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ALL PRACTICING FIRMS PERFORMING AUDITS OF PUBLIC INTEREST COMPANIES (PICs)

Audit Quality Through Robust Implementation of ISQM 1 – Key Considerations For Firms Auditing Public Interest Companies

Dear Audit Partners and Management of Audit Firms

The Auditing Standards & Ethics Board (the Board) of the Institute of Chartered Accountants of Pakistan (ICAP) is committed to promoting excellence and maintaining high audit quality standards. The International Standard on Quality Management 1 (ISQM 1) introduces a proactive, risk-based approach to quality management, moving beyond traditional quality control to drive continuous improvement.

For audit firms auditing Public Interest Companies (PICs), having a strong and effective System of Quality Management (SoQM) is crucial. PICs hold a unique position of public trust, and the quality of their audits directly impacts investor confidence and market integrity. This communication aims to provide guidance on certain key aspects of ISQM 1 that are especially relevant for audit firms engaged in PICs audits.

We appreciate the efforts of most of the audit firms that have already implemented ISQM 1. This circular though is not a substitute for understanding the complete requirements of ISQM 1, it highlights certain areas where continued focus can further strengthen SoQM and enhance audit quality.

Key Considerations for Firms Auditing Public Interest Companies under ISQM 1

1. **Communication about the SoQM to Those Charged with Governance of listed entities**

   Paragraph 34 (e)(i) of ISQM 1 requires that the audit firm establishes policies or procedures that require communication with those charged with governance when performing an audit of financial statements of listed entities about how the SoQM supports the consistent performance of quality audit engagements.

   ISQM 1 paragraphs A127 to A129 provide further guidance about the communication with those charged with governance i.e. the board of directors or the audit committees.

2. **Independence Confirmations from All Relevant Personnel**

   ISQM 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.

   Upholding independence is fundamental to the audit profession, particularly in PIC engagements. With relevant ethical requirements, including independence, establishing a process for personnel to update their declarations promptly, implementing systems to monitor compliance with independence requirements, and conducting periodic reviews to verify the accuracy of declarations.

3. **Robust Root Cause Analysis (RCA) for Identified Deficiencies**

   ISQM 1 requires firms to investigate the underlying reasons for identified deficiencies through a thorough Root Cause Analysis (RCA). This involves understanding why deficiencies occurred, not just what happened. Firms should establish criteria for when RCA is required, particularly for recurring deficiencies or significant findings.

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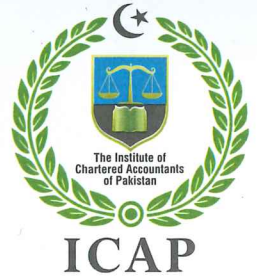
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Firms should ensure that remedial actions are directly linked to the identified root causes and are designed to prevent recurrence.

The Board is developing a detailed "Root Cause Analysis Framework" to provide further practical guidance on this critical area.

4. **Monitoring and Remediation Process**

   ISQM 1 emphasizes the firm's ongoing monitoring activities and its ability to respond effectively to identified deficiencies. Integrate continuous monitoring activities throughout the SoQM, establish clear responsibilities and timelines for implementing remedial actions, and critically assess whether the implemented remedial actions have been effective in addressing the root causes and preventing recurrence.

5. **Governance and Leadership Responsibilities**

   ISQM 1 elevates the role of leadership in quality management. Firm's leadership, particularly the Senior or Managing Partner or Assurance leader, is ultimately accountable for the SoQM. Leadership should demonstrate strong commitment to quality through actions, decisions, and resource allocation. Establish clear lines of accountability for the design, implementation, and operation of the SoQM and ensure that the firm's quality objectives are aligned with its strategic goals and that quality risks are considered in all major business decisions.

Key Matters to be considered while performing PICs Audit Engagements

Furthermore, ISQM 1 requires that firms, auditing PICs, must give particular attention to certain areas for engagement performance, including managing team workloads and resources effectively, ensuring sufficient support for high-risk audits and the right skills including use of specialists (e.g., IT, valuation, tax). ISQM 1 also requires mandatory Engagement Quality Reviews (EQRs), EQ Reviewers selection, rotation, and timely completion of PIC audit engagements.

The implementation of ISQM 1 represents a significant opportunity for audit firms to strengthen their commitment to provide quality audit and enhance public confidence. For firms auditing PICs, this commitment is even more critical. By focusing on robust communication, stringent independence protocols, systematic RCA, effective monitoring and remediation, and strong leadership, a firm can establish a resilient and responsive SoQM.

The Board is dedicated to supporting audit firms in this journey. We encourage audit firms to utilize the resources provided by ICAP, including the forthcoming RCA Framework and the existing ISQM Guide and Toolkit.

Should you require further clarification or assistance, please do not hesitate to contact the ASEB Secretariat.

Yours truly,

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