

Systems of Quality Management

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November 2019

Systems of Quality Management



What are the existing **six** components of ISQC1?

1

Leadership responsibilities for quality within the firm.

2

Relevant ethical requirements.

3

Acceptance and continuance of client relationship specific engagements

4

Human resources

5

Engagement performance

6

Monitoring

Six Big Changes to Quality management



The changes

1

A new risk-based approach to firm's SOQM.

2

Modernising the standards due to changes in the environment. (Technology & shared service centres)

3

Improving firm governance, including increasing firm leadership responsibility and accountability.

4

More rigorous monitoring of quality management systems and remediation of deficiencies

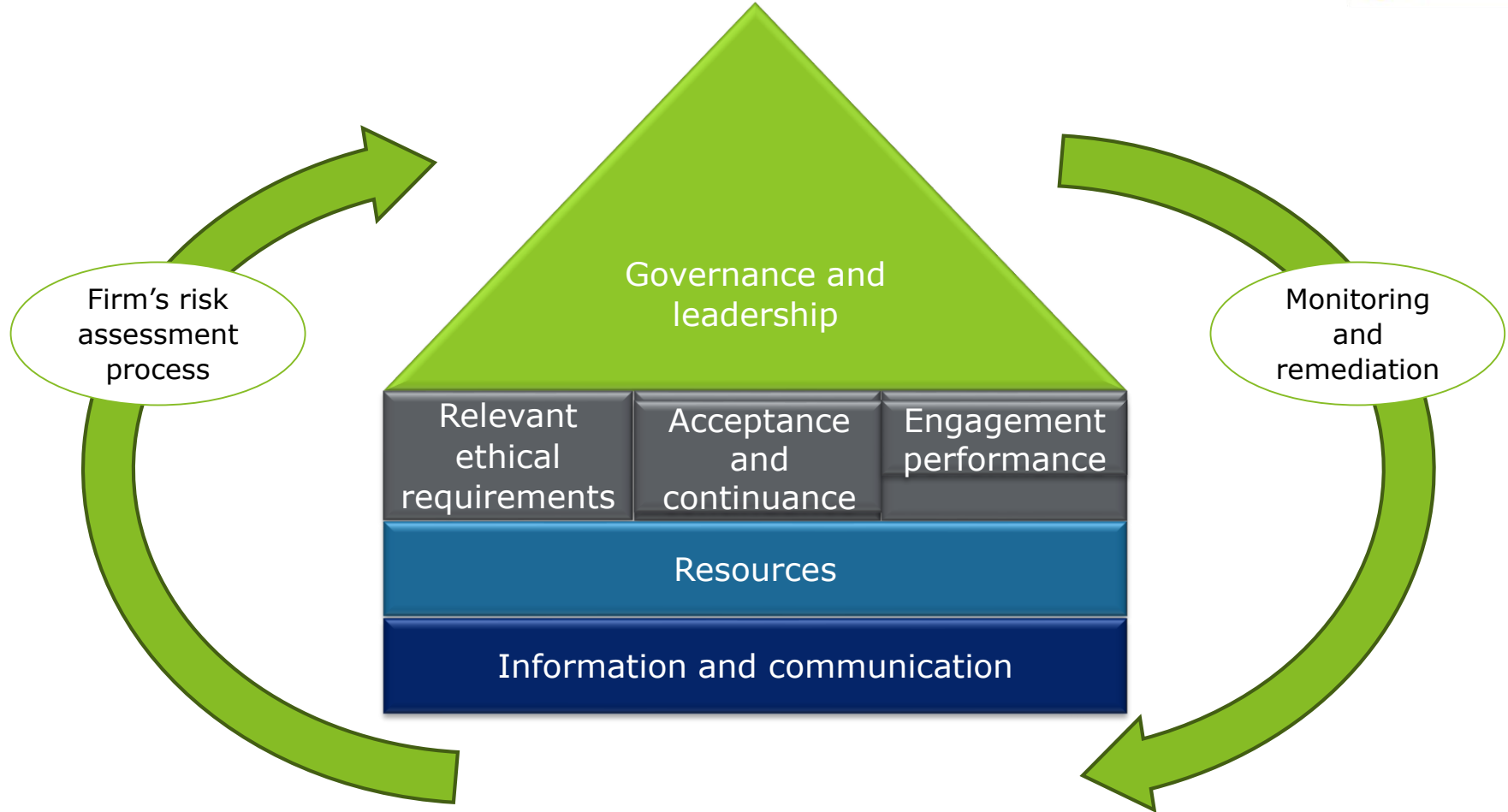
5

Enhanced responsibility of the engagement partner for audit, engagement leadership and quality.

