

## Response Template: Proposed ISQM 1

### Note to Respondents:

- The questions below are from the exposure draft of proposed International Standard on Quality Management (ISQM) 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*, which is available at [www.iaasb.org/quality-management](http://www.iaasb.org/quality-management).
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

### **General Comments on Proposed ISQM 1**

*[Please include here comments of a general nature and matters not covered by the questions 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?

#### **Response:**

A) Yes, although it is well clarified that the escalation of ISQM aim to have two extensions for either engagement or entities based on nature or circumstances, but I found it very broad to include all circumstances and nature of engagements while the ISQM is risk based oriented ,then the process of identification of high risk engagements , is the most relevant for this scalability issue, while scope of engagements' entity was already identified in subsequent paragraph (significant public interest , publicly listed and other identified by entities ) improvements may be achieved by clarifying the objective, tools or procedure to identify such escalation for engagement, by applying one of the following alternatives:

- Indicating type of decisions which are likely to be derived from such escalation and its effects on quality objectives to clarify what depth of understanding is required for types of engagements (i.e. by referring to Identification of those engagements whose quality risks are either reasonable possible or significant). For that purpose, significant public interest or publicly listed entities, and other engagements, as deemed necessary, are likely to be identified.

Or,

- By indicating necessary procedures to identify engagement and linkage to required risk response for such escalation of engagements that it will be clearly effective for seeking risk response.

Wording that represent this linkage will be such as "understand engagements' nature and circumstances (Ref: Para A22, A23) to Identify those engagements, including audit, review, other assurance or related services engagement, whose quality's risks would have affected the entity's quality objectives (Ref: Para 18 (a) and (b)), to extent which justify adequacy of risk assessment process (Ref :Para 26 -30 ) and risk's responses ". This may eliminate ambiguity regard the objective of the extension made to scalability issue by focusing on objectives of this scalability

- A. Focusing on more detailed objectives of risk assessment with linkage to escalation will also provide more clarification, as defining objective from consideration of nature and extent of entities and engagements for risk assessment as follow:
- 1) Obtain an adequate understanding to assess quality risks affect quality objectives and sufficient appropriate evidence which supports the reasonable assurance of achievement of these objectives either for entity or for engagement level.
  - 2) Maintain effective and efficient risk assessment process to identify quality risks and take appropriate remedial actions
  - 3) Enhance governance function in the firm
- B) Nature and circumstances that shall be taken into account in risk assessment (such as strategic decisions and actions, economic stability) (Ref: Para. A22-A23) are very broad and sometimes beyond the quality objectives. In addition, in some circumstances, these matters may be controversial as they are not directly linked to quality management, and, therefore, may impose undue cost in risk assessment process or subjective for quality reviewer (e.g. strategic decisions are relevant, even in small and medium practitioners (SMPs) when a firm engages with a significant publicly listed entity for the first time, although they may not have the same likelihood and significance comparing to other than SMPs firm that are well professional stable large firms . So, if those matters are described in light of risk assessment process, firms may avoid undue cost. Otherwise, they may be included as an appendix, instead of the main body of ISQM.
- C) For complexity and formalities (Ref: Para. 5), I still have question in regard linkage of this paragraph whether it targeted clear simplifications that can justify this comparison related to various distinguishable areas for SMPs and those perform engagements to publicly listed or significant public interest entities and linkage to other ISQMs'

paragraph. Simplifications may be varied from documentation to the quality management approach depend on type of risks itself including Risk assessment process, responses, professional judgement and designing policies. The using of term such as relevant risks for these less complex professional entities to represent simplifications will integrate all effects on different aspects by identifying such risks that are relevant for them as “risks that are probable in occurrence and those with reasonable possibility for which, if no designed quality risk management policy exist ,they will not result from any other quality policy, solely or in aggregate, with other quality risk policies that are effectively operating ,” this may lead to less subjective and less complex approach for these entities, taking into consideration paragraph A.54 ,A 55 , which may be subjective and request to take in consideration risks that are more than remote and does not consider apparently all compensated policies before identifying risks. While it will be more efficient for these entities to reduce scope of risk assessment process by focusing on those probable risks and other reasonable possible risks, that if were not compensated by with its policies, would have affected quality risks.

