Quality Management at the Firm and Engagement Levels

IAASB CAG
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The IAASB’s Quality Management Proposals

February 2019: Three exposure drafts released for public comment

- Proposed ISQM 1 (Previously ISQC 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
- Proposed ISQM 2, Engagement Quality Reviews
- Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
- Also released: a covering explanatory memorandum – addresses:
  - The relationships between the standards
  - Overall matters
  - Possible effective dates, including a question to seek views about the time needed to implement the standards

February 2019 – June 2019

- Global outreach and consultation

July 1, 2019

- Comment letters due – see [http://www.iaasb.org/quality-management](http://www.iaasb.org/quality-management) for links to the above documents and to post comments
Proposed ISQM 1

International Standard on Quality Management

Proposed International Standard on Quality Management 1
(Previously International Standard on Quality Control 1)

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

International Auditing and Assurance Standards Board
Proposed ISQM 1: Facilitating and Understanding of the Standard

Objective of the firm

Objective of the system of quality management

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Objective of ED: ISQM 1

Quality risk

Quality risk

Quality risk

Response

Response

Response

Response

Response required by ISQM 1

Monitoring activities

External inspection

Other information sources

Negative findings

Positive findings

Does a deficiency exist?

No

Yes

Investigate the root cause

Evaluate severity and pervasiveness

Remediate the deficiency and evaluate the remedial actions

No further action required by the standard, but AM suggests considering positive findings

Includes determining if quality objectives, quality risks and responses remain appropriate and modifying them

Step 1: Identify the quality risks

Quality risks (the whole population)

Is there a reasonable possibility of the risk occurring?

Yes

No

No required further action

Would the quality risk individually have a significant effect on the achievement of a quality objective(s)?

Yes

No

Identified quality risk that is required to be assessed:

Assess the quality risk to provide a basis for the design and implementation of the related responses. In doing so, assess the possibility of the quality risk occurring and the effect on the achievement of a quality objective(s)

Objective of ED: ISQM 1

Objectives of the system of quality management

Quarter objective

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Quality objective

Missing quality risk

Missing response(s)

Response

Response

Response

Response

Response

Response

Missing response(s)

Missing response(s)

Response

Response

Response

Response

Response

Response

Missing response(s)
Proposed ISQM 1: Support Materials

DRAFT FREQUENTLY ASKED QUESTIONS REGARDING PROPOSED ISQM 1

This publication is a draft and has been prepared by a Task Force of the International Auditing and Assurance Standards Board (IAASB) based on the exposure draft of ISQM 1 (ED-ISQM 1). It is intended to provide further clarity on various matters in ED-ISQM 1. The questions addressed in this publication are not exhaustive and examples provided are illustrative only.

This publication will be reconsidered when ED-ISQM 1 is finally approved by the IAASB.

The exposure draft of proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (CD-QCOM 1), was approved for exposure by the IAASB in December 2017. This publication is intended to assist respondents in understanding CD-QCOM 1 and providing feedback to the IAASB regarding the usefulness of the publication.

General

1. Does the system of quality management cover all engagements performed by the firm?

CD-QCOM 1 requires the firm to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. In circumstances where the firm performs other types of engagements (e.g., tax or consulting services), CD-QCOM 1 does not require that the system of quality management extend to such engagements. However, these other types of engagements, or procedures performing such engagements, may be affected by matters relating to the firm’s system of quality management. For example, the firm’s policies or procedures may prohibit the performance of certain non-audit assurance services to clients when the firm performs audits or reviews of financial statements, or other assurance engagements.

DRAFT EXAMPLES: HOW THE NATURE AND CIRCUMSTANCES OF THE FIRM AND THE ENGAGEMENTS IT PERFORMS AFFECT THE IMPLEMENTATION OF PROPOSED ISQM 1

This publication is a draft and has been prepared by a Task Force of the International Auditing and Assurance Standards Board (IAASB) based on the exposure draft of ISQM 1 (ED-ISQM 1). It is intended to illustrate how CD-QCOM 1 can be applied in a reasonable manner by firms with varying circumstances. The scenarios described in this publication are hypothetical and have been simplified to illustrate key principles of applying the standard and do not:

- Include all factors regarding the nature and circumstances of the firm and its engagements for the examples provided;
- Include all quality objectives, quality risks or responses that may be necessary or appropriate;
- Represent how a firm should document its quality objectives, identified and assessed quality risks and responses.

This publication will be reconsidered when ED-ISQM 1 is finally approved by the IAASB.

1  International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
2  International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements
3  International Standard on Quality Control (ISQC) 2, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements
Proposed ISQM 1: Key Changes Since September 2018

• Public interest
• Scalability
• Addressing when the firm is required to do more beyond the requirements of the standard
  – Requirement to establish additional quality objectives
• Communication with external stakeholders
• Monitoring and remediation
  – Definition of deficiencies
  – Inspection of engagements
• Networks
Proposed ISQM 1: The Firm’s Risk Assessment Process

- Quality objectives required by ED-ISQM 1 (comprehensive)
- Additional quality objectives beyond those required by ED-ISQM 1, when those objectives are necessary to achieve the objective of the standard
- The firm identifies the quality risks that:
  - Have a reasonable possibility of occurring
  - If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s)
- The firm assesses the identified quality risks
- Responses required by ED-ISQM 1
- Additional responses designed and implemented by the firm (always required as responses in ED-ISQM 1 are not sufficient to address all quality risks)
Proposed ISQM 2: Key Changes Since September 2018

- Public interest
- Scalability
- Engagements for which an engagement quality review is required
  - Entities of significant public interest
  - Requirements and guidance included in ISQM 1 (paragraph 37(e))
- Eligibility criteria
  - Sufficient time
  - Authority
  - External engagement quality reviewer and assistants
- Performance of an engagement quality review
  - Significant judgments and significant risks (audits and other engagements)
  - Timing of review
  - Stand-back requirement
- Documentation of engagement quality review included with engagement documentation
Proposed International Standard on Auditing 220 (Revised)

Quality Management for an Audit of Financial Statements
Proposed ISA 220: Key Changes Since September 2018

• Changes generally minor
  – Linkages with ISQM 1, ISQM 2

• Public interest
  – Professional skepticism, professional judgment

• New application material:
  – Degree to which the engagement partner/team may depend upon the firm’s policies or procedures (paragraph A34)
  – Explanation of considerations in determining whether the engagement partner has met the stand-back requirement
This timeline is for illustrative purposes only—approval dates and the implementation period are dependent on a number of factors, including stakeholders’ comments on the exposure drafts and on the implementation period proposed therein.
Outreach During Exposure Period

- Standard slide deck for presentations
- Overview video of QM projects
  (https://www.youtube.com/watch?v=I3_yuyDeNSI)
- Discussion at SMP conference, Paris
- Webcasts:
  - March/April/May – dates TBA soon

Why is this important for all firms, including small firms?