

# IAASB Quality Management Standards

ISQM 1



# Background of the project

2013-14

Findings from ISA implementation project, outreach with oversight bodies / regulators and respondents feedback through IAASB work program

2015

Invitation to comments issued (ITC) issued December 2015 (addressing professional skepticism, quality control and group audits)

2016

IAASB approved a project to revise extant ISQC 1 and ISA 220

2019

Exposure Drafts on ISQM 1, ISQM 2 and ISA 220 were issued

2020

Final Quality Management standards were issued in Dec 2020

# Reasons for revising ISQC 1

- More clarity required in respect of the firm governance and leadership responsibilities and accountability for quality
- Engagement level monitoring Vs monitoring of the whole system of quality management
- Consideration of the results of external inspections
- Assessment of root causes of deficiencies in the system of quality management and robust remedial actions
- More clarity about the engagement leader's role in direction, supervision and review

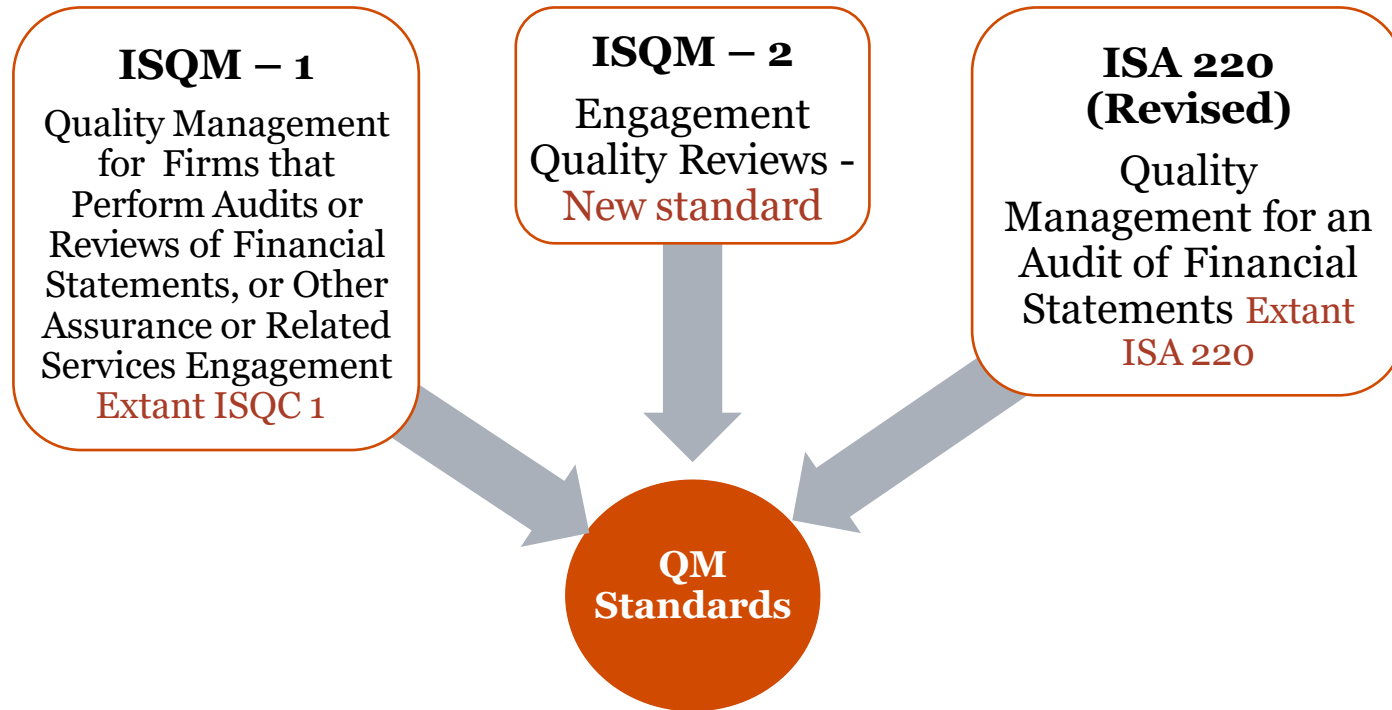
# Reasons for revising ISQC 1

- Undue reliance on networks
- Change in expectation to communicate with external stakeholders, for example through transparency reports
- Application of standard by small and medium sized practices i.e. **scalability**
- Considerations for EQCR i.e the type of engagements which should be subject to EQCR (eg: PIC), the eligibility criteria for a person to be appointed as engagement quality control reviewer.