For example, restricted engagement budget may be outsourced or influenced by highly qualified supervisor’s hours or increasing number of partners this year or using a qualified member’s’ staff in network, and using of computerized audit software so does not request to be identified as resource risk, so if these policies are operating effectively, the identified risk will be remote. So depend on compensated policies for other quality component, some type of risks may not be identified, finally. giving to these entities opportunity to search for compensated policies is better than overriding or resisting application.

- D. In addition, For SMPs (with less complex structure and formalities). The scalability issue may be affected by the limited number of partners, resources or engagements so focusing on relevant risks is much important rather than applying risk assessment as described in paragraph 26-30 for identified risk. To enhance understanding, I believe separate paragraphs are suggested to clearly identified simplifications that may be permitted in each of the eight components of the quality management system. Thereby, we can achieve scalability for those entities without undue cost.

***First alternative of modification:*** -Para 5 after modification in accordance with aforementioned suggestions:

"This ISQM requires the firm to apply a risk-based approach ~~in order to the design, implementation and operation of the system of quality management,~~ taking ~~in account~~ into consideration, obtain an understanding of:

- (a) The nature and circumstances of the firm, including whether it is part of a network or uses service providers; and (Ref: Para. A22)
- (b) The nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and

the types of entities for which such engagements are performed.  
(Ref: Para. A23)

This understanding is deemed adequate for:

- 1) Assessing quality risks that would have affected quality objectives and obtaining sufficient and appropriate evidence which supports that achievement of these objectives are reasonable assured.
- 2) Maintaining effective and efficient risk assessment process to identify quality risks and take appropriate remedial actions for deficiencies.
- 3) Enhancing governance function in the firm.

In order to design, implement and operate the system of quality management.

Accordingly, the complexity and formality of firms' systems of quality management will vary. The less complex of entity or engagements due to nature or circumstances, the more relevant quality management policies, risk assessment procedures and responses should be adopted to identify quality relevant risks (Ref. Para. ....). For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements."

For that purpose, definition may be required for quality relevant risks: (For example:" **Quality relevant risks:-** are those risks that are meaningful to quality objective for those less complex entities (not involved in provide audit, review, other assurance or related service to significant public interest entities or publicly listed entities) and for which maintaining without considering adequate response for them will probably increase quality risks" or "**Quality relevant risks:-**risks that are probable in occurrence and those with reasonable possibility for which, if no designed quality risk management policy exist , their attributed quality's objective will not result from any other quality management policy, solely or in aggregate, with other quality policies that are operating effectively

**Second alternative of modification:** - Para 5 after modification in accordance with aforementioned suggestions

- "(5) This ISQM requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management, taking into account:

- (a) Understanding of The nature and circumstances of the firm, including whether it is part of a network or uses service providers; and (Ref: Para. A22) engagements' nature and circumstances (Ref: Para A22, A23)
- (b) Understanding of The nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are performed. (Ref: Para. A23) to identify engagements, including audit, review, other assurance or related services engagement, whose quality's risks would have affected entity's quality objectives (Ref: Para 18 (a) and (b)). This understanding is required to the extent adequate to justify risk assessment process and risk's responses.

Accordingly, the complexity and formality of firms' systems of quality management will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements.”

- (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?

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:-**

I believe that the new quality management approach will enhance both the quality of engagement management as well as the quality attributed to firm but I have some cautions that may affect the approach in some areas as follows:

1. In para. 10.a, it was indicated, as a clarification for additional quality objectives beyond those stated in ISQM, that "The firm is required to establish the quality objectives set out in this ISQM and additional quality objectives beyond those required by this ISQM, when those objectives are necessary to achieve the objective of this ISQM." I believe that the word "necessary" may be ambiguous, subjective and based extensively on professional judgement. Instead, using a clarification for such additional objective as "if were assessed within quality management approach, it would have been identified or considered relevant by negatively impacting quality objectives of ISQM". Consequently, identified quality risks (likelihood or significance) for additional objectives based on this criteria will improve the concept and be considered more precise taking into account impacts on quality risks related to ISQM objectives.

