July 19, 2019  
Ref.: SEC/038/2019 - DN

International Assurance and Auditing Standards Board for Accountants (IAASB)  
529 Fifth Avenue  
New York, NY 10017  
US

Dear Sirs,

We, Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the 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. See our comments 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?

We support the new quality management approach, as we acknowledge that the risk analysis would be beneficial for the firms in focusing their attention to what can affect engagement quality, driving consistency in processes for firms performing audits or reviews of financial statements, or other assurance or related services 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?

Although we recognize that the professional skepticism is embedded in the auditor profession, the standard only states its necessity on paragraph 36 and its respective application material. We do not see a clear requirement about the procedures the firm must implement in order to encourage professional skepticism. Thus, it could be enhanced by bringing in some paragraphs from the application material to the requirements session.

(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?

Although we recognize the efforts in incorporating the scalability throughout the standard, we are concerned that the overall length and complexity are barriers to its scalable application and we believe that additional non-authoritative guidance for smaller and less complex entities to support the implementation consistent with the IAASB’s project proposal should be provided, including different types of engagements - audit, assurance, agreed upon procedures. The FAQ and videos are good examples to deal with this issue.
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?

Yes. As mentioned in the response to the questions 1(c) above, we are concerned about the overall length (requirements, application material and appendix) and the repetition of content. We believe this implementation will take significant time to be completed by the firms and the implementation period should be of at least 24 months after its approval by the PIOB. As the new risk-based approach involves more professional judgment, it can be a challenge for smaller firms to design a system that is tailored to their nature and circumstances by only reading the ED-ISQM 1. On the other hand, network firms operate in a way that a single risk assessment methodology and process can be implemented by firms locally. Designing a risk assessment methodology that can be implemented consistently by all member firms while also properly reflecting the nature and circumstances of each individual firm will also be a significant challenge as these firms vary in size, complexity and available resources.

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?

In general, the application material is always helpful. However, in this ED, there are some areas that can be reduced and simplified, such A76 through A90 and A124 through A131.

Specific Questions

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

Yes. However, it is not clear how the components can be combined or are going to operate in an iterative manner as stated in the diagram of page 7 of the explanatory memorandum. We believe the component ‘Information and communication’ is implied in all other components and hence, it is not clear what is necessary to be addressed specifically in this component. We believe this is a crucial explanation, especially to address the scalability issue with the inclusion of examples in a non-authoritative guidance as suggested in 1c above.

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?

Yes, we support the objective of the standard. However, the introductory paragraph 7 may explicit contain the indication of IESBA Code where professional accountants have a responsibility to act in the public interest and as a result, the consistent performance of quality engagements is integral to a firm’s responsibility to act in the public interest.

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?

   Yes. It is necessary to highlight the importance in driving improvement in the quality of audit services through a combination of prevention, detection, deterrence and remediation, though some concern (scalability) that is may become an ‘exercise’, losing the key goal by focusing
too much on the process. Another view is that it may in practice increase the checklist approach given the likely increase in controls that would result.

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

i. Are the required quality objectives appropriate?

Yes and it is easier to capture the quality objectives, as they are the first paragraph of each component.

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

Actually, the way it is presented in the ED, it seems that it is always expected to establish additional quality objectives and design additional responses. However, in some cases, the quality objectives required by the standard would be sufficient, especially for smaller firms. Hence, it would be recommended to clarify in what circumstances it is expected that firms develop additional quality objectives and their respective responses.

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

Yes. The risk-based approach for identifying and assessing quality risks in ED-ISQM 1 presents the same language and principles of ED ISA 315, including the preliminary consideration of the possibility of the quality risks occurring and their effect (‘educated guess’) and when assessing the identified quality risks, their detailed consideration for the design and implementation of the related responses. The diagram shown in page 13 of the explanatory memorandum can contribute with the understanding and should be incorporated in the implementation guidance.

(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?

Yes. Although the standard already prescribes some responses, it is clear that a firm will need to design and implement additional responses. We agree that only prescriptive responses would deter firms from identifying and assessing their quality risks, considering the nature and circumstances of the firm and the engagements it performs.

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?

No, because the structure of the ED stating the quality objectives in the first paragraph of each component implies that a response will also exist for each one. Similarly to 6b(ii) above, it is not clear that additional responses are always expected.

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

Yes. We believe the principle of leadership relates to the ability of the firm to set the tone from the top by clearly communicating the strategy, culture, values and expected behavior, and by demonstrating how these are embedded throughout the firm. Setting this component as the first one highlights its importance.
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?

Yes. The firm can determine if one or more individuals will be responsible for relevant ethical requirements and independence.

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

Yes. However, we would like to emphasize the difficulty for a scalable application for smaller firms, as mentioned above in some other questions.

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

We consider appropriate the inclusion of technology in the ED as presented due to the variety of jurisdictions and firms' nature and size. Additional material and examples would be helpful to clarify the extent of the requirement around technology.

10) Do the requirements for communication with external parties promote the exchange of 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?

Considering the evolving environment, we recognize the importance in encouraging the communication with firm's stakeholders to provide better information about audit firms, their governance and their internal governance systems. We also acknowledge that this should not be mandatory as it depends on the demand for such information and the legislation of each jurisdiction. However, by having transparency report undefined in the standard, we are not clear on what the Standard would require be contained in the report at a member firm level and how the regulators will interpret the requirements around reporting.

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?

An EQR is an important required component of an audit firms overall audit process, as it serves as an evaluator of the performance of the engagement partner and engagement team. Hence, we agree with the inclusion proposed in the ED. However, the requirement for “significant public entities” to be subject to EQR should be further explored within the standard including a guidance to clarify and be more specific on which entities would constitute a “significant public entity” in a way that the standard is applied in a consistent manner.

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?

The requirements promote more proactive and effective monitoring activities, which provide the opportunity to make any adjustments needed to meet the quality objectives. Innovative
monitoring techniques offer access to performance data and the ability to evaluate progress against objectives.

(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?

We support the recognition of in-progress engagements inspections as we agree that should be a continuous process, very important for the monitoring activities. Nevertheless, we consider important to retain the requirement for the inspection of completed engagements to have a better conclusion about the whole work performed.

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

Yes. We agree with the paragraphs 47 to 50, which set the path to evaluate findings, identify deficiencies, evaluate and respond to identified 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?

Yes.

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

We believe that positive findings are a result of a good system of quality management and thus it would not be needed to address their root cause. Moreover, it could mislead the firms’ attention to identify and remediate deficiencies.

(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?

We understand that an implemented system of quality management, which includes monitoring activities, must be able to give results when needed, irrespective of the stage of these activities. A year is a reasonable time to be expected by the individual assigned ultimate responsibility and accountability for the system of quality management to perform the evaluation.

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?

Networks are important sources of methodologies, policies and procedures and set a base to build a system of quality management. However, we also consider it is always important to adapt for the circumstances of each firm in its jurisdiction, including new requirements when needed.

14) Do you support the proposals addressing service providers?
Yes. However, there may be a challenge in obtaining the information required from the service providers for firms to meet the requirements. Depending on the nature of the services provided, they can have access to confidential information, which can demand stronger controls by firms.

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?

No. We agree with the proposed change to ISQM and we do not believe this is going to create any difficulties in the adoption.

Best Regards,

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President

Rogério Hernandez Garcia
Technical Director