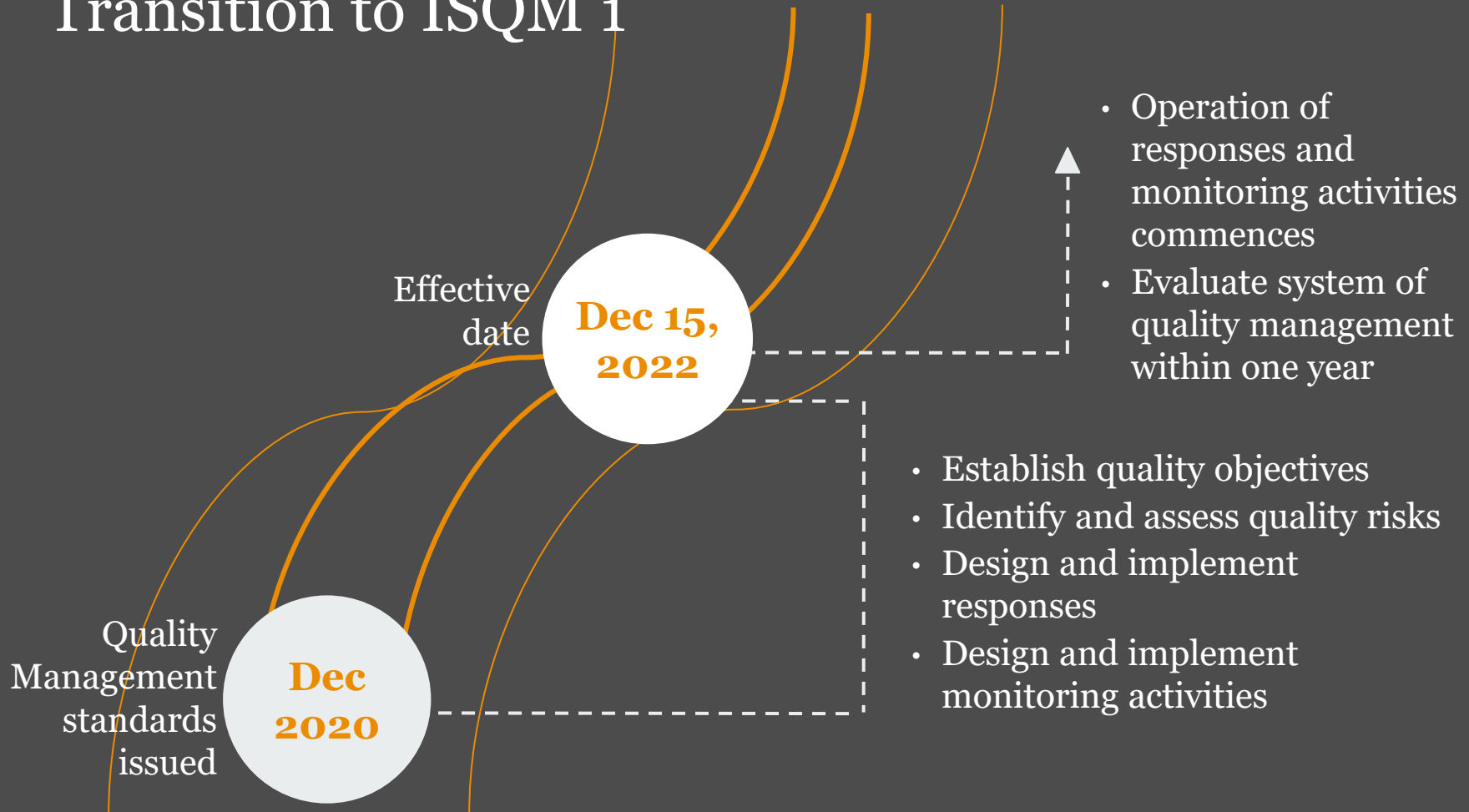
# Reasons for revising ISQC 1

- Need for robust two-way communication within firm
- Matters relating to Human Resource : assessment of personal rewards and incentives – holding accountable for quality
- Use of alternative delivery models