Paragraph 10(a) after suggested modifications:

"10. In taking a risk-based approach to quality management, the firm applies the firm's risk assessment process to the other components. The firm's risk assessment process consists of:

- (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved. The firm is required to establish the quality objectives set out in this ISQM and additional quality objectives beyond those required by this ISQM, ~~when those objectives are necessary to achieve the objective of this ISQM.~~ including those that would have affected the identified quality risks (likelihood or significance) if were assessed within the quality management risk assessment process."

2. The quality management approach raise question regard how to judge both the likelihood of occurrence and the magnitude of quality risk that would have affected quality objectives stated in paragraph 18(a) and (b). Unlike the concept of risk of material misstatement in ISA 315, which is under revision, procedures necessary for understanding and assessing risks are not clearly stated and paragraph 8 emphasized only professional judgement in the design, implementation and operation of system. We believe that clarifying procedures such as observation, inquiries, walkthrough and reading policies, manuals and previous review reports may be appropriate for risk assessment understanding and identification stages. Consequently, professional judgement is applied for such procedures. In addition, those procedures would act as risk assessment understanding procedures, the same as ISA 315.

I believe using a word like "Dynamic" instead of "continual" will reflect better the quality management proactivity with the changes occurred either in firm or engagement, due to mechanism of risk assessment with changing conditions. As well as, changes in such conditions will probably need more procedures, which will affect quality risk assessment process and time, nature and extent of responses.

This will probably affect paragraph 8 mainly as follow.

Paragraph 8 after suggested modifications

- "8. This ISQM requires procedures such as inquiries, observation, reading of previous quality review reports, walkthrough the quality management system to be performed with professional judgment to be exercised in to assess quality risks that may affect designing, implementing and operating the firm's system of quality management. A system of quality management is a ~~continual~~ dynamic and iterative process and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ISQM, a system of quality management addresses the following eight components, which are highly integrated: (Ref: Para. A4–A5)

- (a) Governance and leadership;
- (b) The firm's risk assessment process;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process.

A further description of each of the eight components and their interrelationships is included in Appendix 1."

Other relevant paragraphs such as A60 should be modified accordingly.

- 3- Paragraph 19(a) doesn't reflect the different levels of magnitude or likelihood for deficiencies in the three circumstances mentioned therein. We believe that definition should be improved by indicating characteristics of each circumstance, examples, categories of risks to reduce level of judgement. For example:
  - i. The paragraph should indicate the different levels of magnitude or likelihood by adding definition for material weakness (that for example: may represent probable and significant risks) and which reflects highest degree of probability and magnitude for which examples of appropriate general response or specific response may be appropriate to be presented.
  - ii. The definition of deficiencies should include at least those weaknesses that are reasonable possible or significant. This will alert firms for susceptibility to those risks that may be less than reasonable possible, but significant.
  - iii. I believe that response and degree of risk will vary depending on the quality management component in which the risk exists. For example, violation of relevant requirements (leadership and governance) or monitoring of the ISQM will have a pervasive effect and will need special or general response, such as communicating with appropriate governance level, more regular meeting with partner in firm, direct supervision by partner, more direct supervision hours and re-delegation of responsibilities to those with high qualifications , examples of such pervasive or high risk level need to be presented linked or emphasized with minimum responses' requirements .
- 4- Although there is no definition or description for word "significant" as stated in paragraph 28(b), significance and likelihood are relevant to reasoning of responses. We suggest to set such a definition within ISQM to clarify the terminology as there is no materiality terminology described as in ISA 315 to judge significance.
- 5- Statement that demonstrates more precise disclaimer about the completeness of all conditions and circumstances that shall be taken into account in risk assessment will be

preferable. Since circumstances'(Ref :Para A22,A23 ) and A60 are not exclusively specified, but are generally included in the body of the Standard, not as appendix, I suggest to raise the need for exercising professional skepticism to seek other relevant circumstances. As the ISQM is based on risk assessment and remedial actions after determining the root causes of the identified deficiencies, there are cautions that objectives of ISQM will be compromised by dealing with risks reactively, rather than proactively identifying those cases which lack of policies or adequate response and which will need responses.

