



ICAJ and PAB webinar series:

ISQM1

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Agenda



**SOQM
requirements**



**Documentation
requirements**



**Implementation
readiness**



Next steps

Declaration

- This training is not to be treated as authoritative guidance/consultation nor advice on the implementation and operation of a System of Quality Management.
- Summarizations used for presentation on slides may not convey the full requirement of the ISQM1. Refer to the actual Standard in your implementation/operation activities.
- Material and images used in the presentation have been obtained from IAASB's publication "FIRST-TIME IMPLEMENTATION GUIDE".

Poll



01

SOQM Requirements

ISQM1 and 2 and what is required.

Related standards



ISQM 1: Quality management at the firm level

ISQM 1 requires the firm to design, implement and operate a SOQM to manage the quality of engagements performed by the firm.

The firm's SOQM creates an environment that enables and supports engagement teams in performing quality engagements.



ISQM 2: Engagement quality reviews

Engagement quality reviews form part of the firm's SOQM. ISQM 2 builds upon ISQM 1 by including specific requirements for:

- The appointment and eligibility of the engagement quality reviewer;
- The performance of the engagement quality review; and
- The documentation of the engagement quality review.



ISA 220 (Revised): Quality management at the engagement level

ISA 220 (Revised) deals with the responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner.

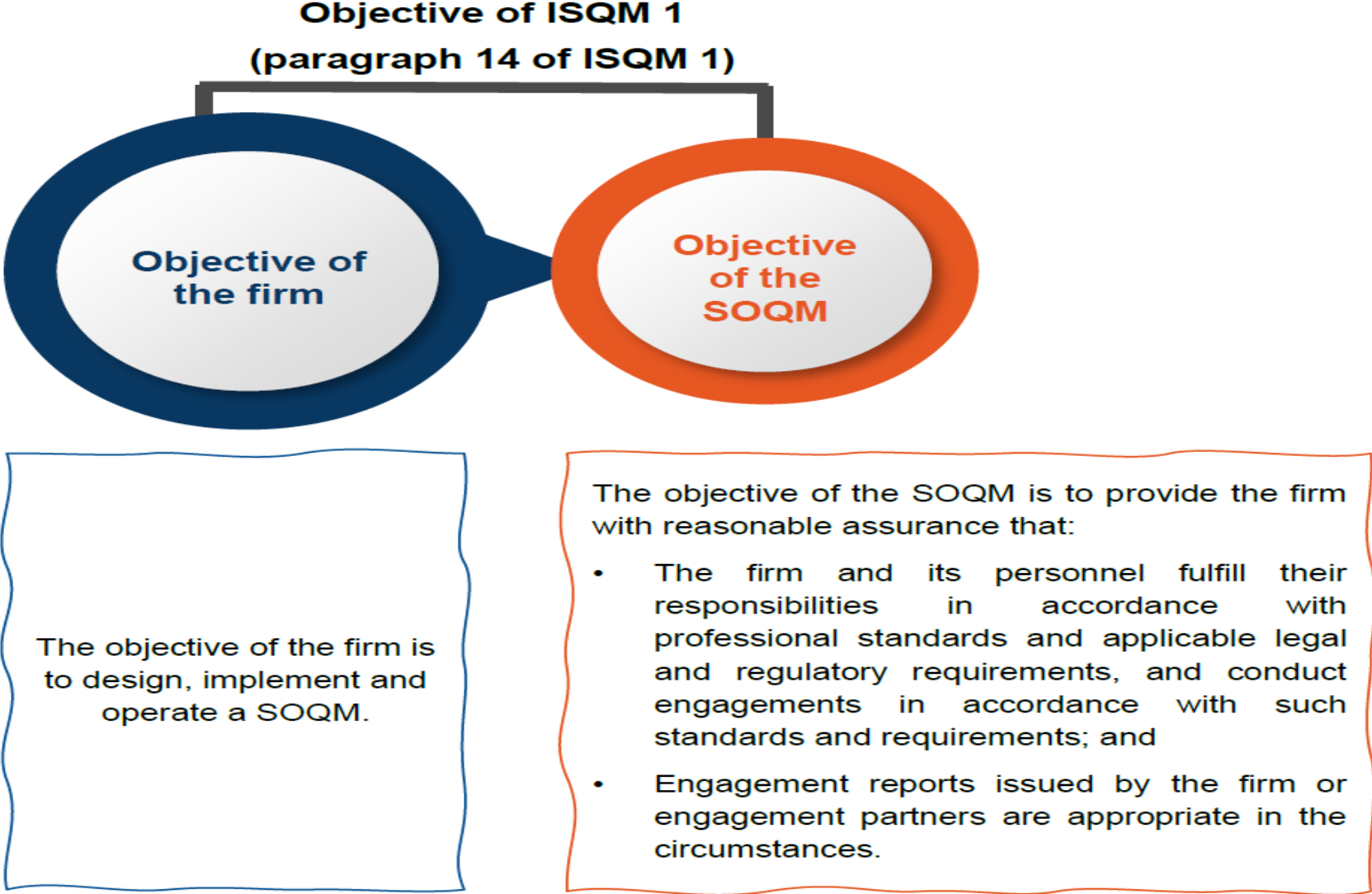
This standard applies to audits of financial statements.