# IAASB Quality Management Standards



# Transition to ISQM 1

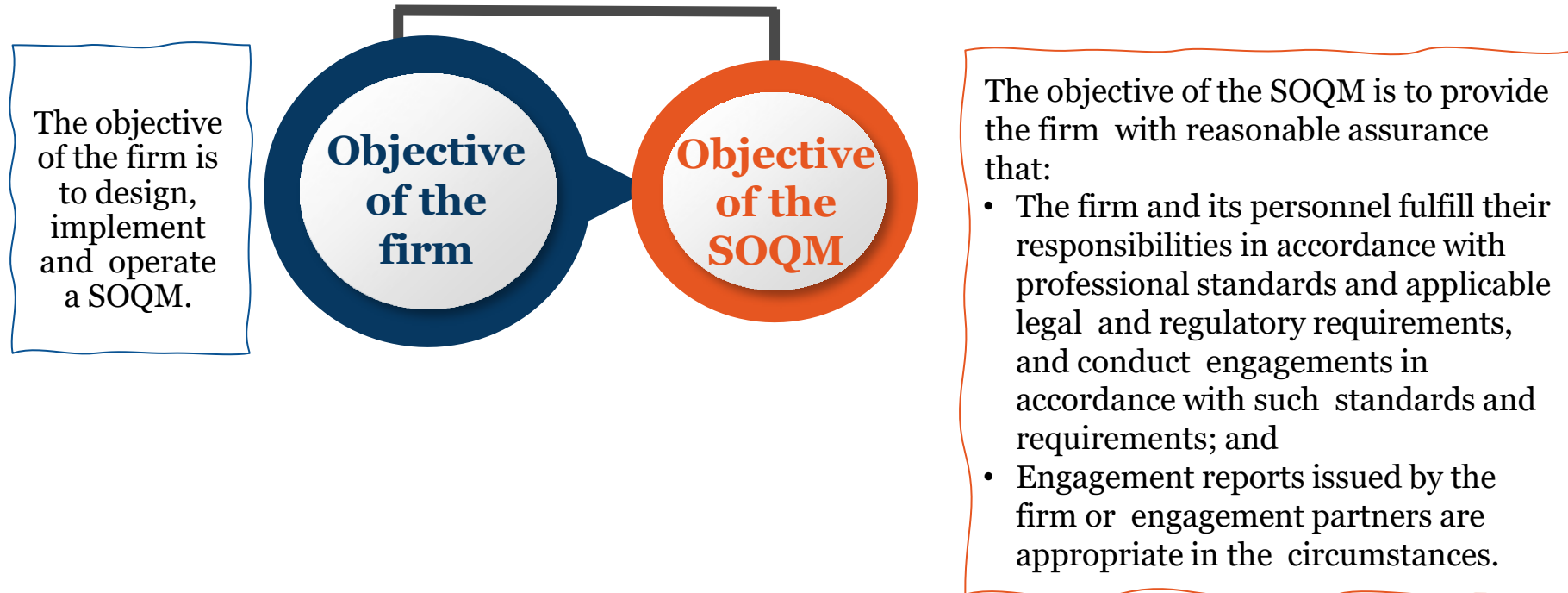


# ISQM 1 Overview





# Objective of ISQM 1



# ISQM 1: Highlights of Key Changes



**ISQM 1:**  
Quality  
management  
at the firm  
level

- Focus on quality management (shift from quality control)
- Customize and tailor the system of quality management (SOQM) to the nature and circumstances of the firm and the engagements it performs
- Integrated and more proactive approach
- Focus on achieving quality objectives through identifying quality risks and responding to the quality risks
- Enhanced firm governance and leadership, and increased leadership responsibilities
- Modernization: technology, networks and external service providers
- Improved information and communication
- More proactive monitoring and effective remediation of deficiencies

# ISQM 1 Vs ISQC1

## ISQM 1

The SOQM based on the following eight components:

- 1) Firm's risk assessment process **(New)**
- 2) Governance and leadership **(Adapted)**
- 3) Relevant ethical requirements **(Similar)**
- 4) Acceptance and continuance of client relationships and specific engagements **(Similar)**
- 5) Engagement performance **(Similar)**
- 6) Resources **(Adapted)**
- 7) Information & communication **(New)**
- 8) Monitoring and remediation process **(Adapted)**

## ISQC 1

ISQC 1 includes six elements:

- 1) Leadership responsibilities for quality within the firm.;
- 2) Relevant ethical requirements.;
- 3) Acceptance and continuance of client relationships and specific engagements;
- 4) Human resources;
- 5) Engagement performance;
- 6) Monitoring

# ISQM 1 components

ISQM 1 consists of eight components that operate in an iterative and integrated manner



