



An Overview of The IAASB's Quality Management Standards

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The Quality Management Standards



ISQM 1:
Quality
management
at the firm
level



ISQM 2:
Engagement
quality
reviews
*(part of quality
management at
the firm level)*

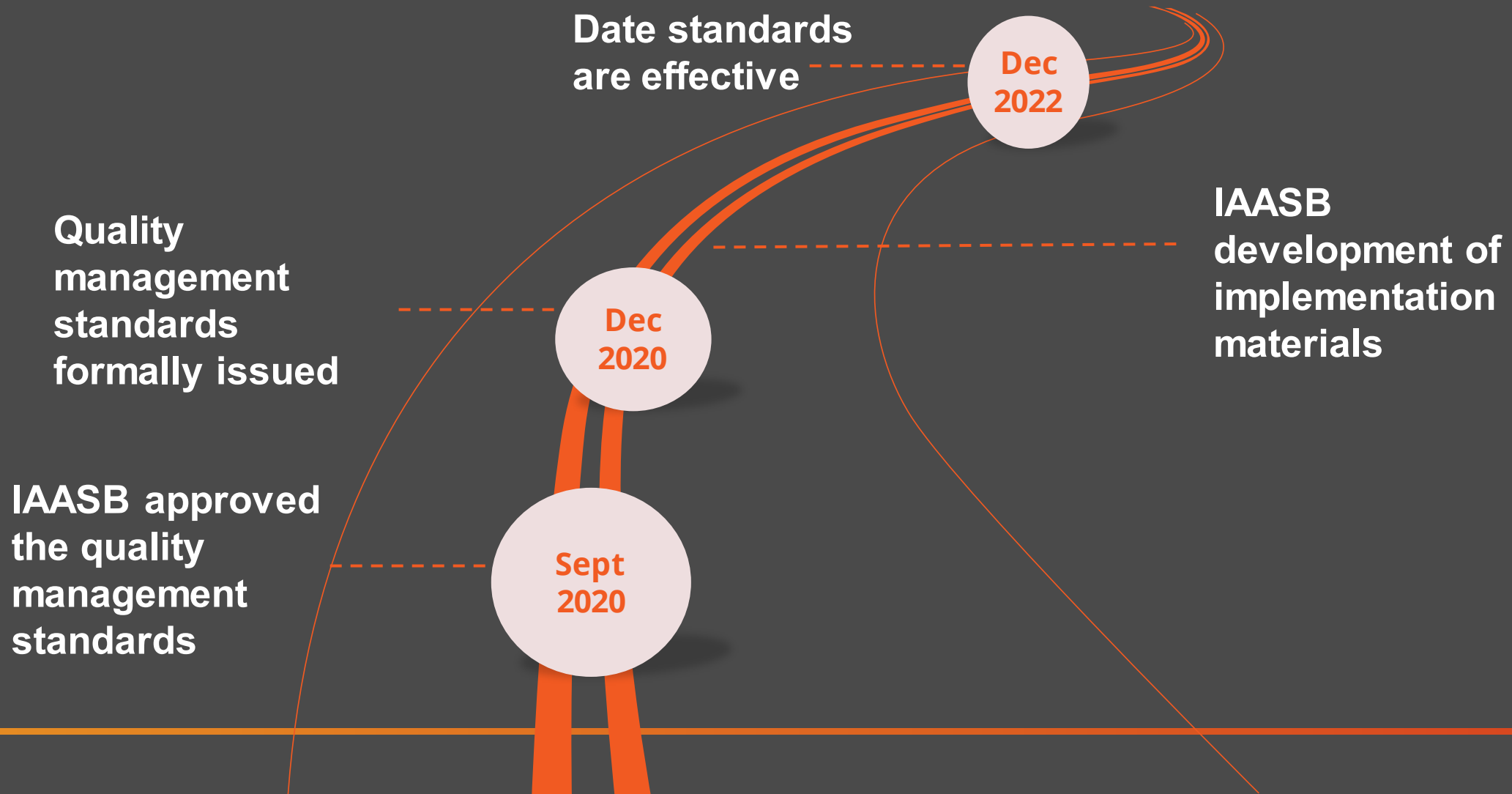


**ISA 220
(Revised):**
Quality
management
at the
engagement
level

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





ISQM 1

The Firm's System of Quality Management

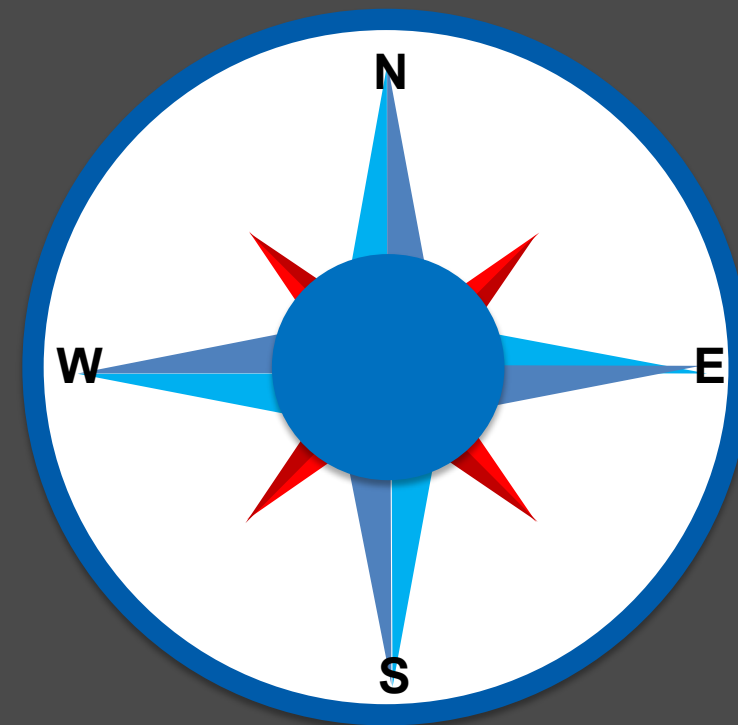
ISQM 1: The System and Its Components



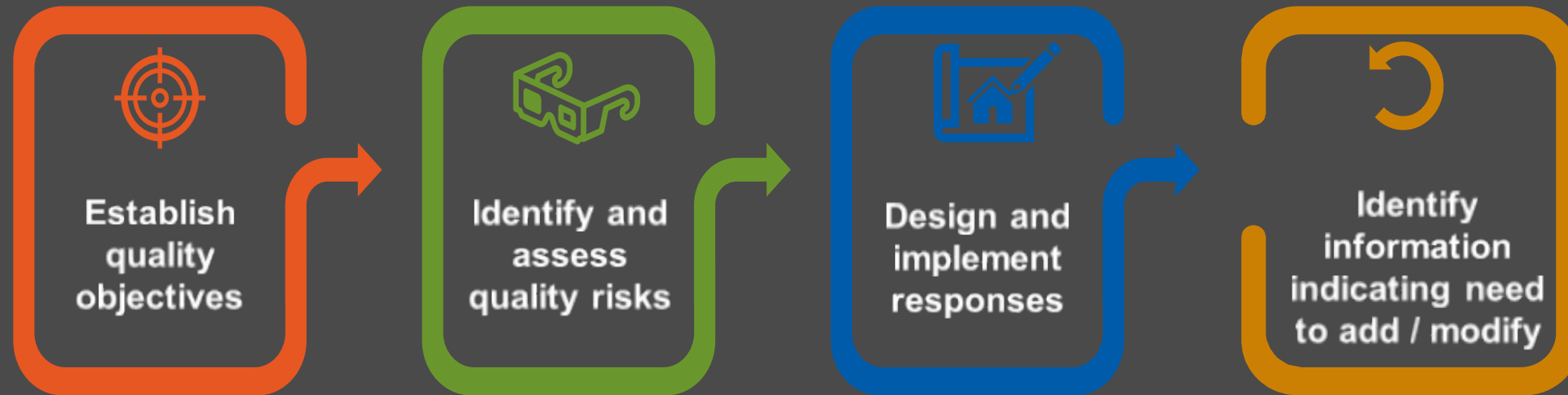
- New focus on quality management, through a risk-based approach
- Evolved from a linear and siloed system, to a system that operates in an iterative and integrated manner
- Proactive approach, with a continual flow of remediation and improvement
- Tailored system, scalable to the nature and circumstances of the firm and the engagements it performs

ISQM 1: Governance and Leadership and Overall Responsibility for the System

- Leadership
 - Specified responsibilities
 - Required to undertake an annual evaluation of the system and conclude thereon
 - Appropriate qualifications, influence and authority
 - Periodic performance evaluations of leadership
- Focus on culture that demonstrates a commitment to quality, which permeates throughout the firm
 - The firm's role in serving the public interest
 - Links quality to the firm's strategic decisions and actions
- Other matters
 - Organizational structure and assignment of roles, responsibilities and authority
 - 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
 - Appropriateness of resources
 - Obtain or develop, implement, maintain, and use of resources
 - Includes obtaining external individuals if needed
 - Accountability of personnel and their commitment to quality
- External service providers used in the system or in performing engagements
 - Component auditors from outside the firm's network
 - Determine that the resources from the service provider are appropriate for use



