

# 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](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: **Affirmative.**

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 approach**

- (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, the proposals generate benefits, we also suggest to the IAASB to design a practical and simple guide so that small firms and practicing professionals without employees with little quality culture can start the implementation of their Quality Management systems. The "lack of quality culture" is common in "the Americas" and other jurisdictions around the world.**

- (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: Many of the requirements are scalable, however, we suggest to the IAASB to design a practical and simple guide so that small firms and practicing professionals without employees with little quality culture can start the implementation of their Quality Management systems. The "lack of quality culture" is common in "the Americas" and other jurisdictions around the world.

- 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 aspect of the standard that can create challenges for its implementation is the scant clarity of scalability, especially in small firms and individual professional practitioners without employees. For the IAASB to design a practical and simple guide for small firms and individual practitioners without employees that clearly includes and illustrates what is related to scalability, would support the solution to this situation.

- 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: It has utility, but the guidance that we have suggested in the previous answers would contribute substantially to the understanding to generate the implementation, especially in the small ones.

### 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: We support that you include the objective of the quality management system. Regarding the "public interest", it is required that the standard communicate it with greater clarity and precision.

- 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 believe.

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, in addition the practical and simple guide suggested should draw guidelines for its proper application.

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

Response: **Yes, we support it.**

In particular:

i. Are the required quality objectives appropriate?

Response: **Yes, they are 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, it is clear.**

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

Response: **Yes, we support it.**

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

Response: **Yes, we support it**

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, if you are provided with tools that tell you how to do it, contained in a practical and simple guide.**

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.**

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: **They do not treat it adequately, we consider that medium, small firms and individual professionals without employees do not have clearly defined how they should approach the corporate governance and leadership component**

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, we agree, but a practical guide should elaborate on the responsibilities of the applicable ethical requirements, in order to avoid misinterpretations of the text of the standard.**

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

Response: **Yes, it is treated properly.**

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

Response: **Yes, more in a practical and simple guide should be elaborated in detail what this concept consists of and avoid confusion of interpretation.**

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, they would encourage firms to communicate.**

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 are agree.**

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

Response: **Yes, they will.**

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 are 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 are agree.**

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

Response: **Yes, we are agree.**

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

Response: **Yes, we are agree.**

In particular:

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

Response: **Yes, they are flexible enough.**

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

Response: **Yes, it is appropriate**

- (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, there are challenges and one of the most important, is the time that must be set to render an annual report, and follow up on the part of the partners of the firm, and make the relevant decisions, to improve the management of quality, if there were significant deficiencies.**

- 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 them, including groupings of firms with legal forms and different names of a network.**

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

Response: **Yes, we support them.**

- 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?

**We believe that it will not create difficulties.**