According to 3, 4 and 5 above, para. A60 should be modified and paras. A60a and A60b should be added as follows:

"A60. The firm should perform risk assessment procedures as described in paragraph 8 with exercises—professional judgment in designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the assessed quality risks, which includes:

- The likelihood of the assessed quality risk occurring. For example, a more robust response may be needed for an assessed quality risk that has a higher likelihood of occurring.
- The significance of the effect on the achievement of the quality objectives. For example, a more robust response may be needed for an assessed quality risk that has a more significant effect on the achievement of a quality objective.
- The conditions, events, circumstances, actions or inactions that give rise to the assessed quality risks. For example, if the assessed quality risk relates specifically to engagements performed for a category of entities (e.g., audits of financial statements of listed entities), the responses may require specific actions for entities in that category, rather than all engagements performed by the firm.

A60a. Although both likelihood and significance are relevant to professional judgement for assessing risk, unless otherwise justified, those risks which are considered more likely to be quality risks or those with significant effects should be addressed by governance policies and procedures.

A60b. Although nonexistence of previously identified deficiencies, remedial actions or responses to risk is not always indication that risk does not exist, circumstances as stated in paras A22 and A23 may be considered to identify risks that are more likely to occur or significant, and risk may still exist even if these considered circumstances were not resulted in understanding or identification of quality risks."

6- I have noticed that paragraph A63 use the complexity of firm's structure and geographical dispersion as a factor for documentation. I believe that complexity of the firm itself or



nature of engagement, rather than documentation, will have more effects on quality management. So, I suggest simplifying the process for that firms with less complex structure by restricting investigation to the most relevant root causes for identified risks, in cost effective manner, while maintaining adequate designed policies and procedures for each component of quality management. Firms with less complex structure are those that do not provide audit services to publicly listed companies or significant public interest entities and are not geographically dispersed.

Paragraph A63 after modifications should be read as follows:

**A63. ~~The need for formally documented policies or procedures complexity and details of quality management approach may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm while for~~ Firms with less complex structure a more simplified approach may permit investigating most relevant root causes of identified quality risks, in cost effective manner and based on monitoring with adequate policies and procedures for the components of quality management.**

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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 , I suggest for answer of this question, after taking in account previous questions' answers , enhancing professional skepticism ,as relates to many pervasive pronouncements ,will be improved by issuance of separate guide for professional skepticism including activities , methods , technique to improve and action to be taken as remedial action for firms

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:**

I suggest some improvements for that purpose, in general, these suggestions will include

- 1- Adding simplifications for that less complex firms (structure , formalities and geographical expansion may need more improvements
- 2- Addressing each component of quality management (leader ship & governance, information and communication, ..... ext ) by procedures specifically directed to those

less complex firms ,and that focus on each quality management’s component policies ,will improve the application