6

More Robust engagement Quality reviews, including engagement selection, documentation and performance

Proposed EIGHT Components

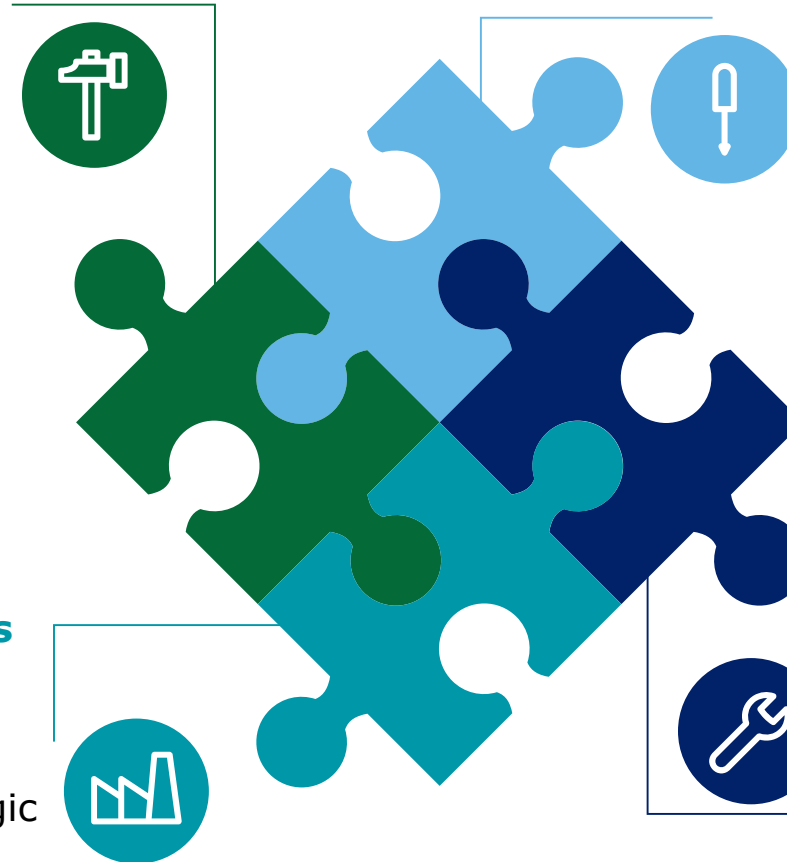


Changes

Culture of the firm

Enhanced requirements to address the culture of the firm and the focus on quality and

- explicitly addresses the responsibility of all personnel for quality
- Leadership required to demonstrate a commitment to quality through their actions and behaviors and to establish the expected



Firm strategic decisions and actions

New requirement that addresses the linkage between the firm's strategic decisions and actions to quality.

Assignment of roles, responsibilities and authority

New requirement addressing the firm's organizational structure to roles and responsibilities and authority

Planning, obtaining and allocating resources

New requirement that addresses overall planning, obtaining, allocating and assigning resources.

What has been enhanced?

Resources includes, **human technology and intellectual resources**- Expanded to include technological and intellectual resources

Human resources- enhanced for **attracting, developing and retaining** personnel with appropriate competence and capabilities

New requirements addressing **evaluation of personnel, compensation, promotion and link to quality**

Technological resources-New requirement for **Obtaining, developing, implementing and maintaining** technological resources

IT terminology aligned with proposed **ISA 315, for intellectual tools includes new methodology, or support tools**

Financial resources explicitly addressed in **governance and leadership**



Resources

New component –missing in ISQC 1

Extant ISQC 1 does not address in the context of broader need for **communication across the system and also communication among engagement teams** in relation to what they are seeing as they perform the work.