To whom does ISQM 1 applies?

All firms who perform:

- Audits or reviews of financial statements (performed under ISAs and ISREs)**
- Other assurance engagements (performed under ISAEs); and**
- Compilations and agreed upon procedures (performed under ISRSs)**

What is required



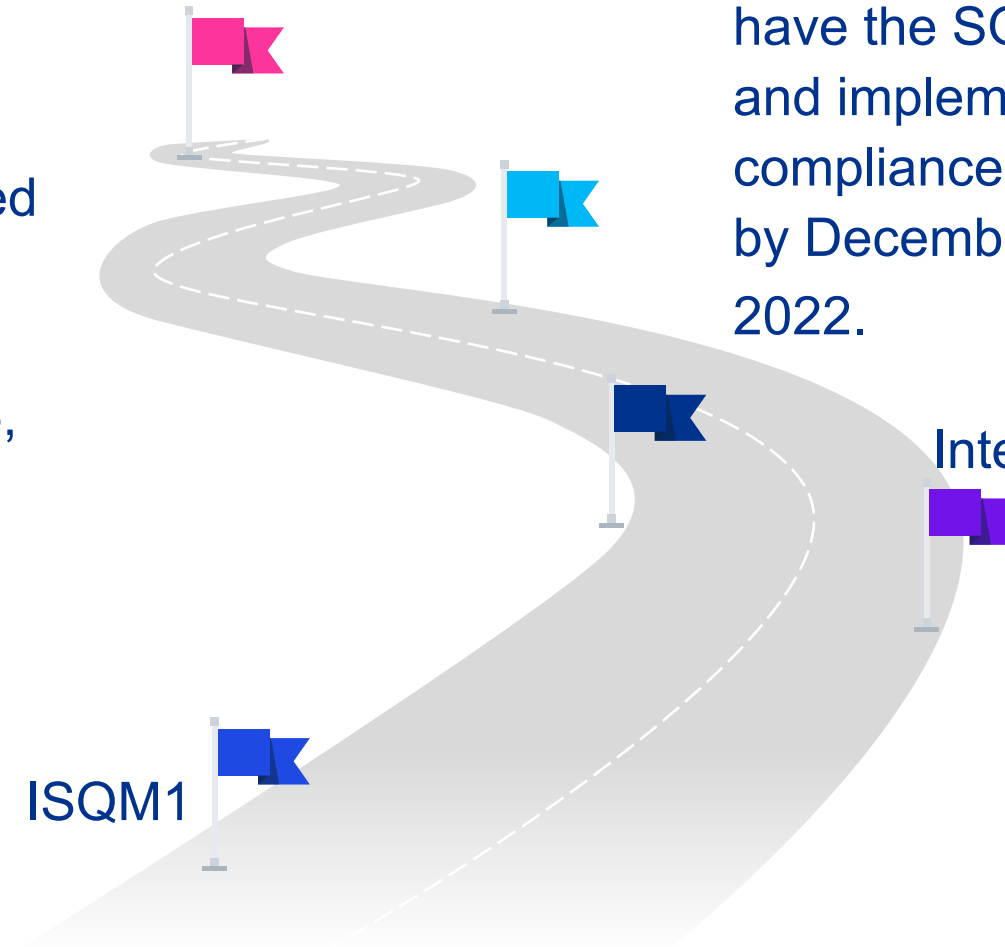
The effective date

The evaluation of the SOQM required by paragraphs 53–54 of ISQM 1 is required to be performed within one year following December 15, 2022.

The firm is required to have the SOQM designed and implemented in compliance with ISQM 1 by December 15, 2022.

Release of ISQM1

Internal milestones



Components of SOQM



ISQM 1 consists of:

Eight components that operate in an iterative and integrated manner; and

Other requirements, comprising the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services and documentation.

