DRAFT FREQUENTLY ASKED QUESTIONS REGARDING PROPOSED ISQM 1[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.**
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> **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[2])*, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1), was approved for exposure by the IAASB in December 2018. This publication is intended to assist respondents in understanding ED-ISQM 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?

ED-ISQM 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 when the firm performs other types of engagements (e.g., tax or consulting services), ED-ISQM 1 does not require that the system of quality management extend to such engagements. However, these other types of engagements, or personnel 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-assurance services for clients for whom the firm performs audits or reviews of financial statements, or other assurance engagements.

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[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, and Other Assurance and Related Services Engagements*

General

2.   Is the firm required to have all eight components in its system of quality management?

The eight components in ED-ISQM 1 have similarities to the components of internal control described in the Exposure Draft of ISA 315 (Revised)[3] and the COSO Integrated Framework (2013).[4] For example, governance and leadership is similar to the entity's control environment and the firm's risk assessment process is similar to the entity's risk assessment process. While ED-ISQM 1 is organized according to the eight components, firms are not required to organize their systems according to these discrete components. ED-ISQM 1 only requires that a firm meet all of the requirements of the standard in designing, implementing and operating its system of quality management. For example, provided that all of the requirements of the standard are still met, a firm may have different names for the components, may combine the components, or may have additional components.

The Firm's Risk Assessment Process

3.   Is the firm expected to establish quality objectives in addition to those set out in the standard?

ED-ISQM 1 recognizes that there may be circumstances when the quality objectives in the standard are insufficient to provide a basis for the achievement of the objective of the standard. Accordingly, paragraph 26 of ED-ISQM 1 requires the firm to establish additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard. However, the IAASB does not anticipate that all firms will need to establish additional quality objectives.

The quality objectives in ED-ISQM 1 are described at a high level. Although not required by the standard, it may be appropriate for the firm to break down the quality objectives into related sub-objectives because doing so may assist the firm in identifying and assessing quality risks. For example, more granular quality objectives may be established for divisions, operating units, or similar functions, by nature of engagements or by industry according to the entities for whom engagements are performed.

4.   Is the firm required to identify and document all quality risks that could affect the achievement of the quality objectives?

ED-ISQM 1 recognizes that it is not reasonable or practicable for firms to identify and assess every possible risk. Accordingly, ED-ISQM 1 includes a process for identifying and assessing quality risks that is intended to filter risks and assess them, such that the nature, timing and extent of the responses designed and implemented by the firm are appropriately focused on what is important for the system of quality management.

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[3]   ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

[4]   Committee of Sponsoring Organizations of the Treadway Commission *Internal Control – Integrated Framework (2013)*

The Firm's Risk Assessment Process

The quality risks that the firm is required to identify are those quality risks that meet the threshold criteria, i.e.:

- The quality risk has a reasonable possibility of occurring; and

- If the quality risk were to occur, it may, individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

The firm is required to document the identified quality risks and their assessment, as per paragraph 67(a) of ED-ISQM 1.

5. **What is the difference between identifying quality risks and assessing quality risks, as both activities seem to require an assessment of the possibility of the quality risks occurring and their effect on the achievement of the quality objectives?**

The process in ED-ISQM 1 consists of two steps:

- Identifying the quality risks based on a _preliminary consideration_ of the possibility of the quality risks occurring and their effect on the achievement of the quality objectives; and

- Assessing the identified quality risks, which involves a _more detailed consideration_ of the likelihood of the quality risks occurring and the degree to which the quality risks could affect the achievement of the quality objectives.

The purpose of assessing the quality risks is to assist the firm in designing and implementing responses, because the reasons for the assessment of the quality risks affect the nature, timing and extent of the responses.

The IAASB acknowledges that in some instances, the two steps may be undertaken concurrently by the firm. However, the firm is not expected to assess every quality risk; the firm is only expected to assess those risks that reach the threshold criteria described in question 4.