New requirements to encourage and promote two-way communication within a firm

- New requirement to have an **information system**
- New requirements **addressing external communication**:
 - **Principles –based approach** that addresses **all communication with networks and service providers, and to other external parties**
 - **Transparency report** not required, but firms encouraged to communicate externally when the firm determines it appropriate to do so

Substantial Enhancements to monitoring and remediation's to modernize the standard and address evolving practice and increased expectations ;

Monitoring activities required to cover all responses i.e less focus solely on inspection of engagements

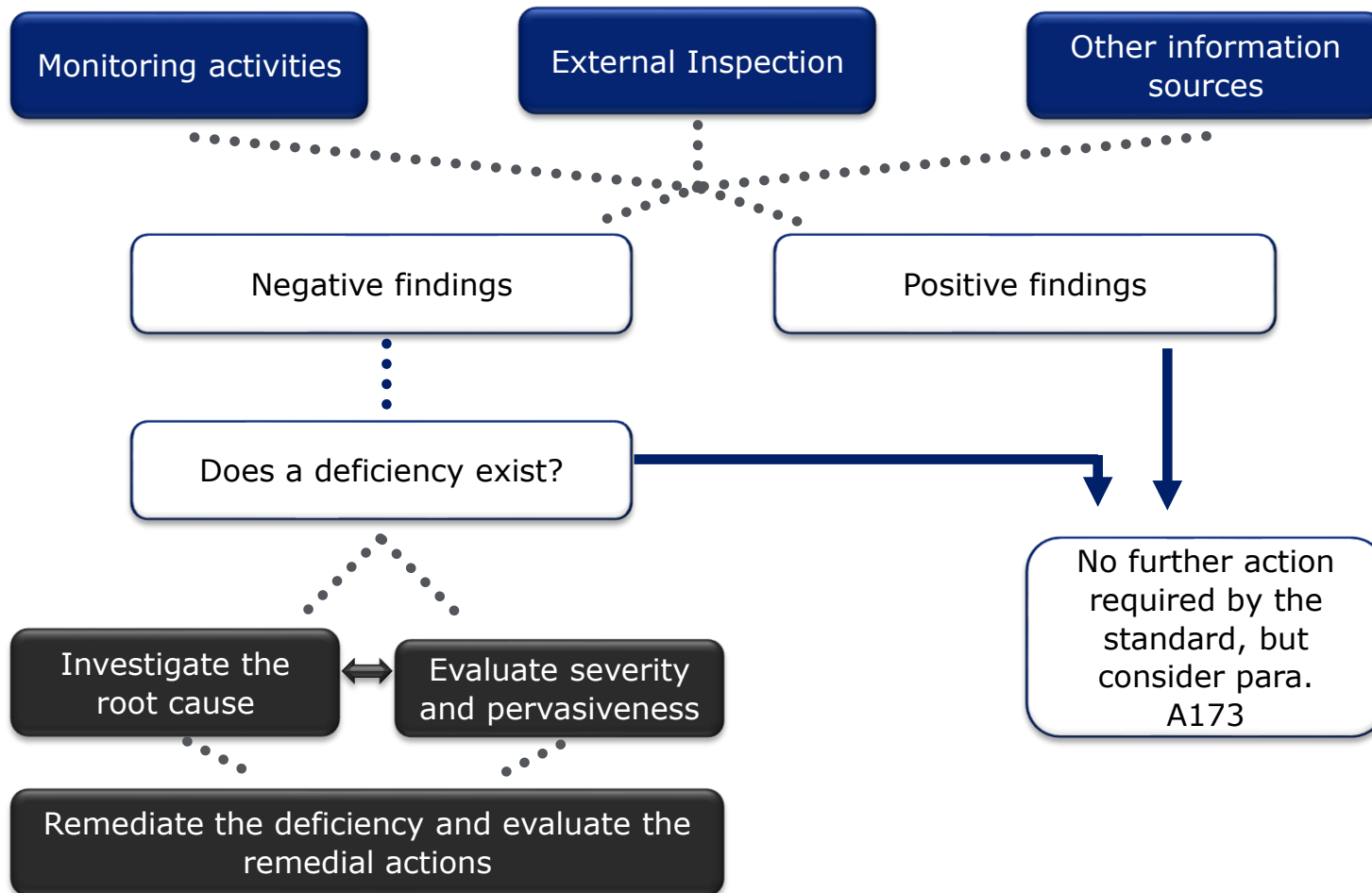
More focus on **tailoring the nature, timing and extent** of monitoring activities to the circumstances of the firm.[could vary based on the firm]

- still required to perform inspection findings, although **move towards in-process engagements** and more focus on the frequency of reviews
- **Results of external inspections and other information** considered in determining the nature, timing and extent of monitoring activities