**Source:**  
IAASB ISQM 1 Fact Sheet

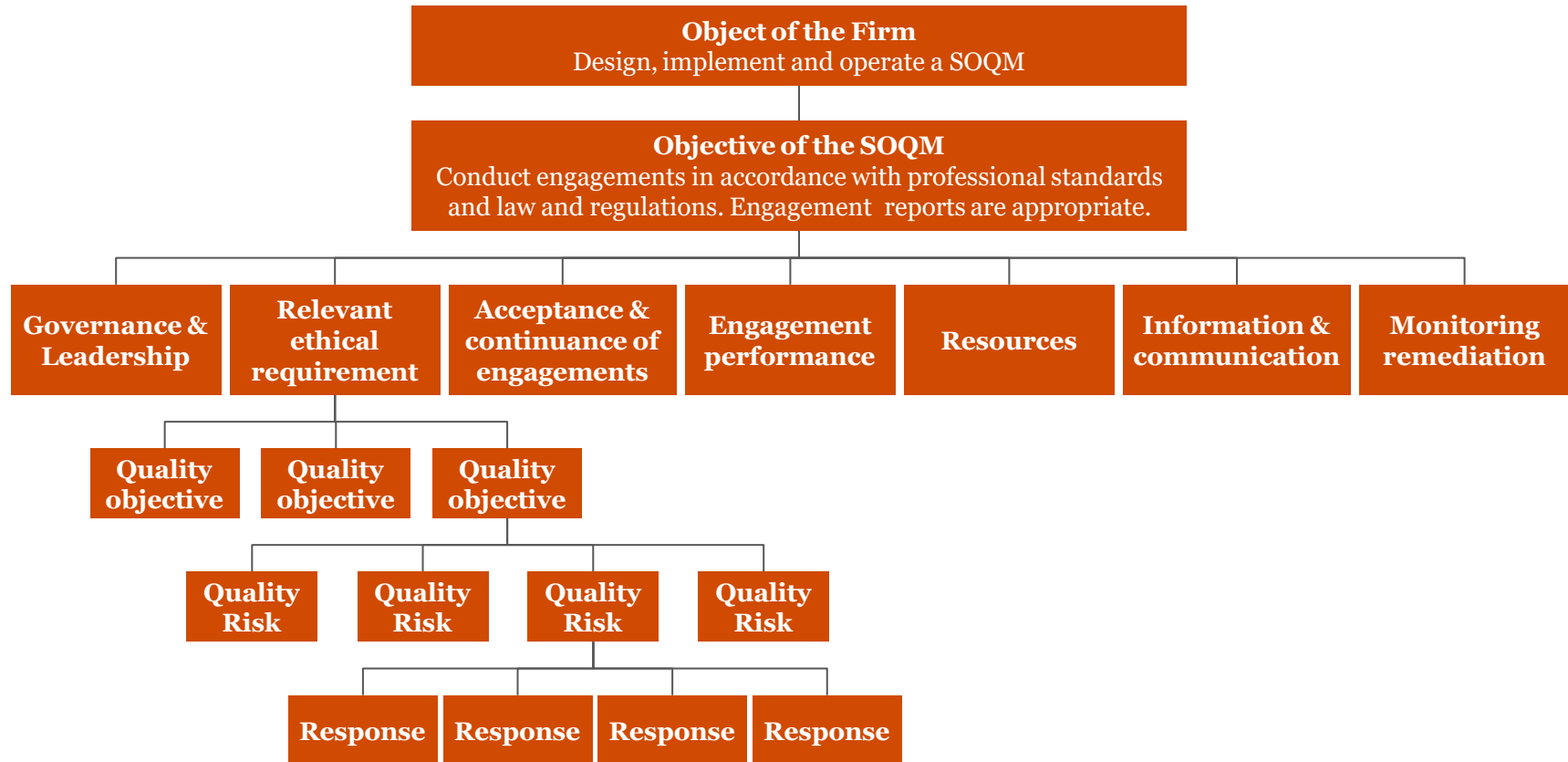
# Scalability under ISQM 1

- The quality objectives are outcome-based
- The quality risks are tailored to the firm
- There are only a limited number of required specified responses
- How the firm implements the monitoring and remediation process is tailored to the firm's circumstances

# ISQM1 Components



# System Of Quality Management (SOQM)

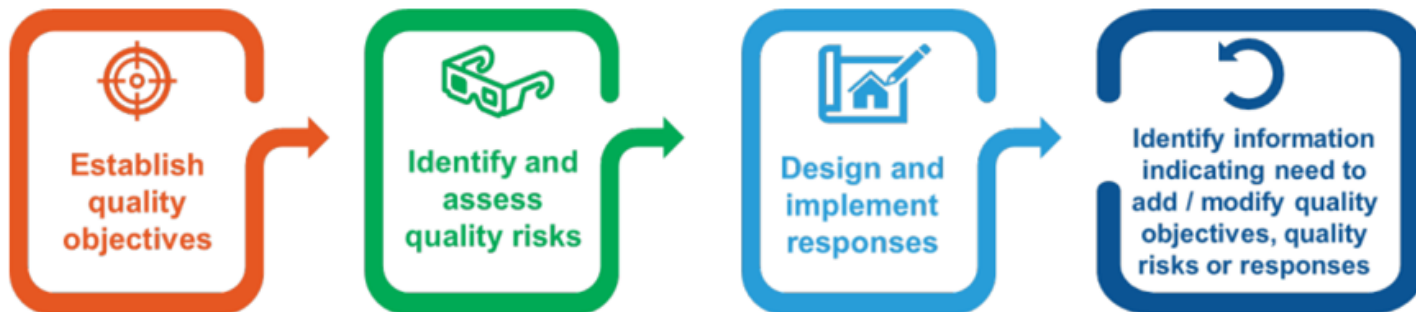


# Firm's risk assessment process

**ISQC 1**  
Rule  
based  
approach

**ISQM 1**

Risk based approach which requires firms to:



**Source:** IAASB ISQM 1 Fact Sheet

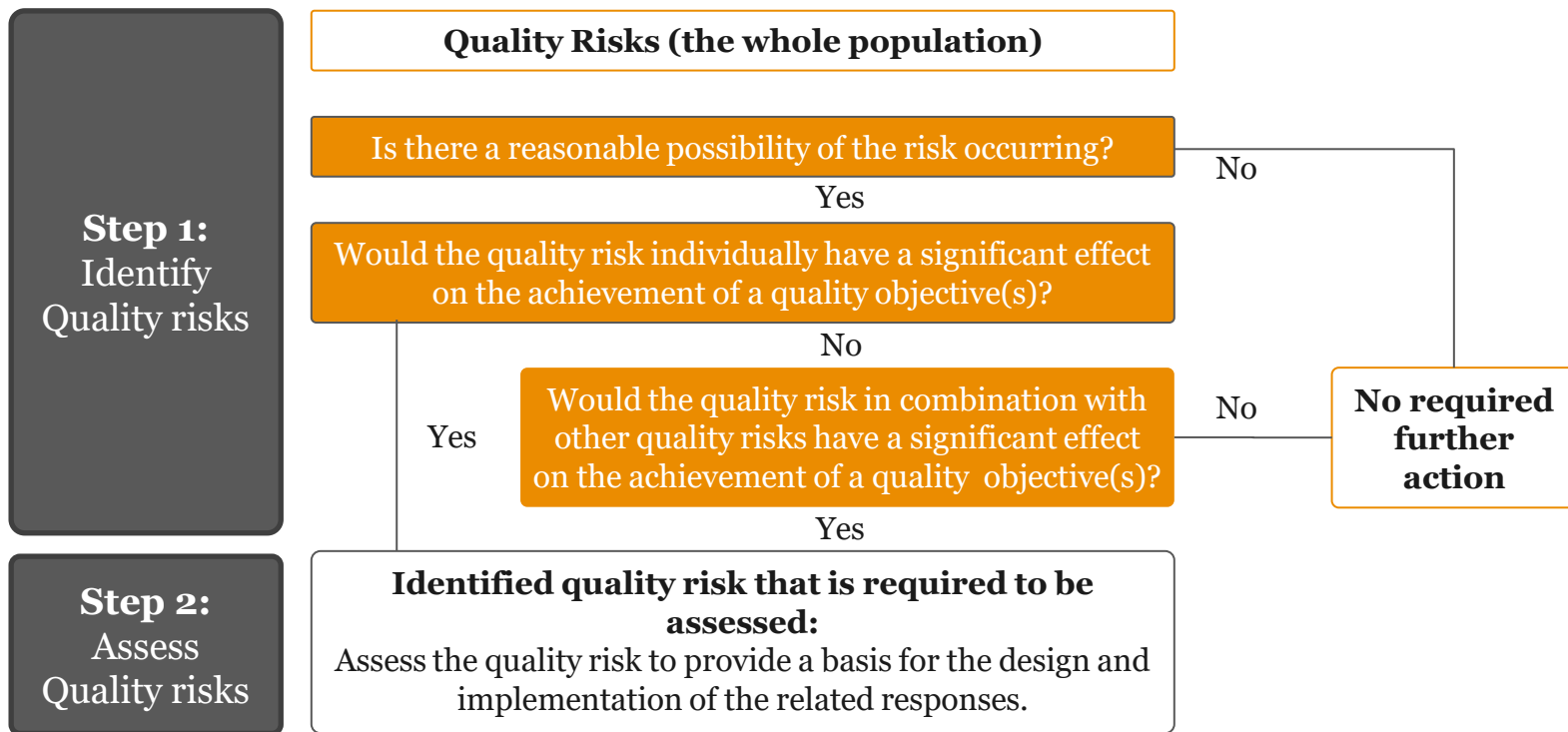


# Establish quality objectives

	Governance & leadership
	Relevant Ethical requirements
	Acceptance & continuance
	Engagement performance
	Resources
	Information and communication



# Identify and assess quality risks





# Identify and assess quality risks

Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
The strategic and operational decisions and actions, business processes and business model of the firm: The firm has a strategic goal to grow its tax practice and offer more extensive tax planning advice and support.	In the context of relevant ethical requirements, this gives rise to a quality risk that the firm breaches independence requirements regarding non-audit services.



## Identify and assess quality risks

Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
The characteristics and management style of leadership: Given that the firm is small, leadership is concentrated to a single individual who has daily interactions with personnel.	In the context of engagement performance, this gives rise to a quality risk that personnel do not bring differences of opinion that involve leadership to the attention of the firm.



## Identify and assess quality risks

Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
<p>Law, regulation, professional standards and the environment in which the firm operates: Due to a global pandemic, engagement teams are forced to work remotely.</p>	<p>In the context of information and communication, this gives rise to a quality risk that information is not communicated to engagement teams working remotely in the right form or manner, to enable engagement teams to understand and carry out their responsibilities in performing the engagement.</p>



## Design and implement response

- Mitigate possibility of quality risk occurring so quality objectives are achieved
- Design and implement responses to address quality risk identified
- Responses specified in ISQM1. However, these are not comprehensive



# Design and implement response

## *Specified responses*

- New requirements addressing communication with external parties.
- Enhanced requirements:
  - The policies or procedures addressing which engagements need to be subject to an engagement quality review.
  - The policies or procedures addressing threats to compliance with relevant ethical requirements and breaches of all relevant ethical requirements



# Design and implement response

## *Specified responses*

- The requirement to obtain confirmation of compliance with independence requirements has been adjusted to refer to independence requirements, instead of the firm's policies or procedures on independence.
- The policies or procedures addressing complaints and allegations are similar to extant ISQC 1,
- Clarification expanded to address circumstances when the firm is obligated by law or regulation to accept a client relationship or specific engagement.



# Identify information indicating need to add / modify quality objectives, quality risks or responses

The firm has policies or procedures, which are part of the firm's risk assessment process, to identify information, which indicates the need for changes to the quality objectives, quality risks or responses, related to changes in the nature and circumstances of the firm

The firm's monitoring and remediation process provides information about deficiencies related to the quality objectives, quality risks or response

Quality risks and responses should be proactively modified when changes affecting the SOQM occur, or when deficiencies are identified



# Governance and Leadership

Commitment to quality through culture

- Firm's role in serving the public interest
- Professional ethics, values and attitudes
- Responsibility of all personnel
- Strategic decisions and actions

Resource needs –  
planning, obtaining,  
allocating and assigning

Leadership responsible and  
accountable for quality

Leadership demonstrates a  
commitment to quality through  
actions and behaviors

Organizational structure and  
assignment of roles,  
responsibilities and authority





# Governance and Leadership



**Appropriate  
experience,  
knowledge,  
time, influence  
and authority**



# Governance and Leadership

## Tone at the top

Leadership responsibility for:

- Understanding ISQM 1
- Defining and assigning roles and responsibilities
- Evaluating and concluding on the effectiveness of SoQM
- Leadership performance evaluation and accountability for quality

## Commitment to quality by all personnel

- The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behavior;.
- Responsibilities and accountability for quality through performance evaluations and compensation

## Embedding quality in the firm's strategic, financial and operational priorities

- Quality management is not a separate function of the firm, instead the culture is integrated with the firm's strategy, operational activities and business processes
- Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality



# Relevant Ethical Requirements

## The firm and its personnel

- Understand the relevant ethical requirements that apply to them
- Fulfill their responsibilities

## Others

Includes the network, network firms, individuals in the network or network firms, or service providers

- Understand the relevant ethical requirements
- Fulfill their responsibilities

## Scope of relevant ethical requirements

Relevant ethical requirements to which the firm and the firm's engagements are subject



# Acceptance & Continuance

- Additional requirement to drive the firm to obtain information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance).
- New requirement addressing the financial and operational priorities of the firm in the context of making decisions about whether to accept or continue a client relationship or specific engagement.
- Focus on firm's judgement in determining whether to accept or continue with client relationship and engagements