6. **What factors does the firm consider in assessing the quality risks?**

The identified conditions, events, circumstances, actions or inactions underpinning the identified quality risks affect the assessment of the quality risks, i.e., the likelihood of the quality risks occurring and the degree to which the quality risks could affect the achievement of the quality objectives. Paragraph A58 of ED-ISQM 1 provides examples of other factors that may affect the assessment of the quality risks, although these are not exhaustive. These include:

- The expected frequency of the quality risk occurring. The more frequent the quality risk, the more likely it is to have an effect on the achievement of the quality objectives.

- The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk. For example:

   o The firm identifies a quality risk that firm personnel are unaware of changes in relevant ethical requirements. Due to the implementation period typically provided after the issuance of revisions to the relevant ethical requirements, the firm may be able to communicate the changes to personnel in a timely manner, train personnel and update its policies relating to the changes in relevant ethical requirements in advance

of the effective date. This may therefore lower the assessment of the likelihood of the quality risk occurring.

- o The firm identifies a quality risk that there may be high staff turnover at any point in time. The firm is likely not able to foresee when it will experience high staff turnover and therefore the rate at which the quality risk would affect the achievement of the quality objective would be immediate. This may increase the firm's assessment of the degree to which the quality risk could affect the achievement of the quality objective.

- The duration of time of the effect of the quality risk after it has occurred. For example, in the two examples highlighted above:

- o The risk of firm personnel not being aware of changes in relevant ethical requirements may be higher in the short-term (i.e., in the period immediately following when the changes in the relevant ethical requirements have come into effect). The risk may decrease in the longer term as firm personnel become aware of the changes in requirements. This may affect how frequently the firm assesses the quality risk, i.e., the assessment may need to change from time to time as changes in the relevant ethical requirements occur.

- o In the case of the high staff turnover, it may take time for the firm to appoint and train personnel who have the appropriate competence and capabilities to perform engagements, and therefore the effect of the high staff turnover may be long-term. This may increase the firm's assessment of the degree to which the quality risk could affect the achievement of the quality objective.

7. **Is the firm required to design and implement responses for every quality risk that has been identified?**

ED-ISQM 1 requires the firm to design and implement responses to address the assessed quality risks, i.e., only those quality risks that have been identified because they meet the threshold criteria described in question 4. Paragraph A60 of ED-ISQM 1 explains that the nature, timing and extent of the responses are affected by the reasons for the assessment given to the assessed quality risks.

Other factors that may be considered by the firm in designing a response include:

- Whether the response should involve a preventative activity, a detective activity or a combination of both. For example, a preventative activity would include training personnel on the independence requirements in order to prevent breaches of independence, and a detective activity would include systems that check compliance with independence requirements by personnel.

- The appropriate timing of the response activities, for example, certain activities may need to operate on a continual basis in order to be effective (e.g., monitoring and reporting breaches of the firm's independence policies or procedures).

- Whether the response alone is sufficient to address the assessed quality risk, i.e., a combination of responses may be necessary to appropriately address the assessed quality risk.

The Firm's Risk Assessment Process

- Whether there are responses that address multiple assessed quality risks and therefore may be more effective to design and implement.

- The resources needed to support the response. For example, whether the response should be based in an IT application or the personnel needed to implement and operate the response, including their competence and capabilities to do so.

- The information to be obtained, generated and communicated to support the implementation and operation of the response.

8. Is the firm required to design and implement responses in addition to the responses that are required by the standard?

ED-ISQM 1 includes some responses that all firms are required to design and implement, however these responses are not comprehensive. For example, the resources component does not include any required responses. As a result, the standard is explicit that the firm is required to design and implement responses to address all of its assessed quality risks; the responses required by the standard will only be a subset of responses that will be necessary to address the firm's assessed quality risks.

9. If ED-ISQM 1 includes required responses, why are there no required quality risks for these responses?

The firm is expected to identify and assess its own quality risks for the quality objectives, taking into account the nature and circumstances of the firm and the engagements it performs. In addressing the assessed quality risks, the firm would tailor the responses required by the standard to appropriately address the assessed quality risks. In particular, the reasons for the assessment given to the firm's assessed quality risks would affect how the firm designs and implements the responses required by the standard. For example, all firms are required to obtain, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent. How this response is designed and implemented by each firm will vary, for example, some firms may use an IT application to obtain the confirmation and may obtain the confirmation more frequently than on an annual basis, while other firms may obtain the confirmation manually and only obtain it on an annual basis. The Draft Examples provide a further illustration.