- 3- In Reference to ISQM (Para. 37 (e), and Para. A 101 - A106), the significant public interest entities (PIEs) in addition to public listed are very confusing . serving public interest does not give the same meaning as performing engagement for public listed and significant public interest, although I noticed they were used as synonyms, Ref: Para.A2 “The IESBA Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant’s responsibility to act in the public interest “ so serving public interest will request considering all public interest entities to be significant not those significant
- 4- Including or target type of engagements performed to those significant public interest entities still provide a broad definition, even if we used before in code or used by IFAC to increase scalation regard practioneers in profession, the objective of definition for ISQM is different. Such a term varies among jurisdictions. Many of publicly listed are considered significant public interest entities .Some entities are not publicly listed ,and not significant but organized under supervision of capital authority market( some funds , financing lease or insurance brokerage ) and still intrusted from large stakeholders .Some other entities in some jurisdiction are entrusted by a large number of stakeholders due to specific transactions such as stakeholders of property investment entities which involved in issuing "properties sokuk" in some Islamic countries or expected to be subject to IPO . This may suggest improvement needed for definition, that may be encountered by using IFRS for SMEs definition (for those not considered SMEs)in some other jurisdictions . this may emphasise create more generally accepted terminology in describing entities for which engagement are performed and affecting public interest , so I suggest to have specific term as example (PIE are those entrusted or probable to be intrusted by large number of stakeholders for whom audit , review or other assurance related services' reports and findings are considered material). So that using term of “public interest entities and adding those probable to be with public interest “will be aligned with serving public interest as objective in code.
- 5- In some jurisdictions, more confusion will be resulted in regard to those, who because of governments' defined scope of significant interest to public, have governmental units which are in charge of their audit .in accordance with ,the scope of whom may include efficiency and economy of financial decision . Consequently the quality of procedures may be judged by another framework other than ISAs .I suggest to improve that area either by defining clearly the scope required under ISQM and exclude assessing quality management for those entities if were subject to evidenced quality review accordance with prescribed government quality management rules and quality review inspection or by defining clearly the scope to avoid duplication and broaden over firms
- 6- it was mentioned (Ref. Para A105) that “in some situations, there may be no engagement request to perform quality review cause no publicly listed or significant public interest entities in addition firms consider no responses required so risk assessment is assessed to be appropriate . I found this paragraph may need to be

improved, as caution exist for compromising on standard objective , most of the cases either the quality review may be needed to test effectiveness of response and following up the inspection's results or as required by some professional organization so adding references or when change occurs or required by regulation in jurisdictions. taking in consideration what was referred to in Para . A 162 which emphasise that when change occurred, monitoring may not provide relevant information and monitoring will have to include this area which quality review may need to cover, in addition Par 58 (quality review is firm response to assessed quality risk. so we may not easily reach to that presented conclusion in paragraph, and I suggest to eliminate or reduce of such flexibility to entities

- 7- Establishing committee to study challenges that face those SMPs in application of ISQM 1 and issues discussions material for case studies,
- 8- development of one simplified governance terminology for that purpose of the ISQM and those who in charge in firms may be required , aligning with ISA 260 “communication with those charges with governance “description as in par. 10 and par. A1 to A8 . may enhance further development and reporting of ISQM1 in future
- 9- partner or governance board should justify selection process of those who maintain responsibility for the quality management system in accordance to policies and procedures in less complex structure firm (things like non rotation, evaluation , qualifications would be of most important to compensate for less segregation ) so that compensated responses may be a justification if in same relevancy to quality management objective

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:**

Although I suggested above some means to enhance implementation I believe that The approach of quality management and risk assessment would need to be simplified for less complex firms and addressed separately for those SMPs firms this will affect not only documentation of process , but period for which latest assessment be valid, procedures and policies , risk assessment scope , response (time , nature and extent) ,conditions and roots causes of risks affecting risk management process , this area I believe need more deliberative resources and simplifications using more suggestions delivered from more jurisdictions about methods of simplifications.

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 , I describe suggestion of improvements in other questions

**Specific Questions**

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

**Response:**

i observed that term governance would be enhanced by linkage to quality management reporting system , requiring segregation among those have operating responsibility and maintain this function should be clearly stated for firms involved in providing audit for publicly listed entities and setting its rule for other components separately, may be enhancement for governance in such entities will have pervasiveness effect over all other components so that I believe this area needs more improvements in form of required segregation , reporting's level , accountability to add value to the process

- 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:**

Yes, i find it appropriate and this objective is aligned with enhancing quality of professional services although some challenges will be probable for SMPs in relation to engagement quality review (judgement + segregation of engagement reviewers from audit team and terminology of governance and its relation to quality management component ) I recommend to address in each topic the degree of flexibility for SMPs clearly that may increase scalability of the standard from our experience , as well as ,for PIE I suggest to emphasize minimum requirements for each quality management component rather than requesting establishing of firm's policies and procedures