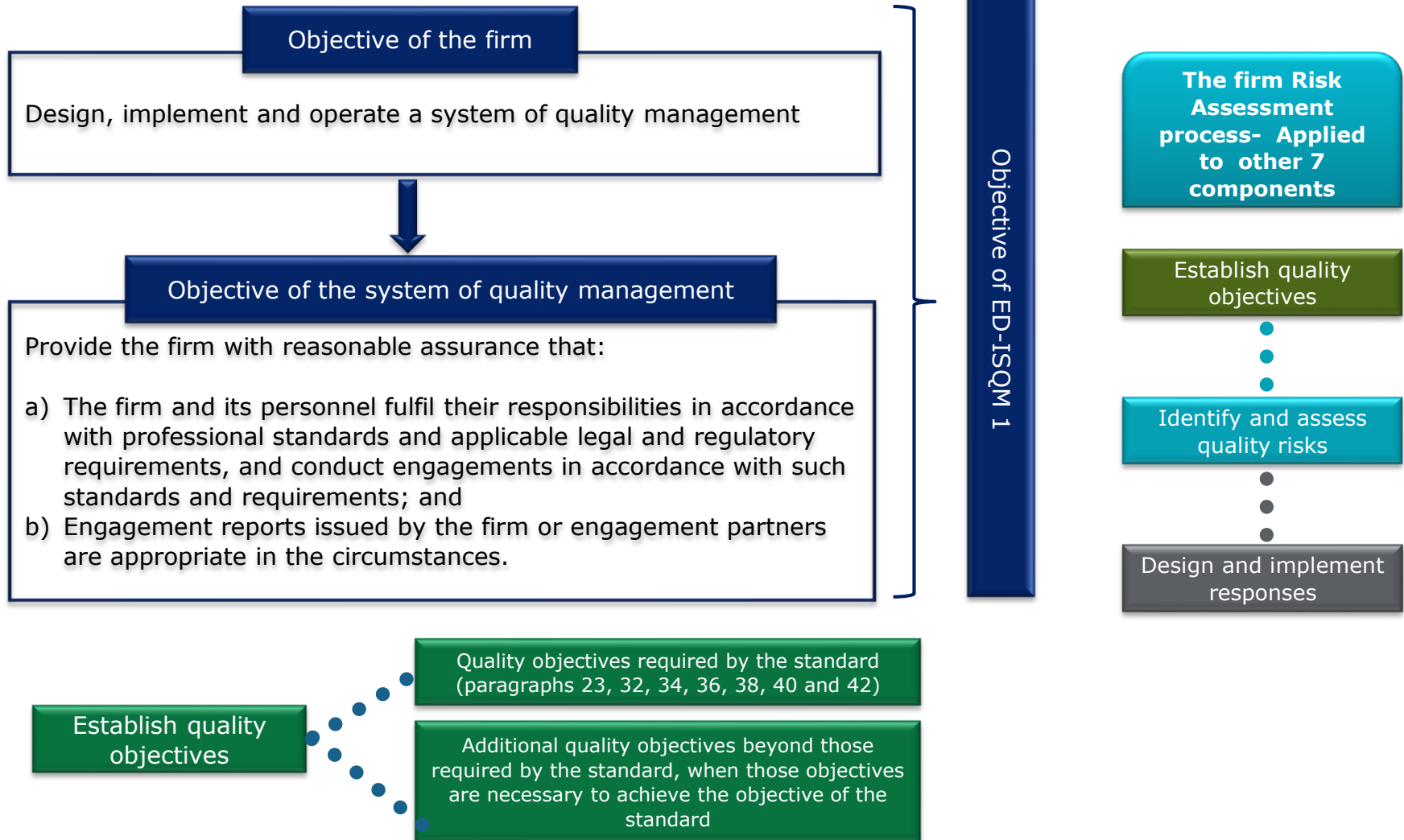
Enhanced requirements addressing **eligibility of those performing monitoring activities.**

New **framework to guide firms through assessing findings from monitoring activities, external inspections and other information** in order to identify deficiencies and effect on quality objectives