Governance and Leadership

10. What actions can a firm take to establish a culture that promotes a commitment to quality?

The nature and extent of the actions taken to establish a culture will vary from firm to firm. However, at a minimum, the individual(s) assigned ultimate responsibility and accountability for the system of quality management is required to demonstrate a commitment to quality through their actions and behaviors, because of the importance of setting the appropriate tone at the top. This individual(s) is also required to establish the expected behavior of personnel relating to the

Governance and Leadership

performance of engagements and activities within the system of quality management, for example, through a code of conduct.

There are many other actions that may be taken to establish the culture of the firm, some of which may include:

- Defining the purpose and values of the firm.

- Establishing trust through consistent, regular and open communication within the firm.

- Establishing accountability for quality, for example, by defining how internal quality will be measured and incorporating quality-related measures in personnel evaluations, with associated effects on compensation and promotion.

- Providing transparency within the firm about the firm's actions to address quality, and the effectiveness of those actions.

- Establishing developmental opportunities for personnel that reinforce the firm's view on the importance of quality.

Furthermore, responses in other components may reinforce the firm's culture that promotes a commitment to quality. For example, the firm's policies or procedures addressing consultation that encourage consultation on difficult issues helps to reinforce the importance of quality or implementing a robust system for supporting decisions about the acceptance and continuance of client relationships and specific engagements may also contribute to the firm's tone regarding quality.

In circumstances when the firm belongs to a network, the culture of the firm may also be influenced and supported by the network, for example through:

- The tone of leadership at the network level and the emphasis placed on the importance of quality.

- The network holding firm leadership accountable for quality.

- Network requirements and the network's monitoring of the firm's compliance with network requirements.

- How the network manages and responds to matters in relation to quality across all of the firms within the network, including the timeliness of the responses, communication of quality matters and what actions are taken in relation to firms that do not comply with network requirements.

Relevant Ethical Requirements

11. **Are the firm's responses required to also address the independence of other network firms or personnel in other network firms?**

    ED-ISQM 1 acknowledges that the network is external to the firm and therefore does not form part of the firm's system of quality management. It further emphasizes that in circumstances when a

Relevant Ethical Requirements

firm is a member of a network, the firm retains full responsibility for its own system of quality management, including complying with the requirements of ED-ISQM 1.

When a firm operates within a network, there may be circumstances when the relevant ethical requirements applicable to the firm includes provisions applicable to others at the network level, i.e., for the network, network firms, personnel in the network or network firms. As a result, ED-ISQM 1 includes a requirement for the firm to identify such provisions and determine their applicability to others at the network level (ED-ISQM 1 explains that the applicability of the relevant ethical requirements to others at the network level depends on whether the relevant ethical requirements contain specific provisions addressing others, and how the firm uses others in its system of quality management).

Identifying who in a network is subject to the relevant ethical requirements is important because the firm is required to establish policies or procedures to address threats to compliance with and breaches of such requirements. The responses designed and implemented by the firm to address compliance with relevant ethical requirements for others at the network level may differ from the responses designed to address compliance by personnel. For example, how the firm communicates the relevant ethical requirements to its personnel and monitors their compliance may differ from how the firm communicates to others in the network and monitors others' compliance.

Various provisions in other components may also form part of the responses designed and implemented by the firm to address compliance with relevant ethical requirements by others. For example, paragraph 41(c)(ii) requires the firm to establish policies or procedures that address the nature, timing and extent of communication and matters to be communicated with the network, which would include communicating the provisions of the relevant ethical requirements that apply to the network, network firms, personnel in the network or network firms. The network requirements may also include responses to address compliance with relevant ethical requirements across the network, for example, the network may require all firms to implement a network-developed IT application that requires all firms in the network and their personnel to record and maintain information related to independence.