- 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, i believe so, otherwise it may result in increasing in degree of judgment area, I believe if the followings are considered, more developments may be achieved and reducing of excessive judgement may be occurred: -

- 1- Include clear reporting system and clarify more clearly those who in charge of system
- 2- Using same criteria for risk assessment use in ISA 315 such as (what could go wrong, setting likelihood, magnitude)
- 3- Enhance such area by adding guidance for types of risks for each of the eight components and linkage them to the eight components of quality management with the appropriate responses will be very useful for that purpose although the accompanied questions, answers and examples were good guide

**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:**

Of course, the risk assessment should be applied to the eight components of quality management , but we believe that the process itself should have specific procedures which varies depend on component importance and pervasiveness , severity of risk attributed to each component . using procedures designated for that purpose and for the process of risk management itself should be part of governance and leadership "s responsibilities while for that purpose I believe we need more improvements for governance in ISQM ,importance of the risk assessment procedure or step depend on relevancy of each component to risk that may vary as likelihood and significance expectation derived from monitoring results . Monitoring may have role for evaluating effectiveness and adequacy of performed procedure relevant to type of risk for each component and for engagement

Also based on this monitoring linkage to each component more cautions may raise suggestions or improvements that may be take in account , as follow :

- 1- To be enhanced the process of risk assessment itself, it should be subject to quality engagement review as part of quality management so it should be evaluated by those partners not hired as engagement review partners or those not involved in quality management review. Also policies should describe that for delegations of supervision in regard specific classes of entities'engagement should be rotated at annually.
- 2- I believe more analysis for the overall risk assessment process based on some specific areas from other literature or standards such as risk profile, appetite, tolerable risk attributed to components may enhance this approach for complex firms and increase effectiveness of risk management and its quantifications
- 3- Segregation of those responsible for the process of each component and those responsible for operational responsibilities will be enhances for sensitive engagement(listed entities and significant public interest ) may be important , evaluation of the process as one of the eight components may remain as a responsibility with governance and leadership and more considerations should be given to enhance governance by recommending more segregation responsibilities ,and accountability for risk assessment relate to those with expectation of pervasiveness risk .

b. Do you support the approach for establishing quality objectives?

**Response:**

Yes, the I support with taking into consideration the deliberated results from Reponses of other questions

In particular:

i. Are the required quality objectives appropriate?

**Response:-**

The quality objective should be linked to the degree of accreditation of the profession, so linkage to ethics or reference to maintaining acceptable lower level of firm quality risk in objectives would give adequate understanding to publics , enhance this linkage and emphasize the importance of the changes , also in Para. 18.b term such as “appropriate in circumstances “ may be vague or not clear the aim of the changes to publics so we recommend that paragraph adjust as follow :-

**Paragraph 18 after modifications :-**

**Objective**

18.The objective of the firm is to design, implement and operate a system of quality management for audits or 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~~ reflect appropriate acceptable lower level of quality risk for such engagements.

In addition more objectives may be more likely to be developed through operating of quality management system with considering prior responses , monitoring outputs and previous quality review and those identified with risks relevant to those objectives stated in (a) or (b)

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

**Response:**

It is quite clear and in previous responses I suggest some improvements for this question for this point .

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

**Response:**

Yes, i support the process, and we believe adding some clarifications in regard responsibilities for managerial level personnel or partners whom will be responsible for the identification, assessment and evaluation or the change in profile of firm quality risk

Firm's Quality risk based class of clients such as financial institutions, for which the company specialized in providing specific service for ,may reflect that the risk should be managed through adequate resources ,experts , highly qualified personnel , so extensive definitions and tools for managing risks will provide better results such as appetite of the risk that will reflect matrix of magnitude and probability , for such annual monitoring report is required ,so on engagements level it will be clarified what is effective and efficient for risk assessment to target. Tolerable risk should be aligned with objective of setting lower level of quality risk as a quality objective then feedback will be affecting the responses if identified and maintained within gradual periodic review system, the for GAP between responses and tolerable risk identified must be analyzed, i believe that such improvements will create more logical steps and will reduce the professional judgement used by those considered other than SMPs and which are involved with significant public interest and publicly listed companies . And will be coincide with their adequacy of resources taking into account effect on public interest .