# Engagement Performance

- Adjusted to principles-based requirements. Still include consultation, differences of opinion and addressing the assembly, maintenance and retention of engagement documentation
- New requirement addressing engagement teams' responsibilities. Assigns the overall responsibility of quality to the engagement partner including being sufficiently involved throughout the engagement
- Enhanced requirement addressing direction and supervision of engagement teams and review of the work performed
- New requirement addressing engagement teams exercising appropriate professional judgment and professional skepticism



# Resources

- New requirements for three categories of resources needed to operate the system of quality management and perform engagements:  
Human | Technological | Intellectual
- New requirements addressing human resources including
  - Assignment of competent resources to activities within SOQM
  - need to obtain individuals from external resources when the Firm does not have resources to operate SOQM or perform engagement
  - personnel's commitment to quality and accountability
- New requirements dealing with resources from service providers





# Resources

Consider the following when designing policies:

Human resources	Firm's Partners and staff	Component Auditors	Network Resources	External service providers
Technological resources	used in the SOQM	used in the performance of engagements		enabling the effective operation of IT applications (Operating systems, Hardware etc)
Intellectual resources	Manuals and guides	Alerts created for engagement teams		

Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.



# Information and communication

- This is a new requirement which emphasizes on the continual flow of information within the firm and to external parties and drive firms to establish an information system to maintain SOQM
- The firm culture should embed the need to exchange information
- Other communication externally related to the SOQM, i.e., when it is required by law, regulation or professional standards, or to support external parties' understanding of the SOQM.



# Information and communication

## **Personnel**

- As part of engagement team
- Related to performing activities within the SOQM

## **Within the firm's network**

- As part of the engagement team
- Related to other network requirements or network services



## **Service providers**

- As part of engagement team
- Related to other resources from service providers

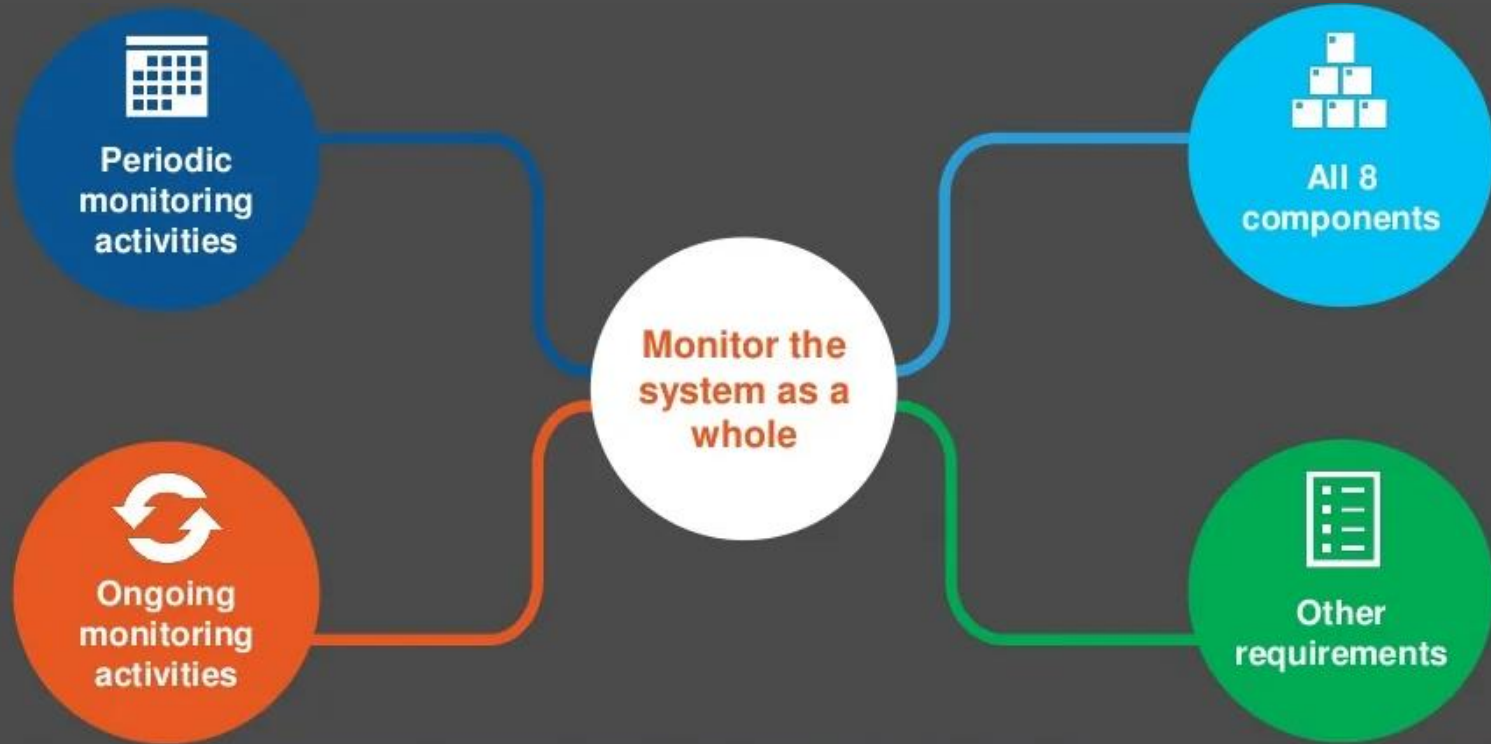
## **External parties**

- When required by law or regulation or when needed to support an understanding of the SOQM
- Specified responses in ISQM 1

# Monitoring and remediation

- A new focus on monitoring the SOQM as a whole
- A new framework for evaluating findings and identifying deficiencies and evaluating identified deficiencies
- More robust remediation

