

**THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**  
**(INSTITUT AKAUNTAN AWAM BERTAULIAH MALAYSIA)**

**International Auditing and Assurance Standards Board**

**Exposure Draft**

***Proposed International Standard on Quality Management 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***

**Questionnaire**

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**Question 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:

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

**MICPA's Comments:**

- (a) It is good to link the firm's risk assessment process to the overall quality of the firm and allow flexibility in applying the standards based on the size and structure of the firm and the size and nature of their clients. If this is implemented appropriately and effectively, it is believed to improve the engagement quality and utilization of firm resources.

However, the ED appears to be principle-based and not much information or guidance had been provided about the new approach, especially with regards to the identification of risks and the responses to the identified risks, in the firm's risk assessment process. It leaves to professional judgment in determining the significance and possibility of occurrence of the risks and hence any further action required. There are also other areas involving professional judgements, refer to A4 of the ED. Hence, the effectiveness of this quality management approach to the extent depends on the appropriateness of judgements exercised by the individual firms. This may create a challenge to SMPs with limited resources to implement the approach effectively. Hence, it would be helpful to provide further implementation guidance, especially to SMPs

- (b) Consideration for fraud and exercise of professional skepticism at the engagement level is already a requirement in ISA 240. ED now reinforces and puts the emphasis on the leaders of the firms (i) to promote the importance of quality, and the need to exercise professional skepticism when performing audit, review or other assurance engagements; and (ii) to allocating appropriate resources to perform engagements may prevent impediments to professional skepticism, such as limited time, knowledge or experience.

- (c) Yes, it allows flexibility in application of the standard. Some illustration or examples, particularly for SMPs, if given would help to improve the application of the scalability of the standard.

## Question 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?

### **MICPA's Comments:**

Yes, the new requirements on the design and implementation of firm risk assessment process, components for resources and information and communication (investing and maintaining of IT applications/technologies resources, intellectual resources etc) may create challenges to SMPs.

A sample risk assessment manual/template with possible quality objectives, risks and responses, can be made available for reference and to be tailored and adopted by SMP. Besides, some of the aspects of the standard (which were already in the extant ISQC 1) also create challenges for implementation, such as, additional resources to provide sufficient staff trainings, evaluate the design, implementation and operation of its system of quality management through a monitoring and remediation process etc.

Also propose to incorporate the concept of 'network' communications' that requires more guidance because it is unclear from the proposed ISQM 1 what is intended of network from different sizes.

## Question 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?

### **MICPA's Comments:**

Yes. Details of quality risks and the required related responses are not provided. If these are provided would be helpful for implementation.

Also request to:

- (a) Provide clarity about what is the required documentation to evidence monitoring activities performed
- (b) Provide clarity about the role of a firm's technical specialists in the context of paragraphs 38(f) and (g)
- (c) Provide clarification about the objectivity of those performing activities in the context of SMPs.

#### Question 4

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

**MICPA's Comments:**

Yes.

#### Other Comments

**MICPA's Comments:**

The proposal to have someone operationally responsible for the implementation of the ISQM alludes to the concept of 'tone at the middle'. If this is the case, the proposed ISQM 1 could be clarified to ensure that the responsibility cannot only be solely belonging to one individual or one department, but rather in the context of the entire firm's system of quality management.

## Question 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?

### Comments:

Yes.

The explanation on public interest does not seem to be clear enough or help in achieving the objective. Definition of public interest and which are the relevant parties are not provided in the ED. This lack of determination of the scope of public interest may open up the auditors to liabilities from parties that the report is not designed for.

The Institute would like to propose that the Board work towards defining public interest.

## Question 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:

- (a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?
- (b) Do you support the approach for establishing quality objectives? In particular:
  - (i) Are the required quality objectives appropriate?
  - (ii) Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?
- (c) Do you support the process for the identification and assessment of quality risks?
- (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?
  - (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?

### Comments:

(a) Yes

(b) (i) Yes

(ii) Yes

(c) Yes

(d) (i) Yes but it may challenge SMP's in terms of their technical competency, adequacy of resources and their ability to implement effectively.

(ii) Yes

### Question 7

Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

**Comments:**

Yes

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

**Comments:**

(a) Yes, provided that the individual has the full authority to carry out the responsibility effectively.

(b) Yes

### Question 9

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

**Comments:**

ED-ISQM 1 covered technological resources, IT related quality risk and other considerations in general terms given that the scope of IT is so wide that more detailed requirements are difficult to set out. Therefore, the principles set out do draw attention that quality management need to focus on IT. However, it is up to individual firms to establish their specific approach to deal with this issue.

### Question 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?

**Comments:**

Yes, communication regarding quality management of the firm with external parties is encouraged. **The Institute** support the view that the issuance of the transparency report is not the only method of communication and that alternative means will be more appropriate taking into consideration the circumstances of the firm and nature of the engagement.

**Question 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?

**Comments:**

Yes.

**Question 12**

In your view, will the proposals for monitoring and remediation improve the robustness of firms' 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?
- (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?
- (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?
- (d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:
  - (i) Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?
  - (ii) Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, 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?

**Comments:**

(a) Yes

(b) Yes

(c) Yes

(d) (i) Yes (ii) Yes

(e) The challenges are:

- (i) Availability of competent man power within the firm to ensure an independent quality review function is implemented especially in the case of SMP's.
- (ii) In the case of a small firm, the difficulty of sourcing external quality and monitoring reviewers when there are limitation on the availability of such resources.

**Question 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?

**Comments:**

Yes

**Question 14**

Do you support the proposals addressing service providers?

**Comments:**

Yes

**Question 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 jurisdiction level?

**Comments:**

No. The International Standards on Auditing (ISA) are adopted and implemented by the local professional bodies such as MIA and MICPA which follow international practice.