



1st July 2019

Mr. Tom Seidenstein,
Chairman,
International Auditing and Assurance Standards Board,
529, Fifth Avenue,
New York, NY 10017.

Dear Mr. Seidenstein,

Re: Comments on the Proposed International Standard on Quality Management 1 (ISQM 1)

We refer to the Exposure Draft on the Proposed International Standard on Quality Management 1 (ISQM 1) - *Quality Management for Firms That Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, issued by the IAASB in February 2019 (the 'ED').

The Auditing Standards Committee of Sri Lanka was established by the Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995 and the Committee recommend the adoption of the Sri Lanka Accounting Standards to the Council of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

We are pleased to submit our comments on behalf of the Institute of Chartered Accountants of Sri Lanka.

The Auditing Standards Committee of Sri Lanka have a serious concern over the applicability of the complex Quality Management Standard for firms while removing the existing provisions to the smaller firms.

Please refer the Annexure for general comments on the exposure draft.

If you would like to discuss our comments further, please contact Ms. Saumya Madhubashini, Manager – Technical of CA Sri Lanka by phone at +94 (0) 11 2352076, or by email at saumya.madhubashini@casrilanka.org or the undersigned.

Thank you,

Yours sincerely,

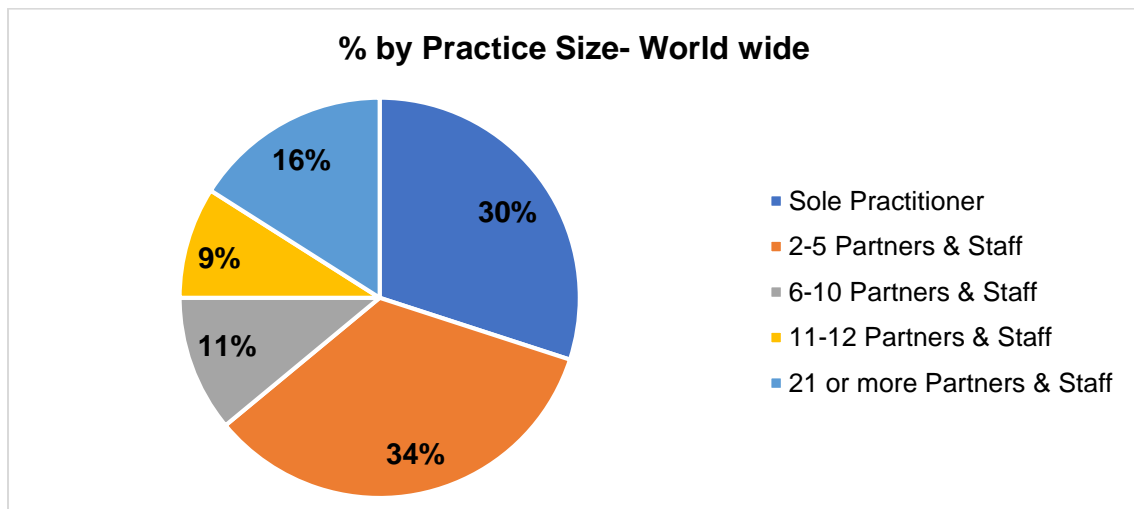
Suren Rajakarier
CHAIRMAN – AUDITING STANDARDS COMMITTEE

COMMENTS ON THE PROPOSED INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1 (ISQM 1)

Quality Management for Firms That Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements

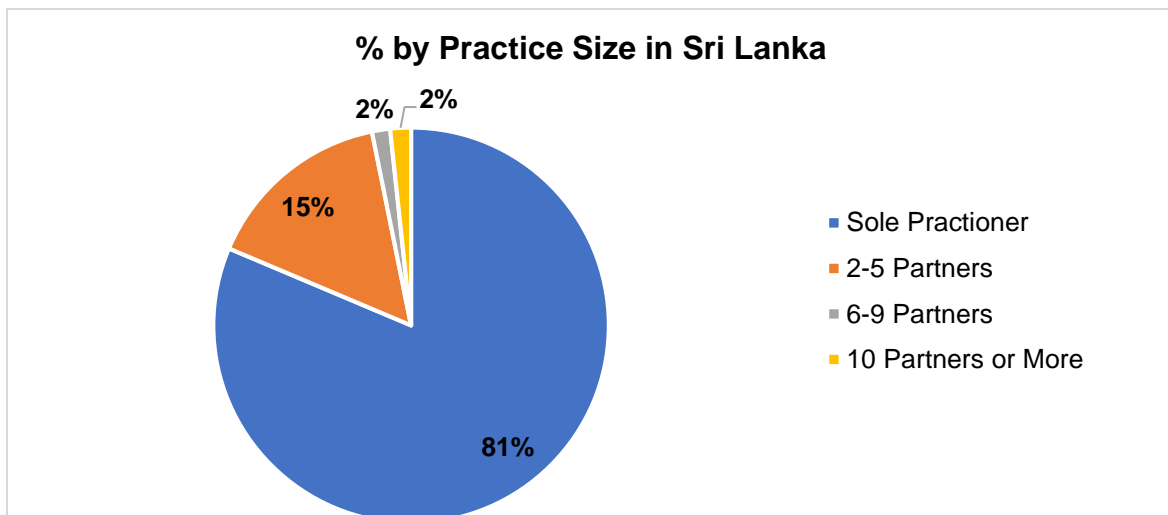
General Comments on Proposed ISQM 1

- The below diagram indicates that most practitioners worldwide are sole-practitioners or have less than five partners & staff.