# Design and Perform Monitoring Activities



# Monitoring and Remediation

The monitoring and remediation process can be broken down into four aspects:



Integrated and iterative process

Operational responsibility for monitoring and remediation process

Policies and procedures for individual performing monitoring activities:

- Competency and capability (including time)
- objectivity

# Monitoring and Remediation

The monitoring and remediation process can be broken down into four aspects:

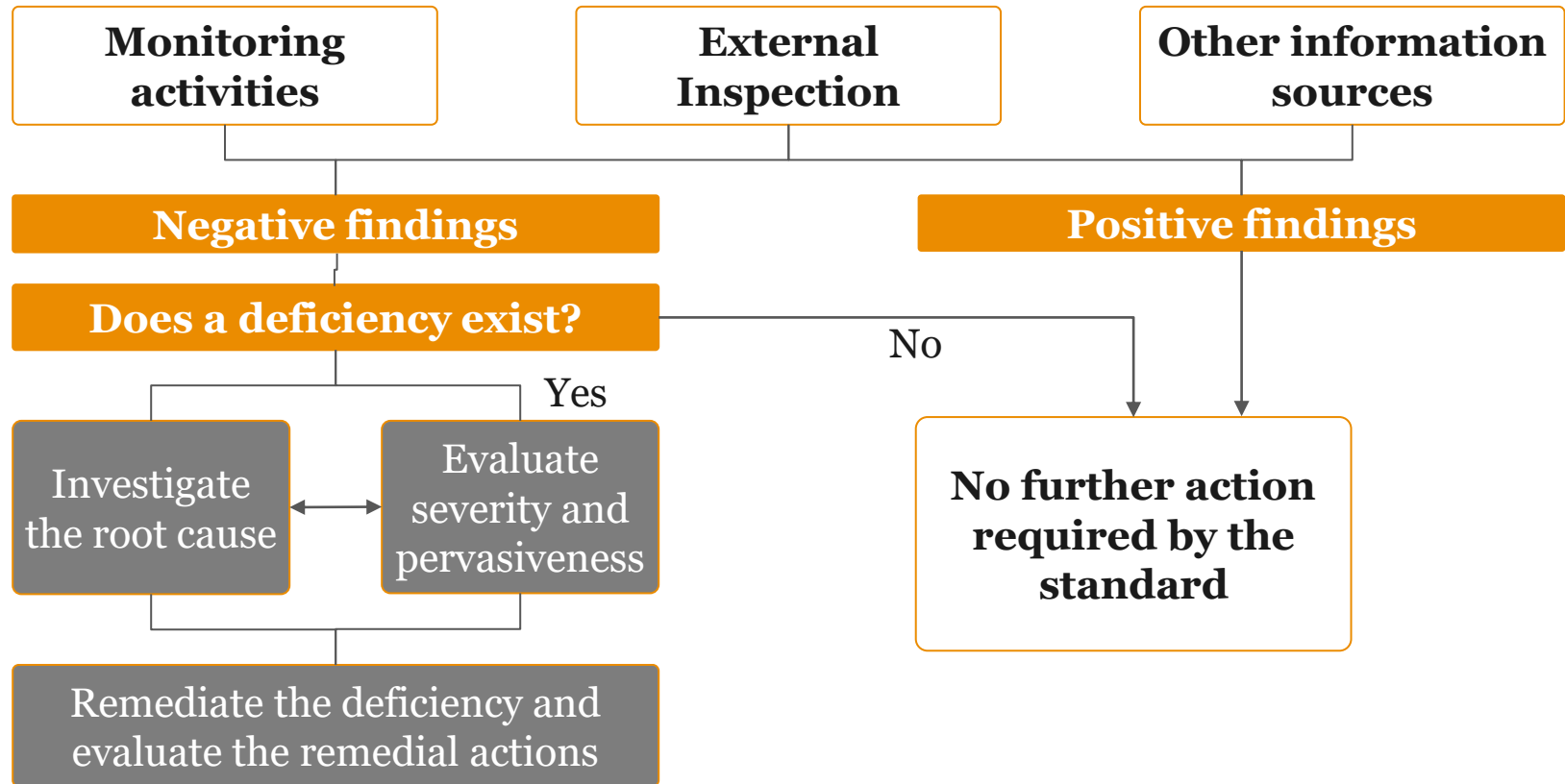
## Design and Perform Monitoring Activities

- The firm monitors the system as a whole. This includes leadership responsibilities
- The firm tailors the nature, timing and extent of the monitoring activities. A combination of ongoing and periodic monitoring activities may enable effective monitoring as a whole.
- Inspection of completed engagements – ISQM 1 has an increased focus on risk-based selection

## Evaluate Findings and identified deficiencies and evaluate identified deficiencies

- ISQM 1 includes a framework for evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness
- The firm is required to investigate the root cause(s) of deficiencies

# Monitoring and Remediation





## Respond to identified deficiencies

- The firm appropriately remediates deficiencies that is responsive to the root cause(s)
- Leadership is required to determine that remedial actions are effective

## Communicate

The individual assigned operational responsibility for the monitoring and remediation process communicates to:

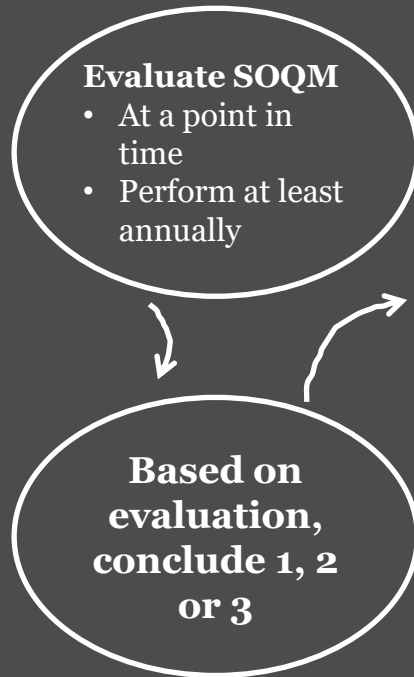
- The individual assigned ultimate responsibility and accountability for the SOQM;
- The individual assigned operational responsibility for the SOQM.

