



Self-Assessment Against Main Requirements of SMO 1 – Quality Assurance

The IFAC Statement of Membership Obligation (SMO) 1, Quality Assurance sets out the requirements of an IFAC member organization with respect to quality assurance review (QA) systems for its members who perform audits, review, other assurance, and related services engagements. SMO 1 establishes the framework and requirements for the development of strong external QA review systems. The purpose of QA reviews of audit firms is to assess compliance with applicable quality control¹ and other professional standards and to assist firms in improving the quality of services they provide. Monitoring audit practice also increases public confidence in audit reports and enhances the respect and credibility of members of the accountancy profession.

Although all IFAC member organizations may not be directly involved in all QA aspects, as member organizations of IFAC, they must [fulfill or demonstrate plans](#) to meet [IFAC Statement of Membership Obligation 1](#), which requires PAOs to establish or support the establishment and operation of a QA review system. IFAC members should be a knowledgeable stakeholder regarding the ongoing, sustainable inspection processes and results in their jurisdictions.

Where the IFAC member organization has no authority or shared authority for establishing such a system, the IFAC member organization should identify and assume the appropriate set of actions to address the requirements of SMO 1 (e.g., advocate to those responsible to implement the SMO 1 best practices; establishing voluntary reviews for members to gain experience and understanding prior to a mandatory review by an oversight agency; expanding scope of reviews to members offering non-audit services).

This checklist is intended to assist PAOs, in:

- ✓ **facilitating a high-level assessment** of the QA review system in their jurisdictions against the SMO 1 global benchmark, with a view to develop roadmaps to close gaps as necessary, thus furthering high-quality audit reports and services in their jurisdiction;
- ✓ **raising awareness about SMO 1 and its requirements** among stakeholders, and assisting them in understanding how the SMO 1 requirements should be incorporated to quality assurance review systems; and
- ✓ **encouraging open collaboration and communication** in jurisdictions where monitoring is carried out by a public oversight board, the government, or other regulatory agency.

This checklist supplements the detailed requirements contained in SMO 1 and does not cover all the requirements in relevant IAASB standards. IFAC member organizations should familiarize themselves with the [SMOs](#) and the [IAASB Handbook](#) directly. IFAC member organizations can find success stories from PAOs related to QA on the IFAC Global Knowledge Gateway under [Supporting International Standards](#) & [Developing the Accountancy Profession](#).

¹ Effective December 15, 2022, the IAASB will issue and refer to standards for auditing, quality management, review, other assurance, and related services and provides guidance on quality management policies and procedures.



SMO 1 Best Practice	Yes	No	Partially	Additional / Explanatory Comments
<p>Scope of the System</p> <p>At a minimum, mandatory QA reviews are required for all audits² of financial statements.</p>				
<p>Quality Control Standards and Other Quality Control Guidance³</p> <p>Firms are required to implement a system of quality control in accordance with the quality control standards.</p>				
<p>Most up to date versions of ISQC 1 and other relevant ISA are adopted as the quality control standards.</p>				
<p>Member Body assists firms in understanding the objectives of quality control and in implementing and maintaining appropriate systems of quality control.</p>				
<p>Review Cycle</p> <p>A cycle-based, risk-based, or a mixed approach for selecting firms for QA review is used.</p>				
<p>For cycle-based approach, quality control reviews are required to take place at least every six years (and every three years for audits of public interest entities).</p>				

² As per SMO 1, in jurisdictions where coverage of all audits of financial statements creates an undue burden, priority is to be given to statutory audits and audits of financial statements of public interest entities. Nevertheless, all firms performing audits of financial statements can be subject to the possibility of selection for quality assurance review. Furthermore, it is also in the public interest for the largest range of professional services performed by professional accountants to be subject to quality assurance review systems that are proportionate with the nature of the services. Therefore, where feasible, regulators of the profession are encouraged to extend their scope to cover as many professional services as possible.

³ Recognizing the significant shift from quality control standards to quality management standards, IFAC member organizations should begin to identify and undertake actions to: (a) have [ISQM 1](#) and other relevant standards adopted and implemented as required by SMO 3—*International Standards on Auditing and Other IAASB Pronouncements*; and (b) establish requirements for firms to design, implement and operate a system of quality management in their jurisdictions within a reasonable timeframe. Firms will be [responsible for implementing policies and procedures that comply with ISQM 1](#), which has eight interrelated components that deal with the key aspects of a system of quality management. The quality assurance review system will then need to shift to monitor compliance with policies and procedures related to a system of quality management. Consideration needs to be given to gaining insight and sufficiently understanding the culture and risk environment of the firm to best assess the suitability of the system of quality management. The quality assurance review system will need to consider the degree to which the resulting system of quality management has been designed to effectively address risks and manage towards achieving quality. This may necessitate additional training of QA teams and additional steps in the QA review process to speak with Lead Partners and those assigned ultimate responsibility and accountability for the system of quality management. In the current text of SMO 1, where IFAC members are required to assist firms as related to systems of quality control, IFAC members should also be preparing firms to understand the objectives of quality management and implement a system of quality management.



SMO 1 Best Practice	Yes	No	Partially	Additional / Explanatory Comments
QA Review Team Independence of the QA Team is assessed and documented.				
QA Team possesses appropriate levels of expertise.				
Reporting Documentation of evidence supporting the quality control review report is required.				
A written report is issued upon conclusion of the QA review and provided to the firm/partner reviewed.				
Corrective and Disciplinary Actions Reviewed firms/partners are required to make timely adjustments to meet recommendations from the review report.				
QA review system is linked to the Investigation and Discipline system.				
Consideration of Public Oversight The body responsible for QA reviews cooperates with its oversight body and shares information on the functioning of the QA review system, as needed.				
Regular Review of Implementation and Effectiveness Regular reviews of implementation and effectiveness of the system are performed.				