International Auditing and Assurance Standards Board – IAASB
United States

Dear,

The Conselho Federal de Contabilidade - Federal Accounting Council (in English) – CFC is the national body of the accounting profession in Brazil that sets Brazilian Accounting Standards, regulate and supervise the profession and promotes continuing professional development.

The CFC has been active on the world scenario for over twenty years, participating in accounting discussions, through representations in international organizations such as IFAC, AIC, CILEA. The IASB Board and also IFAC Board currently have brazilian members and the GLASS (Group Latin American Standard Setters) is chaired by a Brazilian.

Our responses to the questions included in the ED ISQM 1 are set out below.

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:

   (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 support the new quality management approach. It seeks the application of firms’ efforts to the important points of quality control based on the nature and circumstances of the firm and the engagements it performs.

   (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: The proposals consider the firm and its engagements’ nature and circumstances. It allows that firms have a focus on the key risks of quality. However, the concept of professional skepticism needs additional clarification, especially describing the requirements the firms shall adopt to
ensure the appropriate professional skepticism on application material or either on 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?

Response: Yes. The proposals consider the firm and its engagements' nature and circumstances. However, the application will require efforts from smaller firms. More implementation materials, use of technology (for example use of e-standards to easily select or eliminate steps that are applicable or not applicable could facilitate the consistent implementation of the standards through the firms) education and a longer implementation deadline should be worked on.

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: Efforts will be needed to firms customize their own system of quality management. The SMPs have less resources to support this changing, so, there should be more support materials and guides for their use to guide consistent implementation. Additionally, two years of implementation on a global scale would also be challenging.

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 that additional examples or explanations are helpful. The use of video and other means of technology would also be helpful.

Specific Questions

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

Response: We support the eight components. However, it should be clarified how components can be iterative.

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 objective of the standard.

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?

Response: Yes, we support this approach. This will cause firms to assess key areas and risks, directing efforts to the components that are most relevant for the circumstances and nature, and may even create new components.

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

In particular:

i. Are the required quality objectives appropriate?

Response: Yes, as minimum objectives, the requirements of paragraphs 23, 32, 34, 38, 40 and 42 are appropriate. However, the firm may establish additional quality objectives when necessary.

ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

Response: Paragraph 26 and Item A4 make it clear that additional objectives should be set. However, according to the approach, it does not restrict the circumstances, which is not clear. Still, the minimum objectives can be sufficient, especially to SMPs.

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

Response: Yes, we support the process for the identification and assessment of quality risks. In our view this process has the same concept of the requirements of ED ISA 315.

(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?

Response: Yes. The firms are required to design and implement responses to assessed quality risks. Even if the proposed prescribes some responses, the firms will develop the responses according to the specific circumstances.

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: No. The ED prescribes that the firm shall design and implement responses to assessed risks, based on quality objectives. However, examples or additional guidance could be provided to describe situations when additional responses to additional risks would be needed.

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. The ED addresses the governances and responsibilities to firm's leadership in terms of principles.

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: Yes. The responsibilities for ethical and independence requirements shall be assigned to one or more individuals depending on the size and complexity of the firm.

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

Response: Yes.

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

Response: We believe that the ED has appropriately included requirements for quality objectives related to the use of technological resources and additional material could be required and issued if technology evolves and requires additional or specific guidance.

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 recognize the importance of encouraging firms to communicate a true and fair view of its system of quality controls, governance and internal and external inspection activities if not precluded by law.

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: Yes. We consider that increasing the number of engagements’ quality control reviews is required and is important. However, the meaning of “significant public entities” should be better clarified.

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?

Response: Yes, we believe so, since the proposals designs the monitoring activities as a process that should continuously be executed, monitored through its activities and the performance of its services. We also believe that this standard puts the firms on a better position to execute better audits, reducing audit deficiencies.

(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: We support to retain the requirement of inspection on complete engagements for each engagements partner on a cyclical basis, with specific, however clear, enhancements to improve flexibility of the requirements and allow efficient forms of reviews. However we support in-process and completed reviews since we believe the two systems are complementary.

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

Response: Yes, however additional guidance would be required to help the firms to implement this concept.

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

Response: Yes. We believe that this requirement will help the firms to understand why those events happened and take proactive actions, including allocation of resources, to avoid those events to happen again in the future.

In particular:

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

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

Response: We do not support addressing the root cause of positive findings.

(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: We believe that at least an annual requirement for the individual assigned ultimate responsibility and accountability for the system of quality management is reasonable.

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 that the proposals are appropriate because the firms must adapt the network’s methodology to their circumstances and regulation.

14) Do you support the proposals addressing service providers?

Response: Yes. However, sometimes the firm might not obtain much information about the service provider because it is just a consumer.

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. We agree that changing the title will not create difficulties in the adoption of the standard.

Sincerely yours,

Idésio da Silva Coelho Júnior
Technical Vice President