

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).
- b) Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2).
- c) Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220).

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 2

1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

Yes, support but we suggest changing the name to Quality Reviews of the engagement in process. (ISQM 2)

2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Yes, but we suggest changing the name of ISQM to Quality Reviews of the engagement in process. (ISQM 2)

3) Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

Do not support considering that it may be a misunderstanding, additionally the quality review is a CONTROL from the Quality System.

4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Yes, however It should be in line with the Ethics Code.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Keep it in the ISQM2 but aligned with the Ethics Code.

5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Agree. We suggest detailing the responsibility of the engagement quality reviewer related to the identification of significant judgements.

6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

Agree, we suggest including this situation in the explanatory material as a threat to objectivity and professional skepticism.

Additional comments.

In section 10 it is described that: The objective of the firm is to perform an engagement quality review for the engagement. However, it may be evaluated if this section may include instead the Standard Objective.

In section A15 second bullet it is mentioned that intimidation threat may be implicit or explicit. These terms are different from the ones included in the International Ethics Code, defined as real or perceived.

Additionally, in the same bullet it is included as example of intimidation threat "when the engagement partner is a dominant or aggressive" even though this could be a real example it is very subjective and may not be clear and thus helpful.