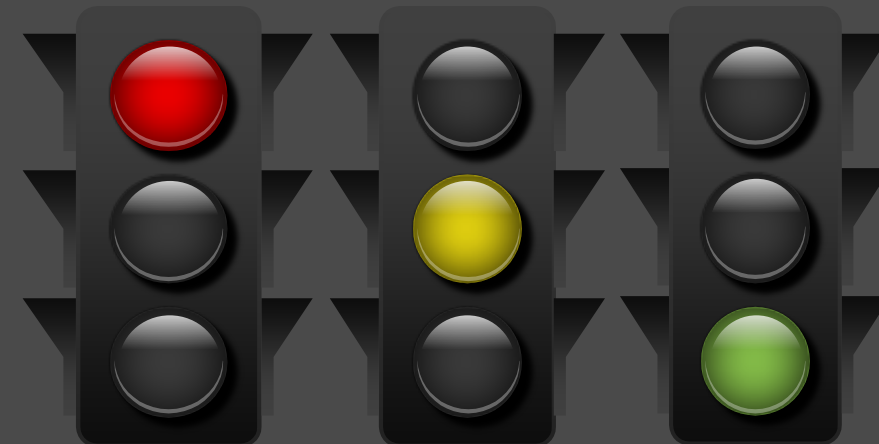
ISQM 1: Information and Communication



- 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
 - Professional judgment and professional skepticism at the engagement level
- Selection of engagements for engagement quality (EQ) review
 - Expanded – includes focus on entities of significant public interest and when a review is appropriate based on risk
- Relevant ethical requirements
 - Principles-based approach
 - 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





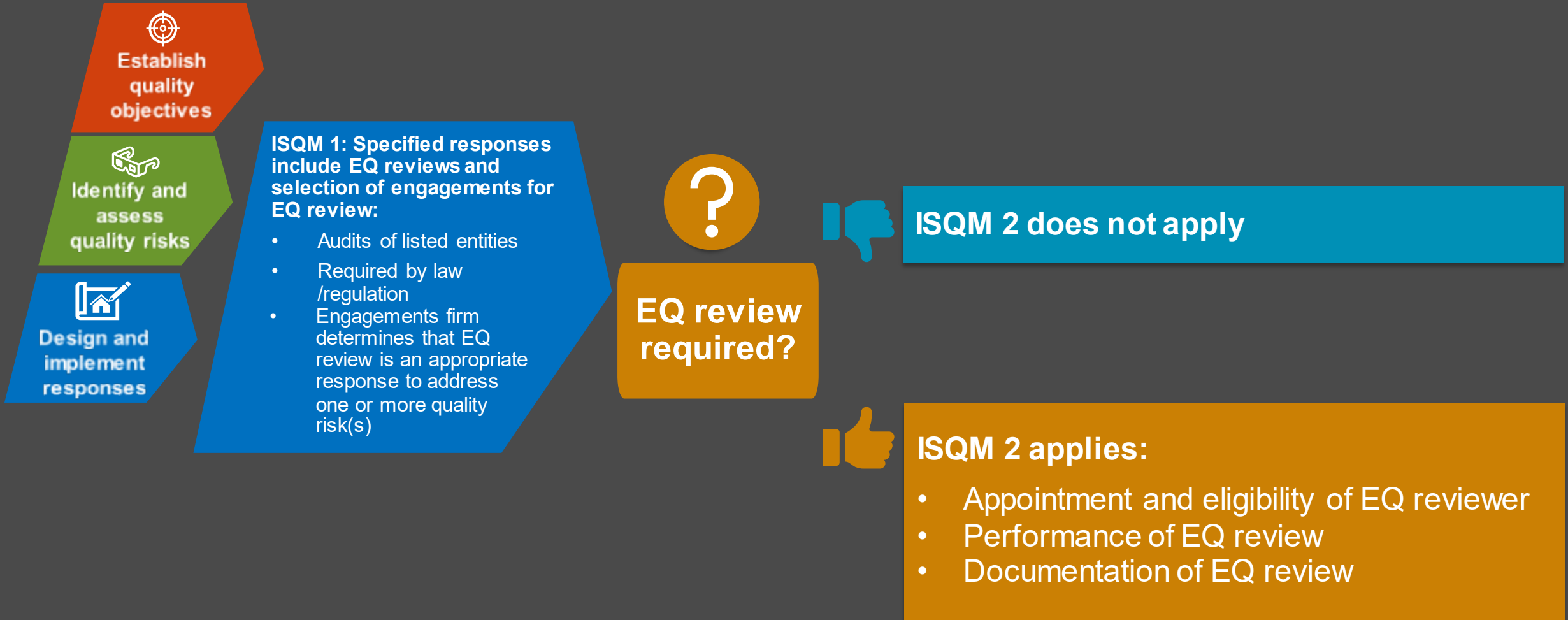
Questions



ISQM 2

Engagement Quality Reviews

Relationship Between ISQM 1 and ISQM 2



ISQM 2: An Overview

- Eligibility requirements for EQ reviewers
 - Threats to objectivity: 2-year cooling-off period for an engagement partner to serve as EQ reviewer
 - Sufficient time to perform EQ review
 - Permitted use of qualified external EQ reviewers and assistants
 - Actions when eligibility of EQ reviewer is impaired
- Performance of EQ reviews
 - Focus on significant matters and significant judgments
 - Involvement of EQ reviewer at appropriate points in time throughout engagement
 - Stand-back requirement: whether performance requirements of ISQM 2 have been fulfilled
 - 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

ISA 220 (Revised): An Overview

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





Questions

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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