The firm communicates to engagement teams and individuals assigned activities within the SOQM.

# ISQM1 Bringing it all together



# Evaluating the SOQM



## Considerations:

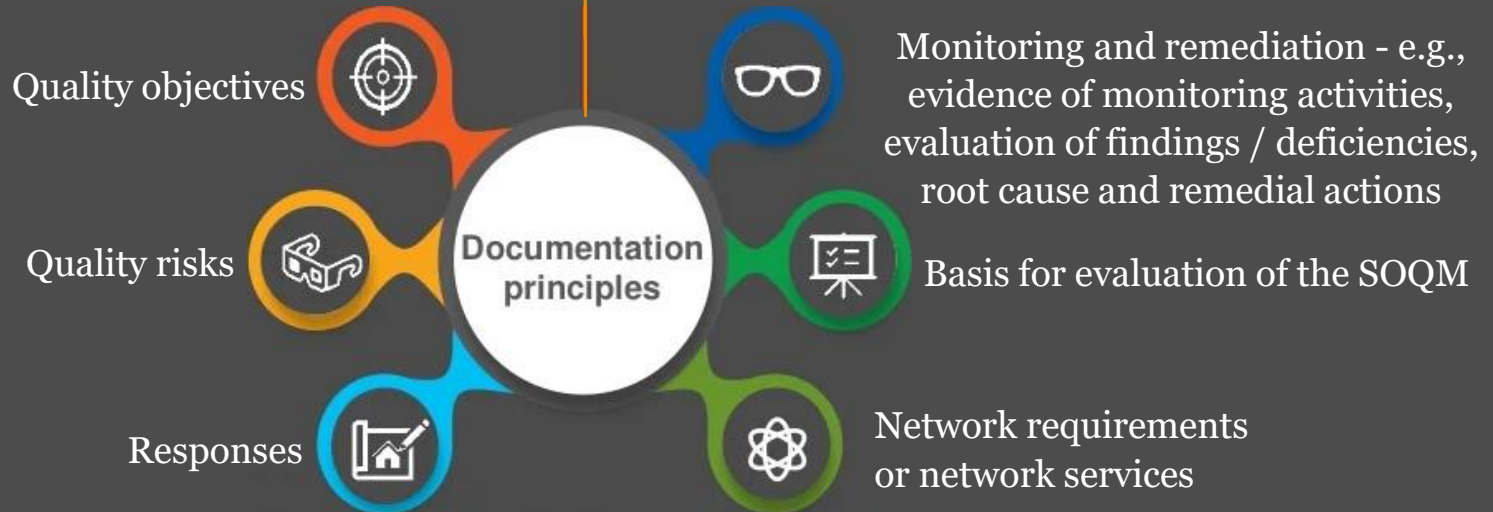
- Severity and pervasiveness of identified deficiencies, and effect on achievement of objectives of SOQM
- Whether remedial actions have been designed and implemented, and whether remedial actions taken up to time of evaluation are effective
- Whether effect of identified deficiencies have been appropriately corrected

# Documentation

Support consistent understanding of SOQM by personnel, including understanding of roles and responsibilities

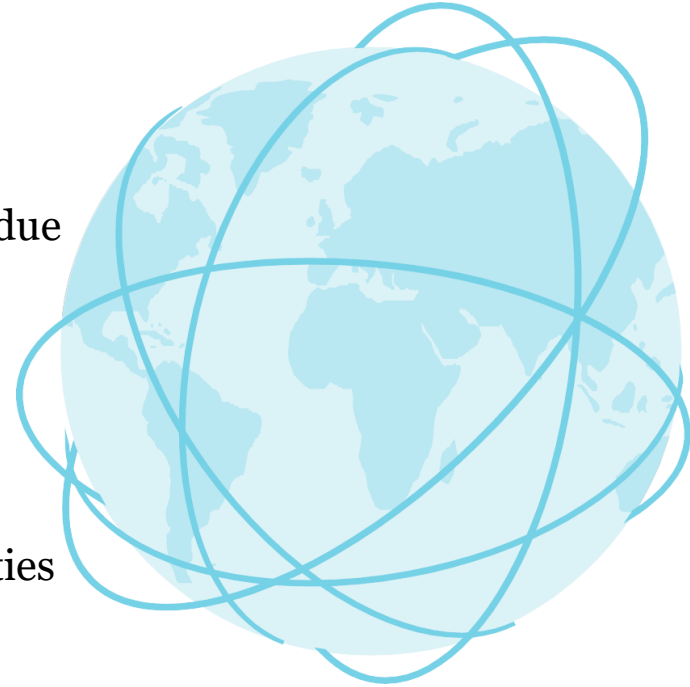
Support consistent implementation and operation of responses

Provide evidence of design, implementation and operation of responses, to support evaluation of SOQM



# 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
  - Exchange information with the network





**Thank you.**