Engagement Performance

12. **What actions can the firm take to prevent unauthorized access and changes to engagement documentation?**

Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Responses that the firm may design and implement to avoid unauthorized alteration or loss of engagement documentation include those that:

- Enable the determination of when and by whom engagement documentation was created, changed or reviewed;

Engagement Performance

- Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the internet;

- Prevent unauthorized changes to the engagement documentation; and

- Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

Examples of responses that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include:

- Security measures to restrict access to the underlying data, software, operating system and network, including the use of passwords and restrictions on physical access. This includes appropriate security in circumstances when the firm exchanges information or data externally, including with the firm's network, shared service centers or service providers. The extent of the security measures may vary depending on the size and complexity of the firm, for example, larger and more complex firms may have significant amounts of data transfer and storage and therefore may have an increased risk associated with the alteration or loss of data. Furthermore, firms that perform engagements for entities that have a large and wide range of stakeholders, for example, entities whose shares are traded publicly, may have a higher risk of a security breach.

- Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.

- Procedures for properly distributing engagement documentation to engagement team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.

- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

Resources

13. Are all technological resources used by the firm subject to the requirements of ED-ISQM 1?

The scope of technological resources that ED-ISQM 1 aims to address are those technological resources that support the firm's system of quality management, including the performance of engagements. Ordinarily firms will have technological resources that support the functioning or operation of the firm itself, such as email, which are not intended to be within the scope of the provisions of ED-ISQM 1, as these are more general in nature and not specifically used in the fulfillment of the objectives of the standard. Nevertheless, some technological resources may serve multiple purposes across the firm and may affect the firm's system of quality management. For example, the firm's IT infrastructure may include security features that control access to IT applications that are relevant to the firm's system of quality management (e.g., electronic

engagement files). The firm would need to apply professional judgment in determining which technological resources, or aspects thereof, are in scope of ED-ISQM 1.

14. **IT applications may vary in extent of use across a firm, with individual engagement teams using IT applications for specific engagements, to a broader use of IT applications firm-wide. Would the firm always be responsible for evaluating the IT applications, including when only a single engagement team is using that IT application?**

In order to achieve the quality objective addressing technological resources in ED-ISQM 1, the firm's responses will need to address the evaluation of IT applications. The design of those responses and how they are implemented will depend on the nature and circumstances of the firm and its engagements, as well as the nature or use of IT applications. For example, the firm's policies or procedures may require that all IT applications be evaluated by a central IT function within the firm, irrespective of the extent of use of the IT application across the firm. In other cases, the firm's policies or procedures may allow the engagement team to evaluate the IT application in certain circumstances, with guidance provided to engagement teams on factors to consider in evaluating the IT application. The firm's policies or procedures may also specifically prohibit the use of IT applications if they have not been approved for use by the firm, which may include the use of features of IT applications such as macros in Microsoft Excel. Paragraph A58 of proposed ISA 220 (Revised) also discusses the consideration of the appropriateness of technology at the engagement level, in particular circumstances when the firm's policies or procedures do not address the use of the technological resource.

15. **What is a firm expected to do when it uses an IT application from a service provider in its system of quality management?**

ED-ISQM 1 includes a quality objective for technological resources, and includes separate requirements for service providers. As a result, the use of an IT application from a service provider ordinarily involves:

- Obtaining an understanding of the service provider, including determining that the reputation, competence and capabilities of the service provider are appropriate in the context of the intended use of the IT application.

- Establishing the nature and scope of the IT application, including the firm's responsibilities for any actions that are necessary in using the IT application. This may include establishing terms of engagement with the service provider that set out the responsibilities of the firm, such as whether additional tailoring is needed by the firm such that the IT application is appropriate for use by the firm and how frequently the firm needs to accept updates to the IT application. The firm would also ordinarily be responsible for the general IT controls necessary to support the IT application.

- Determining whether the IT application is appropriate for use in the system of quality management in the context of the quality risks identified and assessed by the firm and the reasons for the assessments given to the quality risks, including when changes are made to the IT application. This would ordinarily include determining that:

Resources

- o The IT application operates as designed and achieves the purpose for which it is intended. For example, the firm may make inquiries about user experiences in using the IT application, such as common errors or functionality issues.