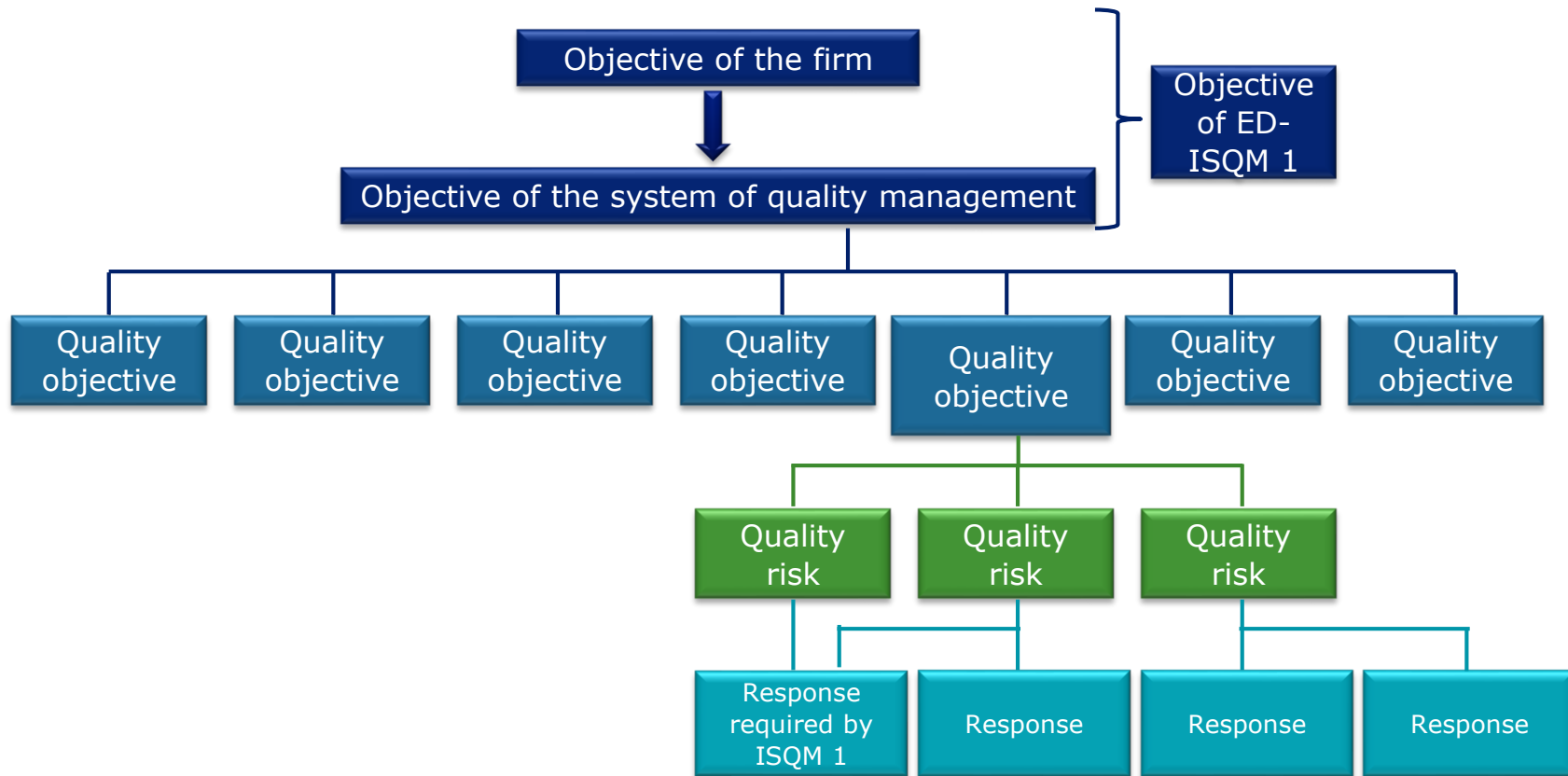
Monitoring and Remediation Process



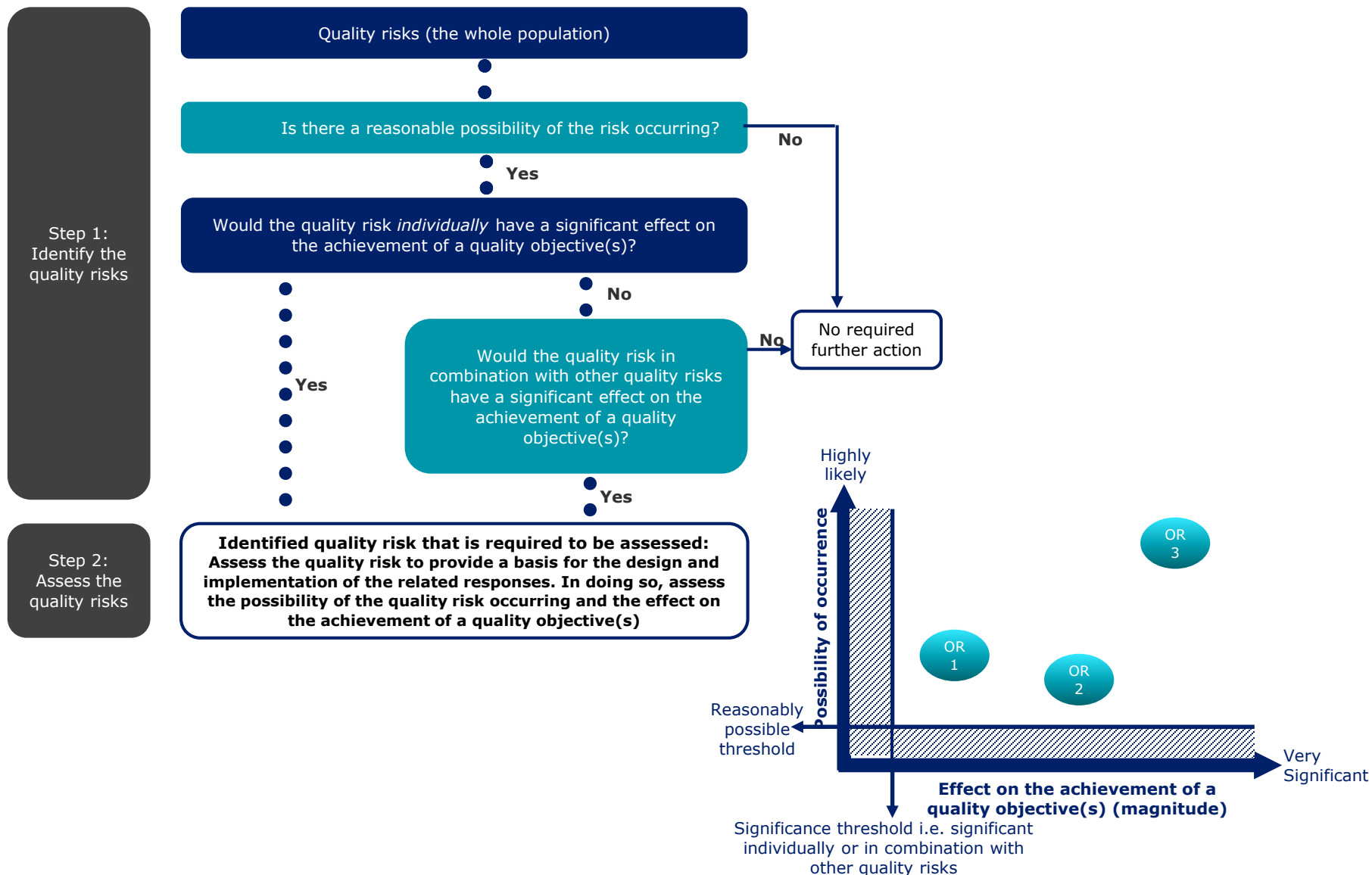
Objective of ISQM 1



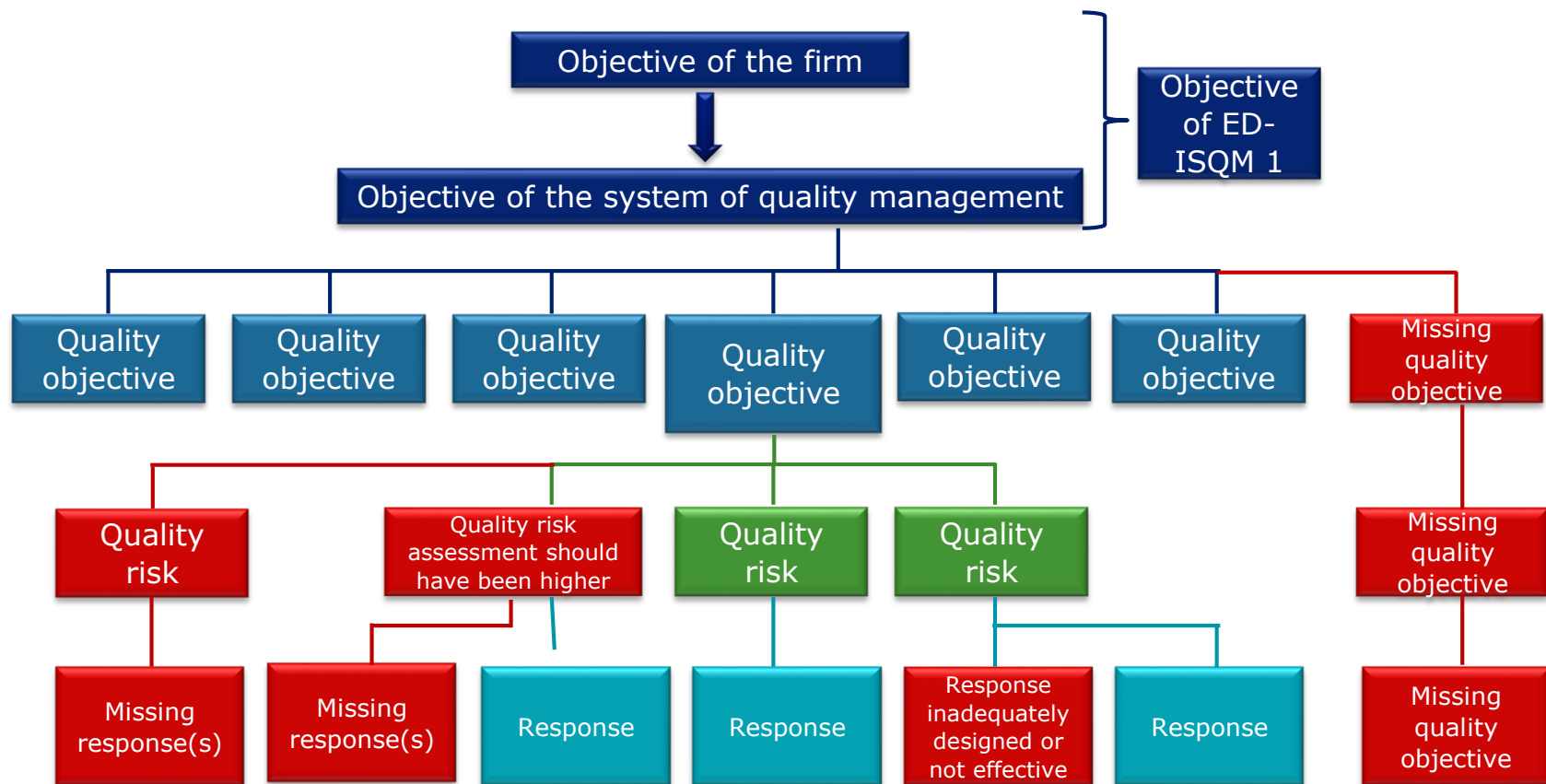
Establish Quality Objectives



Process of Identifying Quality Risks



Process for Identifying Quality Risks



Consideration of networks and ADMs at firm level

New requirement to address the firm's leadership responsibilities (i.e. so that there is no undue reliance on network);

-Firms are now required to determine effect, supplements or adaption of network services in their own SOQM

Encourage a proactive two way communication on a timely basis as needed and clarifies which types of information should be communicated between networks, engagement teams including component auditors

Strengthened requirements / application material in relation to firm;

More proactively consider relevant aspects of the network's system of quality management

