

INTRODUCTION TO ISQM 1

Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements



FACT SHEET

IAASB

International Auditing
and Assurance
Standards Board

WHAT?



ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,

replaces the IAASB's current standard, International Standard on Quality Control (ISQC) 1, which addresses firms' systems of quality control.

Under ISQM 1, firms are required to design a system of quality management to manage the quality of engagements performed by the firm.

ISQM 1 applies to all firms that perform audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, ISQM 1 applies to managing quality for those engagements).



Firms are required to have their system of quality management designed and implemented by December 15, 2022



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.

HOW?



MORE ROBUST GOVERNANCE AND LEADERSHIP

ISQM 1 addresses, among other matters:

- The firm demonstrating a commitment to quality through its culture which exists throughout the firm – includes recognizing and reinforcing:
 - The firm's role in serving the public interest by consistently performing quality engagements
 - The importance of quality in the firm's strategic decisions and actions, including those related to the firm's financial and operational priorities
- The roles, responsibilities and accountability of leadership, leadership's qualifications, and undertaking performance evaluations of leadership annually

INTRODUCING A RISK-BASED APPROACH FOCUSED ON ACHIEVING THE QUALITY OBJECTIVES

ESTABLISH QUALITY OBJECTIVES

- ISQM 1 prescribes outcome-based quality objectives in the components – these are comprehensive
- The firm establishes additional quality objectives that the firm considers are necessary to achieve the objectives of the system of quality management

IDENTIFY AND ASSESS QUALITY RISKS

- The firm understands the conditions, events, circumstances, actions or inactions that could adversely affect the achievement of the quality objectives
- The firm focuses on the nature and circumstances of the firm and engagements it performs

DESIGN AND IMPLEMENT RESPONSES

- The firm designs and implements responses that address the quality risks
- ISQM 1 includes some specified responses – the specified responses are not comprehensive

IDENTIFY INFORMATION THAT INDICATES CHANGES ARE NEEDED

If there are changes in the nature and circumstances of the firm or the engagements, or as a result of information from the firm's monitoring and remediation process, the firm:

- Establishes additional quality objectives, or modifies any additional quality objectives
- Modifies or adds to the quality risks and responses

EXPANDED RESOURCES



- Three categories of resources needed to operate the system of quality management and perform engagements:
Human | Technological | Intellectual
- ISQM 1 explicitly deals with resources from service providers
- The firm considers what resources are needed, whether they are appropriate, and how they are used and maintained

IMPROVING INFORMATION AND COMMUNICATION



- ISQM 1 emphasizes the continual flow of information within the firm, and with engagement teams, and drives firms to establish an information system
- The firm culture needs to embed the need to exchange information
- The firm communicates with external parties when it is appropriate
 - Includes communicating to those charged with governance about the system when the firm performs an audit of financial statements of listed entities

PROACTIVE MONITORING OF THE SYSTEM AS A WHOLE, AND TIMELY AND EFFECTIVE REMEDIATION

MONITOR

- The firm monitors the system as a whole
- The firm tailors the nature, timing and extent of the monitoring activities, based on factors described in ISQM 1
- Inspection of completed engagements – ISQM 1 has an increased focus on risk-based selection and factoring in other monitoring activities performed by the firm

EVALUATE FINDINGS AND IDENTIFY DEFICIENCIES

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

DESIGN AND IMPLEMENT RESPONSES

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

EVALUATING THE SYSTEM OF QUALITY MANAGEMENT ON AN ANNUAL BASIS



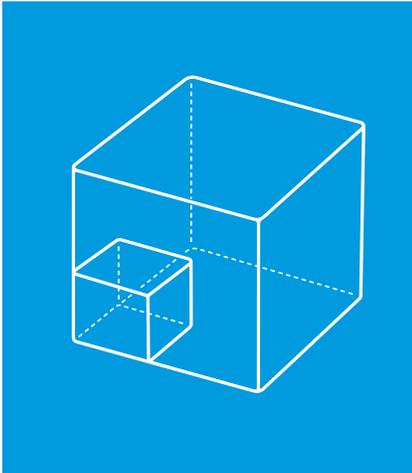
- Leadership evaluates and concludes whether the system of quality management is achieving its objectives
- Evaluation required to be undertaken at least annually
- The firm takes further action if the conclusion is unsatisfactory

ADDRESSING THE USE OF NETWORKS



- ISQM 1 focuses on reinforcing the firm's responsibility for its own system of quality management
- The firm understands network requirements or network services and the effect on the firm's system of quality management
- The firm understands monitoring activities undertaken by the network across network firms, including those to determine that network requirements have been appropriately implemented across network firms

HOW IS SCALABILITY ADDRESSED?



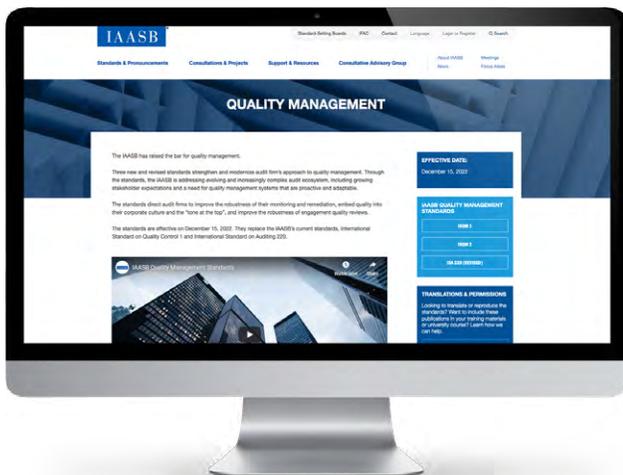
Quality objectives are outcome-based – the firm determines how to achieve the quality objectives

Quality risks are tailored to the firm - in identifying and assessing quality risks, the firm focuses on understanding conditions, events, circumstances, actions or inactions that relate to the nature and circumstances of the firm and its engagements

Specified responses are limited and are scalable

The monitoring and remediation process is focused on tailoring to the firm's circumstances

Examples in application material demonstrate how to apply aspects of the standard to less complex and more complex firms



Implementation support materials are available on the IAASB website.

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