- o The data inputs are appropriate and confidentiality of the data is preserved. This may include determining whether the technology complies with law or regulation, such as data privacy laws.

- o The outputs of the IT application achieve the purpose for which they will be used.

- o It is clear how users are required to interact with and use the IT application and users have appropriate support. This may include establishing terms of support with the service provider.

- o Updates to the IT application are made in response to changing circumstances, and are appropriately tested before being deployed.

Information and Communication

16. What information is needed to enable the design, implementation and operation of the system of quality management?

In designing the system of quality management, the firm would need to understand the integration of the components and the information that needs to be obtained, generated or communicated to support the firm in achieving the requirements of each of the components. The type of information needed by the firm would vary depending on many factors, including the nature and circumstances of the firm and the engagements it performs, and the nature, timing and extent of the responses designed and implemented by the firm to address the assessed quality risks.

Examples of the information that is relevant to supporting the functioning of the components include:

- Governance and leadership:

  - o Information necessary to support decision-making and an assessment of the firm's activities and performance, such as information about the firm's environment, applicable law, regulation or relevant ethical requirements.

  - o Information needed to support an evaluation of the firm's resource needs.

  - o Information to support an understanding of the responsibilities in relation to the firm's system of quality management and to support individuals in fulfilling their responsibilities.

- The firm's risk assessment process:

  - o Information in order to be able to establish quality objectives, identify and assess quality risks and design and implement responses, such as the types of engagements performed by the firm or the industries in which the clients operate.

Information and Communication

- o Information about changes in the nature and circumstances of the firm or its engagements.

- Monitoring and remediation process:

  - o Information to support the firm's design of its policies or procedures in relation to engagement inspections.

  - o Information in order to evaluate whether those performing monitoring activities have the competence and capabilities, including sufficient time to perform the monitoring activity and are objective.

  - o Information from other sources in order to identify deficiencies in the firm's system of quality management.

  - o Information about the root causes of identified deficiencies.

  - o Information to evaluate whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s) and determine whether they have been implemented.

17. How is the firm expected to communicate information, and does it always need to be formally documented?

There are a variety of methods the firm may use to communicate information, for example, manuals of policies or procedures, newsletters, alerts, systems (e.g., the firm's engagement software), emails, intranet or other web-based applications, training, presentations, social media, webcasts or through one-on-one discussions. In determining the most appropriate method(s) and frequency of communication, the firm may take into consideration a variety of factors including:

- The audience to whom the communication is targeted including the cultural, ethnic and generational profile of the audience.

- The nature and urgency of the information being communicated.

In some circumstances, the firm may determine it necessary to communicate the same information through multiple methods in order to achieve the objective of the communication and in such cases the consistency of the information communicated is important to its effectiveness.

Communication does not always have to be formally documented. For example, in the case of a smaller firm, the communication may be undertaken in a more direct or informal manner as there are fewer personnel with whom to communicate. However, the firm would need to document communication to the extent necessary to address the documentation requirements in ED-ISQM 1.

Monitoring and Remediation

18. Are there monitoring activities other than inspection of engagements that a firm is able to use to monitor the system of quality management?

Extant ISQC 1 is largely focused on the inspection of completed engagements, which only address monitoring responses that are implemented at the engagement level. ED-ISQM 1 focuses more on proactively monitoring all aspects of the system and tailoring the monitoring activities to provide a sufficient basis for the firm to evaluate the system. Therefore, the inspection of engagements is only one type of monitoring activity that a firm may perform. Examples of other monitoring activities include:

- Interviewing firm personnel to evaluate the effectiveness of the firm's communication in relation to certain matters.

- Evaluating the process for establishing the quality objectives, identifying and assessing quality risks and designing responses, including who within the firm has been assigned this responsibility.

- Using peer reviews, or other types of reviews, designed with the purpose of monitoring areas of the firm's system of quality management.

- Applying automated alerts in relation to engagements, for example, automatic notifications when policies are not applied.

- Inspecting records regarding the provision of non-audit services by other service lines within the firm to establish that prohibited services were not provided to an audit client.

