



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

Presented by:
Julie Corden, ISQM 1 Task Force Chair

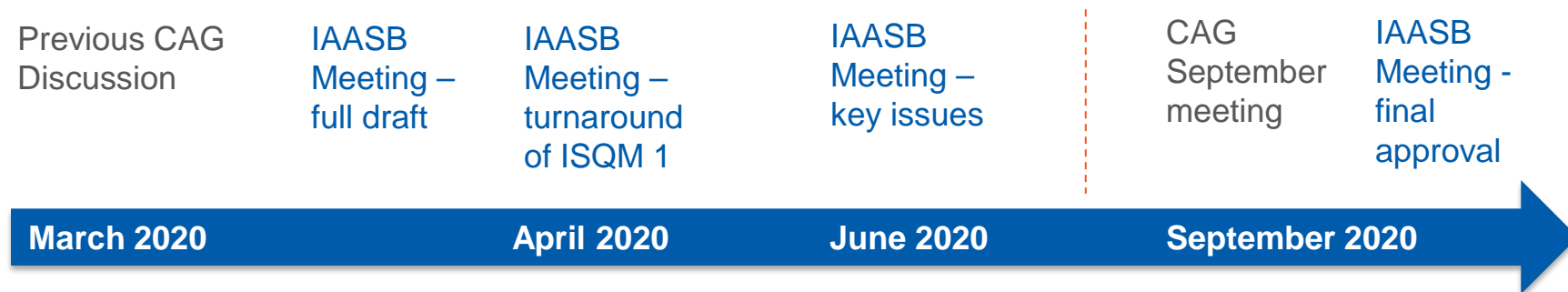
IAASB CAG Meeting September 8, 2020
Agenda Item B1.1



**International Auditing
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What Has Happened Since Last CAG Discussion?

- Final approval of standard deferred from June 2020 to September 2020, given COVID-19 pandemic
- IAASB agreed to effective date of December 15, 2022
- 3 plenary sessions with IAASB to further develop the standard



Highlights of Changes Since Last CAG Discussion

- Key changes
 - Objective of the standard
 - Clarifications related to human resources
 - External communications
- Other areas of clarification since last CAG discussion
 - Definitions: deficiencies, findings, quality risks, service providers
 - The firm's risk assessment process
 - Relevant ethical requirements
 - Monitoring and remediation
 - Evaluation of the system of quality management

Objective of Proposed ISQM 1

- Respondent feedback to Exposure Draft of ISQM 1 (ED-ISQM 1)
 - Mixed views regarding the reference to public interest in the standard, including reference to public interest in the objective
- PIOB public interest issue: the objective should include a focus on high quality audits
- ED-ISQM 1, and subsequent drafts, included introductory material that:
 - Emphasized the public interest
 - Clarified that the public interest is served by the consistent performance of quality engagements and clarified when a quality engagement is achieved
 - Explained the link between the public interest and the objective

Objective of Proposed ISQM 1 (continued)

- ISQM 1 TF proposal: Relocate introductory material to the objective, so it has closer proximity to the objective ([paragraph 15 of Agenda Item B1.2](#))
 - Clarifies how public interest and consistent performance of quality engagements are related to the objective, because of closer proximity to the objective
 - Improves prominence of public interest
 - Facilitates a proper understanding of the objective and how the requirements are designed to achieve the objective

Question for Representatives

Question 1

Do Representatives support the position of the paragraph explaining the public interest and how it is related to the objective of the standard [\(paragraph 15 of Agenda Item B1.2\)](#)?

External Communications – Background

- Exposure draft: Required firms to establish policies or procedures addressing communication to external parties, in a transparency report or otherwise, when the firm determines it appropriate to do so
- Respondent feedback: Mixed views, including lack of clarity on expectations
- PIOB public interest issue: more explicit requirement for the firm to communicate externally
- CAG feedback in March 2020 – differing views:
 - Some support for ISQM 1 TF proposals
 - Others urged more robust requirements “*Transparency reports hold auditors accountable for having robust systems in place and could drive a more effective system of quality management*”

External Communications – Latest Proposals

- IAASB further considered how to address external communication
 - Introduce more robust requirement for audits of listed entities focused on communicating to TCWG
 - Need to encourage firms to communicate externally when it is appropriate to do so, and should be a firm determination
 - Requirements for transparency reports should be dealt with by regulators at a jurisdictional level given varying global circumstances
- New requirement ([paragraph 34\(e\) of Agenda Item B1.2](#)):
 - Communicate with those charged with governance (TCWG) when performing an audit of financial statements of listed entities about how the SOQM supports the consistent performance of quality engagements
 - Firms' policies or procedures are required to also address *when* it is otherwise appropriate to communicate with external parties about the SOQM

External Communications – Latest Proposals (continued)

- Why is communication with TCWG important?
 - Promotes enhanced transparency with TCWG, which has been an important focus of the IAASB on a number of projects in recent years
 - Intent is to enable TCWG to understand the SOQM and how it supports the consistent performance of quality audit engagements, which assists TCWG in providing oversight to the financial reporting process.
- What is the scope of the requirement to communicate with TCWG?
 - Focused on audits of financial statements of listed entities (scalability)
 - AM suggests other circumstances when it may be appropriate to communicate with TCWG (i.e., other entities for whom the firm performs audits or other engagements) ([paragraph A127 of Agenda Item B1.2](#))
 - Focus is on entities which may have public interest considerations or with public accountability characteristics

External Communications – Latest Proposals (continued)

- What information is required to be communicated to TCWG?
 - Requirement is principles-based (i.e., information about *how* the SOQM supports performance of engagements)
 - IAASB considered specifying matters to be communicated – but information would be dependent on firm and engagement circumstances and a specified list of matters would likely drive boilerplate information
 - AM suggests information that may be provided ([paragraph A126 of Agenda Item B1.2](#))
- Other key enhancements
 - Enhanced AM supporting firm's determination of when it is appropriate to communicate with external parties about the firm's SOQM (in addition to when otherwise required) ([paragraph A129 of Agenda Item B1.2](#))
 - Includes matters such as customary business practice, the characteristics of the financial markets, jurisdictional trends and stakeholder expectations

Question for Representatives

Question 2

Do Representatives believe that the proposed enhancements to the requirement addressing external communications (paragraph 34(e) of Agenda Item B1.2) and related application material (paragraphs A124–A132 of Agenda Item B1.2) are appropriate?

Human Resources

- Since March 2020, ISQM 1 TF, ISA 220 TF and ISA 600 TF have discussed human resources used in performing engagements
- The TFs agreed that, in the context of the firm:
 - The firm is responsible for assigning or making available sufficient and appropriate resources to the engagement team
 - The firm's responsibility related to the competence and capabilities of engagement team members (including component auditors) is to support the engagement partner in addressing the competence and capabilities of engagement team members
 - E.g., may be through policies or procedures explaining how the engagement partner determines that the engagement team members are competent/capable and how concerns may be resolved
- Various changes made to standard to clarify the above responsibilities

Question for Representatives

Question 3:

Representatives are asked whether there are any other matters that should be considered by the IAASB before finalizing proposed ISQM 1?



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