAASB's recently published Exposure Draft, ISA 315 (Revised) and helps to reinforce key concepts of a risk-based approach.

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

Response:

**Yes**

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 the approach will result in tailored responses to address the assessed quality risks. This is because only identified quality risks will be responded to, considering the nature, timing and extent of the responses should reflect the reasons for the assessment. ED-ISQM on paragraph A60 clearly explains some of the factors to consider in designing a tailored response.

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**

A firm is required to design and implement responses in addition to those required by the standard in all circumstances in response to the assessed quality risks. This consideration is clearly stated on paragraph 30 of ED-ISQM 1.

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**

The revisions to the standard appropriately address firm governance and the responsibilities of firm leadership. ED – ISQM 1 addresses the expected behavior of firm leadership in setting the tone at the top, the appropriate qualifications of leadership, and holding leadership accountable through performance evaluations. However, the practicality of holding the sole management partner accountable through performance evaluations might be difficult or otherwise in some cases be a tick box exercise

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:

Yes and Others as well

Ethical requirements are crucial in the performance of engagements and as such, the responsibility should be assigned to both an individual and to the entire engagement team. The assigned to an individual in the firm emphasizes the importance for ethics and independence. Isolation of responsibility will more likely ensure compliance. The individual responsible for ethics could also be assigned the responsibility for independence even in larger firms.



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

Response:

**Yes**

The network firm independence is appropriately addressed in ED-ISQM 1 through the principles-based requirements addressing relevant ethical requirements. Others are of the view that including more direct requirements for independence within the network would result in duplicative requirements, and the specificity of the requirement would contrast with other requirements in the standard. However, having a specific requirement that clearly states the responsibilities of the firm regarding independence might assist enforce compliance by firms.

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

Response:

ED ISQM 1 has been appropriately modernized to address the use of technology by firms in the system of quality management, the IAASB recognized that firms are increasingly using technology in performing engagements, which may be developed by the firm or obtained from the firm's network or an external service provider. Firms are also increasing their use of technology in facilitating the operation of their systems of quality management, for example, technology may be used to continually monitor the permissibility of financial investments recorded by personnel as part of the firm's independence responses and therefore appropriately modernized ED ISQM 1 to address the use of technology.

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:

**Yes**

We are of the view that the requirements for communication with external parties will provide insightful feedback on the firm's system of quality management and can even foster benchmarking between the firms within the same jurisdiction, size or with a similar profile. The proposal does not seem to encourage communication through transparency reports but rather through various communication channels, but the proposal encourages consideration of the appropriateness of the transparency report. We also suggest that firms comply with a checklist for communicating in a public place.

- 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

Identification of engagements to be subject to an engagement quality review?

We agree with the proposal addressing the scope of engagements subject to an engagement quality review. The adding of 'entities that are of significant public interest' by ED – ISQM 1 such as certain banks, insurance companies and pension funds will emphasize the application of professional skepticism at engagement level. This proposal however has mixed views as there is no common interpretation or understanding of the term "public interest." The identification of the engagements would be difficult due to there being inconsistencies in the different jurisdictions e.g. some public entities which are those? Which ones can be left out? The definition of 'significant' might differ from one jurisdiction to the other so there might be need for a consistent definition, or a framework that gives guidance. However, in as far as financial institutions there could be some consistency.

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

Response:

Yes

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**

The requirements promote more proactive and effective monitoring activities and have increased the emphasis on tailoring the monitoring activities to provide enough basis for the firm to evaluate the system. This is because the new requirements have been designed to emphasize factors that the firm would consider in designing its monitoring activities, rather than prescribing all the monitoring activities that need to be performed as per paragraph 44 of ED-ISQM 1. This is scalable enough for any firm to design their own unique monitoring activities for their engagements, displaying innovativeness.

- (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**

The retention of the requirement in extant ISQC 1 for the firm to inspect at least one completed engagement for each engagement partner on a cyclical basis is a good conclusion as per paragraph 45 of ED-ISQM 1. The enhancements to the requirement help curb inflexibility of the extant in this regard and improves scalability. The application material provides examples of factors that the firm may consider in determining the length of the cycle, which includes the extent to which the firm performs other monitoring activities (e.g., inspections of in-process engagements) and the nature and circumstances of the engagements. The application material also acknowledges that the cycle may vary across engagement partners, for example, the cycle may be more frequent for engagement partners who perform audits of financial statements of listed entities.

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

Response:

**Yes**

Paragraph 47 of ED-ISQM 1 requires the firm to identify deficiencies through evaluating the findings arising from monitoring activities, results of external inspections, and other information. The identification of deficiencies may include deficiencies in the monitoring and remediation process. The framework for evaluating findings and identifying deficiencies is therefore clear. The stages involved in evaluating findings are clear and the actions to take are also clear. We also support the definition of deficiencies that was developed after considering ISA 265 and the COSO Integrated Framework descriptions of deficiencies.

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

Response:

**Yes**

In particular:

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

Response:

**Yes**

ED-ISQM 1 acknowledges that the nature, timing and extent of the firm's process to determine the root cause of a deficiency would vary depending on the nature and possible severity of the deficiency. This clearly demonstrates the flexibility of the procedures to investigate the root cause of a deficiency.

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

Response:

**Yes**

We agree with the view that ED-ISQM 1 should not require firms to determine the root cause of positive findings because the priority is for firms to remediate deficiencies, such that the objective of the standard is achieved. In practice also firms do not determine the root cause of positive findings as this might be a waste of resources, rather than focusing on the negative findings. The application material of ED-ISQM 1 however discusses the benefits of investigating the root cause of positive findings to encourage firms to include this as part of their policies or procedures addressing the evaluation of the findings on paragraph A178 of ED-ISQM 1.

- (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:

Yes

The requirement reinforces the responsibility and accountability of leadership for the system of quality management. A possible challenge might arise for judgement on whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken.

- 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:

Yes

We support the proposals addressing networks. Head office gives objectives however at country level

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

Response:

We support the proposals addressing service providers as they serve as safeguards to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation, following the requirements of paragraphs 64-65 of ED-ISQM 1 and Paragraph A206 of ED-ISQM 1.

- 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:

Yes

The change will create significant difficulties in adopting the standard especially in Africa where there is bureaucracy in decision making at jurisdictional level. There is need for advance communication to the national standard setters and regulators on the move from ISQC to ISQM so that standard setters and regulators know in advance the move that is coming. Some pieces of legislation refer to ISQC and the process of changing the wording might be very slow.

**Editorial Comments on Proposed ISQM 1**

*[Please include here comments of an editorial nature.]*