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

**Response:**

We support the approach with some cautions in regard responses that we find necessary to be deliberated in future for more improvements as follow: -

- 1- The responses (as defined) and the approach may be enhanced if it is specified when it is required to have general responses or specific responses and have definitions for both type of risks , for examples have sanctions from authorities or professional as result from QPR "Quality Peer Review"" may request that entity has a high level of response rather than ordinary response directed toward remedial actions of inadequate response of previous deficiencies- (ex. Those with no response in leadership ac constitute control environment ) , i recommend to have two categories of responses ( general response and specific responses categories ) to be aligned also with applicable method of risk assessment approach as adopted in ISA 315 and ISA 330
- 2- while paragraph 41.a describes the responses that should be considered by the firm, In Paragraph 41.c .(iv) the firm has the opportunity to determine whether to report in its transparency report , while giving such opportunity will contradict with meeting some requirement of registration process for capital market authority by entities .As in some jurisdictions, it is required to have transparency report submitted and latest engagement or firm's quality review either by network from which the firm belonged to , or by other overseeing professional government bodies . In these few cases , the firm itself has no opportunities to determine whether to provide or not for any of its transparency reports( once required) , I believe the phrase in Para 41 .c may need to be adjusted as follow:-

41.c .(iv) . Other communication to external parties about the firm’s system of quality management, in a transparency report or otherwise, when the firm is requested in its jurisdiction for such communication or submission of the report or it determines that it is appropriate to do so, taking into account: (Ref: Para. A145, A149–A153) a. Whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm; and (Ref: Para. A146–A147) b. The nature and circumstances of the firm, including the nature of the firm’s operating environment. (Ref: Para. A148)



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 we believe the approach after deliberating other answers will result in designing, implementing responses that are tailored to and appropriately addressed quality risk ( kindly consider answer for question (ii) below for same purpose .

- 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 , I previously added language to paragraphs emphasizing some kind of disclaimer regard inclusivity and completeness of applying remedial actions ,or inclusivity of Responses as I have some concerns that the matter considered not to be investigated unless determined situations with required responsive area ,this will result in focusing on predetermination aspect using the adequate of response rather than to identify and to be alert for more risks.so I suggested to obviously define meaningful risk and include appendix of those factors most likely exist when these risks identified

Also The degree of improvements in this area may be enhanced ,with clarifying such responsibilities of updating tool of monitoring such as risk registers on component and risk within entity's tolerable quality risk , firm and engagement responsibilities for strategic risks, such as having lower fees' clients in SMPs and performance of engagement with fewer staffing depend on strategy or change of strategy of the firm that probably will be affecting overall governance and leadership's responsibilities (i.e affect more components ) .this type of risk may be given more emphasizes (using different terminology of deficiencies such material weakness , differentiating characteristics for overall risks within firms from those related to individual engagements) .And in order assist improvements to be achieved , setting responses with simulated general and specific category situations, as so far as practices suggest, will be good idea

- 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 provide some suggestions for that in response question 8

- 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 believe in other than SMPs this will be appropriate to delegate for one of the level responsible for governance that responsibilities , that level should have adequately described within the structure

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:

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:**

That transparent reports for example in some jurisdictions are adopted as required by professional body with predetermined contents ,deadline , CPE , HR , management and supervision hours , components may vary from ISQM’s components , risk assessment process , i believe that recommending to describe clearly results of risk assessment in communication process based on statement of those responsible for governance and leadership and for those deficiencies relate to entities involved in providing engagements to significant PIE or publicly listed transparency report channels should have been improved to include ,investigation ,consultancy and communications to professional bodies in case of emergencies, otherwise adding general paragraph about adoption of quality management adequate to achieve quality objective unless required by jurisdictions a full explanation of risk and Reponses process may be appropriate in the report

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 , but in addition to engagements related to publicly listed and significant public interest , we need policies to those be described and consistent for those engagements which are clarified by monitoring or risk assessment process to have sever and pervasiveness deficiencies to be Identified by entities . Moreover ,areas of clarifying policies for that purpose may need to be described clearly ,

12- will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation?

