An Overview of The IAASB’s Quality Management Standards

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Driving greater confidence and trust in the economy and functioning of the markets by:

- Responding to a changing environment
- Improving the robustness and effectiveness of the quality management standards
- Addressing growing market participant needs
Quality Management Standards Timeline

- **IAASB approved the quality management standards**
  - **Sept 2020**
- **Quality management standards formally issued**
  - **Dec 2020**
- **Date standards are effective**
  - **Dec 2022**
- **IAASB development of implementation materials**
  - **Dec 2022**
The Firm’s System of Quality Management
- New focus on quality management, through a risk-based approach
- Evolved from a linear and siloed system, to a system that operates in an iterative and integrated manner
- Proactive approach, with a continual flow of remediation and improvement
- Tailored system, scalable to the nature and circumstances of the firm and the engagements it performs
ISQM 1: Governance and Leadership and Overall Responsibility for the System

• Leadership
  o Specified responsibilities
  o Required to undertake an annual evaluation of the system and conclude thereon
  o Appropriate qualifications, influence and authority
  o Periodic performance evaluations of leadership

• Focus on culture that demonstrates a commitment to quality, which permeates throughout the firm
  o The firm’s role in serving the public interest
  o Links quality to the firm’s strategic decisions and actions

• Other matters
  o Organizational structure and assignment of roles, responsibilities and authority
  o Resources planning, including financial resources
ISQM 1: The Firm’s Risk Assessment Process

- Quality objectives required by ISQM 1
- Additional quality objectives when necessary to achieve the objective of the standard

- Risks with a reasonable possibility of occurring and affecting the achievement of a quality objective
- Understand conditions, events, circumstances, actions or inactions

- Design and implement firm’s responses, and include certain responses specified in the standard

- Identify information indicating the need for additions / modifications to quality objectives, quality risks or responses
Questions
ISQM 1: Resources

• Human, technological and intellectual resources used in the system and in performing engagements
  o Appropriateness of resources
  o Obtain or develop, implement, maintain, and use of resources
    • Includes obtaining external individuals if needed
  o Accountability of personnel and their commitment to quality

• External service providers used in the system or in performing engagements
  o Component auditors from outside the firm’s network
  o Determine that the resources from the service provider are appropriate for use
ISQM 1: Information and Communication

- Relevant and reliable information needed to operate the system
  - Information exchange embedded in culture of the firm
  - Establish an information system

- Two-way communication, internally and externally

- Communication with external parties
  - All external communication about the system
  - Audits of listed entities - Communicate about the system to those charged with governance
  - Firm addresses when it is otherwise appropriate to communicate with external parties
  - Specific information communicated, form of communication and nature, timing and extent of communication determined by the firm
ISQM 1: Monitoring and Remediation

- Monitor the *whole* system
- Tailor monitoring activities
  - Depends on many factors, e.g., design of system, circumstances of the firm, changes in the system, information known about the system
- Inspect completed engagements
  - Increased focus on appropriate selection taking into consideration risk and other monitoring activities
  - Select engagement partners on a cyclical basis
- Framework for evaluating findings and identifying deficiencies, and evaluating severity and pervasiveness of deficiencies
  - Includes investigating the root cause(s) of deficiencies
- Appropriate remediation of deficiencies, and determining that remedial actions are effective
- Communication to leadership, engagement teams and others
Questions
ISQM 1: The Firm’s Responsibilities When it Uses the Network

- Network requirements / services - e.g., policies or procedures, methodology, IT applications
- Firm responsible for its own system; should not place undue reliance on network
- Requirements include:
  - Understand network requirements / services
  - Determine effect on the firm’s system (e.g., adapt / supplement)
  - Determine effect of network-level monitoring activities on the firm’s monitoring activities
  - Understand network-wide monitoring, including how the network determines that network requirements are implemented across the network
  - Exchange information with the network
ISQM 1: Other Aspects

• Engagement performance
  o Professional judgment and professional skepticism at the engagement level

• Selection of engagements for engagement quality (EQ) review
  o Expanded – includes focus on entities of significant public interest and when a review is appropriate based on risk

• Relevant ethical requirements
  o Principles-based approach
  o Includes others external to the firm (e.g., network firms or service providers) to the extent that the firm’s relevant ethical requirements apply to them
ISQM 2

Engagement Quality Reviews
Relationship Between ISQM 1 and ISQM 2

ISQM 1: Specified responses include EQ reviews and selection of engagements for EQ review:
- Audits of listed entities
- Required by law/regulation
- Engagements firm determines that EQ review is an appropriate response to address one or more quality risk(s)

EQ review required?

ISQM 2 does not apply

ISQM 2 applies:
- Appointment and eligibility of EQ reviewer
- Performance of EQ review
- Documentation of EQ review
ISQM 2: An Overview

• Eligibility requirements for EQ reviewers
  o Threats to objectivity: 2-year cooling-off period for an engagement partner to serve as EQ reviewer
  o Sufficient time to perform EQ review
  o Permitted use of qualified external EQ reviewers and assistants
  o Actions when eligibility of EQ reviewer is impaired

• Performance of EQ reviews
  o Focus on significant matters and significant judgments
  o Involvement of EQ reviewer at appropriate points in time throughout engagement
  o Stand-back requirement: whether performance requirements of ISQM 2 have been fulfilled
  o Engagement partner precluded from dating engagement report until notification of completion from EQ reviewer
ISA 220 (Revised)

Quality Management for an Audit of Financial Statements
• Engagement partner has overall responsibility for managing and achieving quality
  o Sufficiently and appropriately involved throughout the audit
  o Environment that emphasizes firm’s culture and expected behavior of engagement team members
• Human, technological and intellectual resources
  o Revised definitions of engagement partner and engagement team
  o Sufficient and appropriate resources for engagement
  o Take appropriate action if resources are insufficient or inappropriate
• Engagement performance
  o Tailor nature, timing and extent of direction, supervision and review to nature and circumstances of engagement and resources
  o Clarity on what engagement partner needs to review
• Stand-back on overall responsibility for managing and achieving quality
Planned Implementation Support Materials

- First time implementation guides
  - Focus on key areas and more complex aspects of the standards
  - Highlights key changes from extant standards
- Fact sheets
- Video: Initial implementation efforts
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