Risk Assessment Process

The firm shall:

design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.



Quality objectives

01

Governance and leadership

Commitment to quality through culture; leadership responsibility and accountability for quality; tone at the top, organizational structure and assignment of roles; planning/obtaining/allocating resources

Policies, procedures and other considerations:

- Governance and leadership
- Responsibility for the firm's audit and assurance work
- Culture
- Complaints
- Discipline
- Strategic business plans

Quality objectives

02

Relevant ethical requirements

The firm and its personnel understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and fulfill their responsibilities.

Policies, procedures and other considerations:

- Independence
- Rotation
- Financial relationships
- Code of conduct
- Provision of non-audit services
- Long association threats
- Self-review threats
- Breaches

Quality objectives

03

Acceptance and continuance of client relationships and specific engagements

Judgements are appropriate and based on sufficient information; financial and operational priorities do not lead to inappropriate judgements; the firm's ability to perform the engagement in accordance with professional standards and legal and regulatory requirements



Processes and other considerations:

- Factors on which judgement whether to engage will be made
- Source of information
- Risk appetite
- Multiple approvals
- Engagement contract

Quality objectives

Processes and other considerations:

- Project management
- Supervision and review of work
- Consultations
- Engagement quality reviews

04

Engagement performance

Teams fulfil responsibility; direction and supervision is appropriate; appropriate professional judgement exercised; consultation undertaken where appropriate; differences of opinion resolved; timely engagement documentation assembly

Quality objectives

Processes and other considerations:

- Human
 - Resource Plan
 - Recruitment
 - Training
 - Evaluations
- Technological
 - Documentation retention
 - System security
 - CAATs
 - Service Providers
- Intellectual
 - Methodology

05

Resources

Hiring/development/retention of personnel; accountability for performance in roles; resources from external sources; assignments to engagements (competence, capability and time); assignments to the System of Quality Management (competence, capability and time); obtaining/developing/maintaining technological resources/intellectual resources; using service providers

Quality objectives

Processes and other considerations:

- Sharing of knowledge (manuals, servers)
- Accessibility
- Mandatory communications
- Information flow among processes and persons

06

Information and communication

Identifying/capturing/processing/maintaining relevant and reliable information; culture that supports exchange of information; information is exchanged throughout the firm and engagement teams; information is communicated to external parties;

Monitoring and remediation process

- Monitor the SOQM so that the firm has relevant, reliable and timely information about the design, implementation and operation of the SOQM
- Take appropriate actions to respond to identified deficiencies
- Monitoring and remediation process
 - Design and perform monitoring activities
 - Evaluate findings and identify deficiencies
 - Respond to identified deficiencies
 - Communicate the findings

Specified responses

01

Policies and procedures around threats to and breaches of relevant ethical requirements

02

Documented confirmation of independence compliance

03

Policies and procedures for receiving, investigating and resolving complaints and allegations or non-compliance

04

Policies and procedures addressing (a) when subsequent info may cause a firm to decline a client had it been known before and (b) the firm is obligated to accept a client or specific engagement

05

Policies and procedures addressing required communications with (a) TCWG of listed entities (b) external parties (c) what, when and how much to communicate

06

Engagement quality reviews in accordance with ISQM2

02

Documentation Requirements



Documentation is important because:



Requirement in ISQM1

Shall assign persons:

- a) Ultimate responsibility
- b) Operational responsibility
- c) Operational responsibility for specific aspects of the SoQM

Include in documentation:

The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management

Source:

ISQM1.58(a)

Requirement in ISQM1

The firm shall:

The firm is required to establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.

The firm's quality objectives ...

Source(s):
ISQM1.58(b)
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Include in documentation:

Quality objectives

Include in the documentation the firm's quality objectives (paragraph 58(b))

The established quality objective: The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:

- (i) The firm's role in serving the public interest by consistently performing quality engagements;
- (ii) The importance of professional ethics, values and attitudes;
- (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behavior; and
- (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.

Example of when a quality objective may not be relevant

Example of when a quality objective may not be relevant

The quality objective in paragraph 31(b) of ISQM 1 addressing direction, supervision and review may not be relevant when the firm is a sole practitioner.

Example of partially established quality objective

Example of a partially established quality objective

The firm establishes a quality objective as follows:

Engagement documentation is assembled on a timely basis after the date of the engagement report.