- Checking records of attendance at training events for compliance with the firm's policies on professional development.

- Inspecting time records for (i) number of hours spent by engagement partners and other senior personnel and assessing the appropriateness of such hours; or (ii) evidence of involvement of experts on certain types of engagements such as audits performed in respect of certain industries, to determine the appropriate use of experts.

19. How frequently should monitoring activities be undertaken?

The frequency of the monitoring activities will vary from firm to firm and are affected by multiple factors. For example, the firm may determine that more frequent monitoring activities are needed in relation to certain types of engagements (e.g., entities operating in industries that are subject to frequent change or engagements where a high number of deficiencies have been identified through previous monitoring activities). In the case of a smaller firm, given the close oversight of the firm's leadership, the monitoring activities may involve more periodic consideration of the system of quality management.

20. What is the process for investigating the root cause(s) of identified deficiencies?

ED-ISQM 1 indicates that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) will vary according to the nature of the identified deficiencies and their possible severity. As a result, in some circumstances, the firm's process for investigating the root

Monitoring and Remediation

cause of a deficiency may be complex and in other cases the root cause may be immediately identifiable, in which case the process may be simple.

A more complex process to investigate the root cause of an identified deficiency may involve:

- Identifying those responsible for performing the root cause analysis, and establishing their competency to do so, including providing training on how to effectively investigate root causes.

- Determining the nature, timing and extent of the root cause analysis.

- Conducting interviews of engagement teams and others, in order to gain insight into what may have caused the deficiency.

- Performing a trend analysis across multiple deficiencies and findings.

- Evaluating the evidence and other information available and identifying the root cause based on such evidence.

In some cases, trend analyses may also highlight a more pervasive or systemic issue, that may result in the firm identifying further deficiencies.

Network Requirements or Network Services

21. What is a firm expected to do in circumstances when the firm determines that certain network requirements are not appropriate for the firm's system of quality management?

ED-ISQM 1 explains that network requirements are the requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network. In other words, the terms of agreement between the network and the firm requires the firm to implement or use these requirements in its system of quality management, and the terms of agreement would ordinarily deal with the consequences for the firm if they fail to comply with the requirements.

Through complying with paragraph 59-60 of ED-ISQM 1, the firm may become aware that the network requirements are inappropriate, for example, the firm may identify errors in the engagement IT application developed by the network. ED-ISQM 1 recognizes that the firm would still be expected to implement or use these requirements, however the firm would need to adapt or supplement the network requirements so that they are appropriate for the firm's system of quality management. For example, in the case of an error in an IT application, if the firm is unable to correct the error in the IT application due to restricted access to the coding, the firm may have to take other steps to ensure the error does not affect the performance of engagements (e.g., communications to engagement teams about the error, including actions for engagement teams to take to avoid the error).

In circumstances when there is an error in the network requirement or network service and the error amounts to a deficiency as defined in ED-ISQM 1, paragraphs 62-63 of ED-ISQM 1 would also apply.

Network Requirements or Network Services

As network services are optional, in circumstances when there are errors in a network service the firm may choose not to use the service, or may continue to use the service but adapt or supplement it to address the error.

Service Providers

22. Are all IT applications that are obtained from service providers subject to the requirements of paragraphs 64-65 of ED-ISQM 1?

As explained in question 13, the scope of technological resources that ED-ISQM 1 aims to address are those technological resources that support the firm's system of quality management, including the performance of engagements.

Paragraph A206 of ED-ISQM 1 provides examples of factors that may affect whether the firm determines it necessary to follow the requirements in paragraphs 64-65 of ED-ISQM 1 regarding the use of the service provider. For example, although engagement teams extensively use Microsoft Excel in performing engagements, given the nature of the IT application (i.e., widely used, not customized and developed by a reputable software company), there may not be any quality risks associated with the use of the IT application and the firm may therefore determine it not necessary to follow the requirements of paragraph 65-65 for that service provider. However, if a service provider provides the firm with macros to be used in Microsoft Excel, this may have associated quality risks that need to be addressed by the firm.

This document was prepared by a Task Force of the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.