



July 1, 2019

Mr. Willie Botha  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, New York 10017

Dear Mr. Botha:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with over 24,000 professionals, dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the United States. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the “Committee” or “we”) is pleased to comment on the proposed International Standard on Quality Management (ISQM) 1. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

### 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: While we agree ED-ISQM 1 does enhance firms’ management quality, ED-ISQM 1 does appear to be overly burdensome for smaller firms, and particularly those who may be sole proprietors. We suggest a two-tier solution, firms with less than three partners, for example, be exempt from ED-ISQM 1 and should follow extant ISQC 1, while the larger firms’ implement ED-ISQM-1. Another two-tier solution could be based on a threshold of firm revenue.

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: We do support the new risk-based quality management approach. As stated in paragraph 18 of ED-ISQM 1, “The objective of the firm is to design, implement and operate a system of quality management for audits and reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

- a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.”

(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 agree, there will be engagement benefits generated at the engagement level, including appropriate exercise of professional skepticism.

(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: We do not believe that the proposed ED-ISQM 1 is scalable to smaller firms (i.e. 1 to three partner firms). To implement this proposed ED, small firms might need to hire additional resources, and/or incur significant hours to adhere to the standard. These additional hours require the partner(s) to absorb these costs, which could be significant to their practice. Perhaps, to improve the scalability, a two-tier system could be applied.

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: We believe large and small firms will incur significant costs to implement this ED. Enhancements to the standard could include workshops and FAQ.

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, we believe the application material in ED-ISQM 1 is helpful in supporting the requirements, however, the requirements are going to be harder for smaller firms to meet.

### Specific Questions

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

Response: We support the eight components and the structure of ED-ISQM 1 (para 8).

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 the objectives of the standard and believe a reference to acting in the public interest should be explicitly referred to in the objective of the standard. Firms have a responsibility to act in the public interest (para. 7).

- 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 following a risk assessment process will drive many firms to establish appropriate quality objectives based on this standard, but also should establish additional quality objectives beyond those required by the standard. We concur that the firm should understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives. However, some firms, particularly smaller ones due to lack of resources and/or cost concerns, may not actually follow the requirements close enough to drive the intended objectives.

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 believe that firm's risk assessment should be applied to the other components of the system of quality management.

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

Response: We believe a risk-based approach established by the firms' governance and leadership component is appropriate for establishing quality objectives.

In particular:

- i. Are the required quality objectives appropriate?

Response: Yes.

- 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. Although it is clear, already having identified required objectives/responses may lead to some firms inappropriately deeming that those are enough or otherwise only adding a few tailored ones. We, however, are not suggesting that the required ones be removed as they provide good examples of what objectives/responses should be.

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

Response: We believe that the identification and assessment of quality risks as discussed in ED-ISQM 1 (para. 10 and 26-31) is appropriate.

- (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 that the firm should design and implement responses to address the assessed quality risks, including the responses required by this ISQM. The design of the responses shall be based on, and responsive to, the reasons for the assessment given the quality risks (para. 30 and A48).

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.

- 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.

- 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, we believe the standard appropriately addresses firm governance. Tone at the top is critical to establishing a quality governance and leadership component in a quality management system.

- 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: We support the ED, that the responsibility for ethics and independence should be the same person.

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

Response: Yes. However, we believe smaller firms with networks could have challenges in complying with this ED.

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

Response: Yes.

- 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: We believe, for many of our member firms, a transparency report or the like, has been prepared and communicated to stakeholders. However, for smaller firms and sole practitioners, a transparency report might be too burdensome. Perhaps a slimmed down version of a transparency report would be more appropriate.

- 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: We agree, with the proposals addressing the scope of engagements that should be subject to engagement quality review. Further, we agree the requirements will result in the proper identification of engagements to be subject to an engagement quality reviewer. To assist smaller firms complying with this requirement, perhaps more examples of quality risks that would ordinarily require an EQR in response to those risks would be helpful.

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

Response: Yes. Many of our members and firms have been subject to PCAOB inspections. Comment forms received by them and remediation by the firm have enhanced the quality of audits. However, smaller firms may not have the resources to comply with monitoring and remediation.

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

- (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.

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

Response: Yes.

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

Response: Yes, however, for smaller firms, a root cause analysis could be difficult and more guidance on how to do so would be useful

In particular:

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

Response: Yes, we believe the identification of the root cause(s) is an important requirement of a Quality Management System.

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

Response: Yes, evaluating and addressing the root cause of positive findings should be performed. Evaluating positive findings could identify audit quality indicators.

- (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: No, many firms perform this function, to some degree, currently.

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. We do believe the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services. However, we believe smaller firms have challenges in complying with this ED

14) Do you support the proposals addressing service providers?

Response: Yes.

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: No.

**Scott Cosentine, CPA**

Chair, Audit and Assurance Services Committee

**Genevra D. Knight, CPA**

Vice Chair, Audit and Assurance Services Committee



ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2019 – 2020

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**National:**

Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Jennifer E. Deloy, CPA	Marcum LLP
James J. Gerace, CPA	BDO USA, LLP
Michael R. Hartley, CPA	Crowe LLP
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Timothy Van Cott, CPA	Sikich LLP
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Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

**Local:**

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Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	Mueller & Company LLP



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Northern Illinois University

**Staff Representative:**

Heather Lindquist, CPA

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