However, the firm has not established the remainder of the objective in accordance with paragraph 31(f) of ISQM 1, as follows:

Engagement documentation is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards

Example of a quality objective described differently by the firm that has lost a key aspect

The firm establishes a quality objective as follows:

Engagement documentation is archived within 60 days and is retained for five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

This quality objective has inadvertently lost a key aspect of the quality objective in paragraph 31(f) of ISQM 1. Specifically:

- It fails to deal with the need to maintain the documentation.
- It fails to take into account that the retention periods may need to change as a result of changes in the needs of the firm, law, regulation, relevant ethical requirements, or professional standards.

Requirement in ISQM1

The firm shall:

The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.

Include in documentation:

Quality risks

Source(s):

ISQM1.58(b)

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Quality objectives

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- (ii) The importance of professional ethics, values and attitudes;
- (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behavior; and
- (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.

Quality risks

Include in the documentation the firm's quality risks (paragraph 58(b))

Quality risk 1: The daily actions and behaviors of leadership may not reflect a commitment to quality, which may have a negative effect on the firm's culture.

Reasons for assessment (the application material in paragraph A205 of ISQM 1 suggests this documentation may be helpful – the format, wording and level of detail are subject to the firm's judgment):

Given the firm is small, leadership has regular interactions with personnel across the firm. Their direct actions and behavior are very visible and have a strong influence over the firm's culture. Leadership's actions and behaviors that do not reflect the firm's culture could severely affect the firm's ability to achieve its objective of having a culture that represents a commitment to quality. There is a high likelihood that leadership's actions and behaviors significantly affect the firm's culture.

Requirement in ISQM1

The firm shall:

The nature, timing and extent of the firm's responses to address the quality risks are based on and are responsive to the reasons for the assessments given to the quality risks.

Include in documentation:

A description of the responses and how the firm's responses address the quality risks

Source(s):

ISQM1.58(c)

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Quality risks

Include in the documentation the firm's quality risks (paragraph 58(b))

Quality risk 1: The daily actions and behaviors of leadership may not reflect a commitment to quality, which may have a negative effect on the firm's culture.

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Responses

Describe the responses and how they address the quality risks (paragraph 58(c))

Response 1.1:

The firm will undertake annual anonymous surveys of personnel, with questions that solicit information about how personnel experience the firm's culture and values, and leadership.

Response 1.2:

Leadership is required to have independent coaching.

Documentation should:

Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

Source(s):

ISQM1.57(c)

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Responses

Document evidence of the design, implementation and operation of the responses (paragraph 57(c))

Response 1.1:

The results of the survey are likely to be in a documented form (e.g., a report from a web-based application used to conduct the survey).

Response 1.2:

The firm may have evidence that leadership is undertaking coaching and receiving annual feedback through calendars providing evidence of meetings between coaches and leadership, and leadership's individual development plans.

Documentation of the monitoring and remediation process

01

Evidence of the monitoring activities performed

02

The evaluation of findings, and identified deficiencies and their related root cause(s)

03

Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions.

04

Communications about monitoring and remediation

05

The basis for the conclusion reached pursuant to paragraph 54

Conclude either:

01

The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved;

02

Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or

03

The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

03

Implementation Readiness and next steps



Get the resources you need

- **Get familiar with the standard**
- **Obtain and review the guidance material issued by IAASB – <https://www.iaasb.org/standards-pronouncements>**
 - An introduction to ISQM1;
 - First time Implementation Guide – ISQM1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements;
 - First-time Implementation Guide – ISQM2, Engagement Quality Reviews;
 - First-time Implementation Guide – ISA 220 (Revised), Quality Management for an Audit of Financial Statements; and
 - IAASB Quality Management Webcast Series
- **Review other resources available and obtain external services**

Get started on design and implementation

- **Identify who will lead the project**
- **Perform and document risk assessment**
- **Determine responses**
- **Document**

Ready to implement successfully?

01

The need for the change

Communicated.

02

Leadership and key employees buy-in

Support for the change.

03

Training done

Control operators understand what needs to be done.

04

Visualized

Bird's eye view of the interrelations of processes, controls, information flow etc

05

Shared

Communicated to those who need to know in a medium that is easily referenced

06

Culture of continuous improvement

Expect failures

Ready to implement successfully?

07

IT resources

Obtained, implemented

10

Templates

Designed, available, understood

08

HR resources

Additional hires to operate the system/control operators

11

Planned timetable of operation and testing

In diaries, task plans, allocated time

09

Service agreements

For any requirements that cannot be filled internally

12

Anything else firms may have considered? (share)

Questions

Thank you