Mexico City June 28, 2019.

Mr. Thomas R. Seidenstein  
Chairman  
International Auditing and Assurance Standards Board

Dear Mr. Seidenstein

Invitation letter to comment: Quality Management.

The Mexican Institute of Public Accountants, “Instituto Mexicano de Contadores Públicos”, A.C. (IMCP), association founded in 1923, grouping 60 professional colleges and more than 24 thousand of public accountants associated in Mexico, is thankful about the opportunity to give comments about the three new standards approved in December 2018, as exposure draft by the International Auditing and Assurance Standards Board (IAASB) as follows:

a) Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control (ISQC) 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ED-ISQM 1).


Additionally, in the same date, another explanatory document was submitted including background and provides guidance to the group of standards requiring comments.

The three standards will generate improvements in quality of the engagements, and we agree that these standards, group public interest topics that were identified by the own IAASB, when they required comments in 2016 to the topic Improving Audit Quality completed in 2016.

The public interest topics identified and covered by the group of three standards are:

a) Fostering an appropriately independent and challenging skeptical mindset of the auditor.

b) Encouraging proactive quality management at the firm and engagement level.

c) Exploring transparency and its role in audit quality.

d) Focusing more on firms’ (including networks’) structures and communication processes and their internal and external monitoring and remediation activities.
e) Reinforcing the need for robust communication and interactions during the audit engagement.

It is important to mention that one of the recurrent facts that have been considered is the use of the term “scalability”, term that was translated by us as “adaptability”. We consider necessary to describe the term, include additional material as needed, related to how the small and medium firms could apply appropriately these standards.

As required to provide answer to the applicable questions of each of the standards, we have prepared documents that provide answer to the general questions and specific matters related to the ones that the IAASB is asking for feedback and for the ones we have comments, see appendix 1-4 to this letter.

For those question in which we agree and support the approach, we did not include them in the appendixes mentioned before.

We are open to discuss, clarify or widen our comments in this letter per your request.

Very truly yours,

Florentino Bautista Hernández
Chairman
Instituto Mexicano de Contadores Públicos, A.C. (IMCP)
EXPLANATORY MEMORANDUM TO ED-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? In particular:

In agreement, even though the term “scalability” is not clear, we consider necessary to describe the term, include additional material as needed, related to how the small and medium firms could apply appropriately this standard.

(a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

Yes, however, once it is published we suggest to broaden the explanatory material for an appropriate implementation.

(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?

Yes, however in some small and medium firms implementation may be difficult, so we suggest to include additional material with examples of the documentation of the implementation.

(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?

The term “scalability” is not clear, we suggest explaining the meaning of it within the document. Additionally, it may be a good practice providing examples of how the small and medium firms could be documenting their compliance with the Standard.

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?

The process of evaluating the quality risks, especially for the small and medium firms an even for some group of firms.
Specific Questions

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?

We consider necessary to broaden the definition of the term “public interest” or include the corresponding reference to the Ethics Code.

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? In particular:

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

One of the suggested changes, is the identification of the quality risks and the related responses to them, implementation may be challenging mainly due to the lack of prior experiences.

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?

Theoretically and conceptually is possible to expect that may exist, however in practice it may be difficult find it or make it.

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?

No, because the transparency reports are not a common practice and resistance to its adoption may exist.

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?

No, we consider that is necessary a more detailed and specific definition of the quality review assignments that may be required.
14) Do you support the proposals addressing service providers?

This request could generate conflicts in the Audit firm, mainly because the service suppliers, in some cases, may be providing information to the Audit firms to complete and follow the new requirements.