Source: IFAC Global SMP Survey- Summary Report (2018)

- In Sri Lanka, more than 80% of practicing firms are sole-practitioners, and only 4% firms have more than five partners.

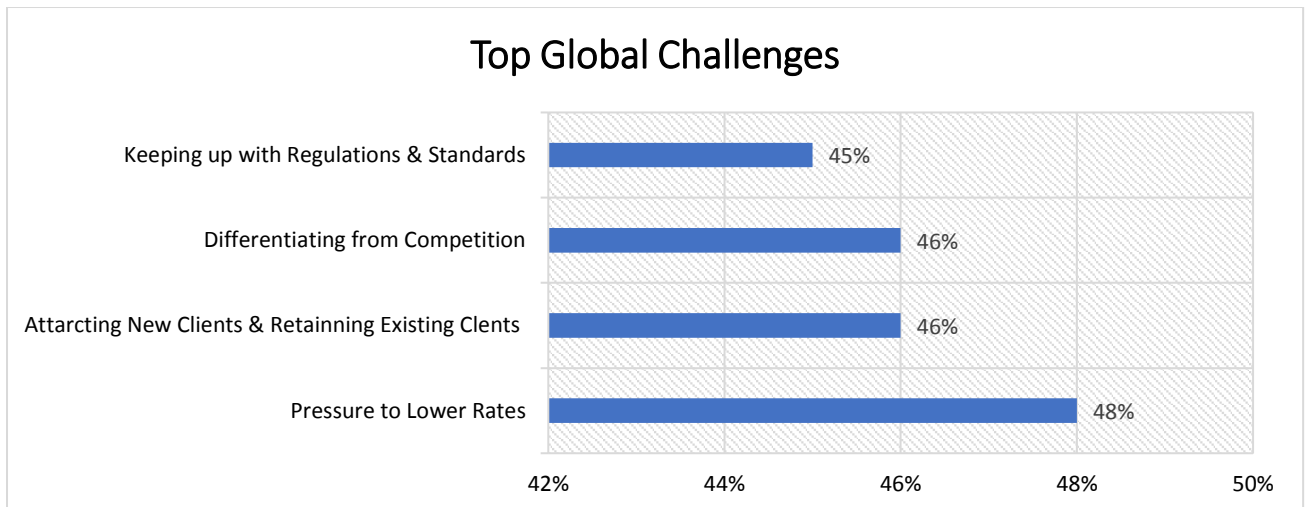


- Further, the Small and Medium Practitioners (SMPs) firms in developing countries cannot be compared with the SMPs in developed countries. SMPs in developing countries are much smaller than developed countries as most Europe and American countries enjoy a GDP per capita which is three times more than a developing country.

Country	GDP per Capita (USD)
USA	59,928
Canada	44,871
Germany	44,665
United Kingdom	39,954
France	38,484
Malaysia	9,951
China	8,827
Sri Lanka	4,074
India	1,979
Pakistan	1,548

Source: The World Bank Data, 2017

- In Sri Lanka, the most of the audits of public interest entities are carried out by large audit firms and application of International Standard on Quality Control 1 (ISQC 1) for these audit engagements are mandatory.
 Given this scenario, there is serious concern on the applicability of ISQM to SMPs. Further, removal of existing provisions to the smaller firms i.e. **A3 “Considerations Specific to Smaller Firms”** from the new standard is also a matter of concern. We are of the view that, this standard must be applicable if a firm performs audits and reviews of financial statements, and other assurance and related services engagements to listed entities including all banks and finance companies, Specified Business Enterprises, and to any entity with public interest.
- According to the IFAC SMP Global Survey, the number of challenges faced by the SMPs are;



Source: IFAC Global SMP Survey- Summary Report (2018)

'Keeping with new Regulations & Standards' is one of the top global challenge and 'Rising Cost' is also a severe problem facing SMPs. While considering these facts, it proves that adoption of complex quality management standards by SMPs with a limited number of partners and staff will not be cost effective for SMPs.

- Also, we would like to note that most of the SMPs are engaging with the Small and Medium Enterprises which prepare financial statements using the condensed versions of the full set of Accounting Standards (i.e. International Standard for Small & Medium Enterprises or in Sri Lanka, some entities apply the locally developed Sri Lanka Accounting Standard for Smaller Sized Entities). Therefore, we are of the view that there should be a fundamental quality control standard for SMPs separately.
- Furthermore, with regard to the audits of less complex entities, there is a pressure to standard setting authorities to develop a separate framework for smaller audits carried out by SMPs. The Institute of Chartered Accountants of Sri Lanka has developed a separate auditing standard for SMPs known as the "Sri Lanka Auditing Standard (SLAuS) for the Audits of Non-Specified Business Enterprises (Non-SBEs)."

Also, we understand that, there is a discussion paper for the 'Audits of Less Complex Entities' by International Auditing and Assurance Standards Board (IAASB). According to that, IAASB recognizes the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the International Standards on Auditing. Continuing the debate on these strategic issues, this Discussion Paper explores how the IAASB, and others, could further support auditors working in increasingly evolving environments.

Hence, in these circumstances, applicability of complex quality management standard for smaller firms is under serious concern.

- Another suggestion is to identify different levels of firms according to the jurisdictions. Example; minimum thresholds required by the firm to perform the audit or assurance service of the listed entity.