**Response:**

Yes but answer in 8(d) in above mentioned answers may be considered also helpful for response that question

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:**

Monitoring may be enhanced with system that enable timely describe of lacking of quality management in regard quality objective and oversitting corrective actions, maintain register for risks and corrective action taken, have internal quality review assignment emphasizing whether risks previously identified are effectively appropriately responded to if managed on circumstances will enhance mentoring

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 I agree

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

**Response:**

Previously I raise my concerns in that regard in question 1 , and I have some suggestion for that area

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

**Response:**

Yeas but the extent of this process may be vary due to complexity , formalities and the type of engagement performed by firms so I suggest

1- Consider simplifications for that methodology for SMPs to avoid undue cost , that resulted from nature of these firms which may face difficulties in segregation of duties of those in charge of quality management approach , taking into account that large part of this firms' risk assessment process, as practically suggested , will be based on less expectations and experience for determining root of the causes of identified risks , these firms may depend heavily on what obviously have been previously determined as risks ,most of which existed but no response for it

So focusing on less causes roots by identifying which are relevant risk or relevant root cause , as far as I believe ,will be more efficient and effective

2- While for those perform engagement to entities that have probability to affect public interest , more comprehensive approach that encompass more analysis for root causes of risks will be appropriate , this must include probability and

significant linkage to root cause and based on priorities there might be precise determinable factor for the response and their time ,nature and extent which is most necessary for components such as monitoring and leadership and governance compositions and reporting , I believe in such entities two way of effects and channel of communication may be exist to preserve its suitability for public interest

- 3- If time is not sufficient to gather resources for the previous aforementioned suggestions , we might use appendix guide linkage relevant cause root of risk with response time ,nature and extent with determination whether it is key matter for response (timely response ) , type of required communications to clarify time and nature and extent

In particular:

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

**Response:**

I believe yes

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

**Response:**

Yes , considering my reposes in same areas in previous questions

- 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:**

Yes , unless change in firm strategy takes place such as having publicly listed company for first engagement year , we recommend that appropriate level should evaluate whether previous quality management are adequate for that purpose , and I suggest that this case must be emphasized as it related to concerns of most capital authority market and stock exchange markets' stakeholders may request updated report although in less complex entities the period if it is extended , this may reduce broaden of work over this entities provide no red flags raised by monitoring

- 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

- 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, but in some jurisdictions the risk management, governance and transparency report may have oversighting professional organizations, that issue related pronouncements for controlling these functions and reporting over them, I believe we may need to be alerting for that cautions that may result in conflicts with the specific procedures and objective of ISQM related to these terminologies, and since we have these terminologies in ISQM .avoiding conflict that may be foreseeable especially with procedures regard governance, significant public entities and transparency report, we might need a group for gathering informative deliberative resources for the incoming period to enhance these terminology and define more comprehensive definition, polices and procedures related to them before authorizing the ISQM for issuance

**Editorial Comments on Proposed ISQM 1**

Dear Sir(s)/Madam(s),

I would like to thank IAASB and all of your staff for their appreciated efforts to improve the quality of the audit and accounting profession services and serving public interest by issuance of immediate and effective pronouncements that maintain credibility and transparency of services provided by professional audit and accounting firms

I read and searched sources as far as possible in addition to reading the exposure draft of proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 12), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ED-ISQM 1) and i believe that many of improvements and efforts were achieved in proposed (ED -ISQM1 ) although I suggested some of improvements that may collaborate with your appreciated proposal ,I take in consideration that sharing in improvements of quality management approach to achieve quality objectives and assisting to achieve IAASB's role in serving public interest are of the most recognized professional knowledge and honor.

I hope that my comments will help improving the issuance of ISQM1 final authorized standard and for any additional queries kindly do not hesitate to call my office

Thanks & regards



Shady Fouad Ahmed Mehelba

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