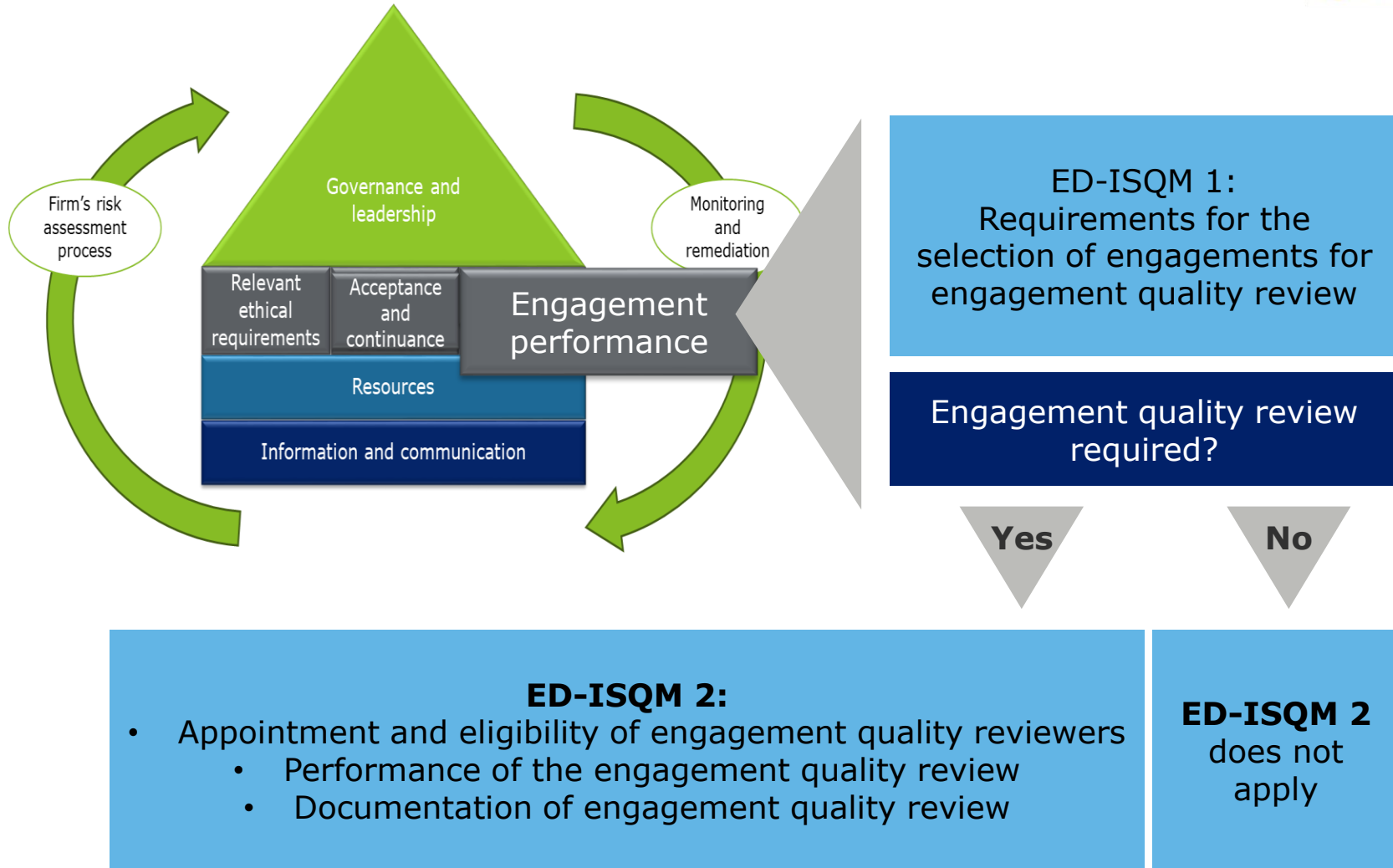
The Board has also considered the use of **alternative delivery models, centers of excellence** – ISQC1 did not include this as it was just emerging



ISQM 2

Proposed International Standard on Quality Management (ISQM) 2: Engagement Quality Reviews

Relationship Between ED-ISQM 1 and ED-ISQM 2



Engagement Quality Reviews: An Overview



An engagement quality review is a **firm-level response to quality risks** relating to the engagement performance of the firms SQM.

ISQM-2 incorporates and enhances requirements of extant ISQC1 and ISA 220

How does ISQM- 2 address Public interest considerations for engagement quality reviews?

- Engagement quality reviews are still required for **audits of listed entities;**
- Engagement quality reviews will be required for **more engagements;**
- **Enhanced eligibility criteria for one** to be appointed as EQR;
- More robust **performance and documentation** requirements;

Enhancements to the selection of engagements for engagement quality review –firm required to establish policies or procedures that require an engagement quality review for;

Audits of listed entities(Required in ISQC1)

Audits of financial statements of entities the firm determines are of significant public interest(new)

-Significant public interest is a concept already in other ISAs 700(revised), moving away from PIEs as this is subjective in different jurisdictions or firms (but will need lots of clarification)

Audits of entities for which EQR is required under Law or regulation

Audit or other engagements for which the firm determines that an EQR is **an appropriate response to quality risks(new)**

Firm policies required to be set for the eligibility criteria for appoint as an EQR;

Audits of AFS of entities the firm determines are of significant public interest (new)

-For example, understanding of standards/law/regulation, knowledge of industry

New requirement has sufficient time & at appropriate time of reviewer

Enhanced requirement on objectivity of the engagement QR

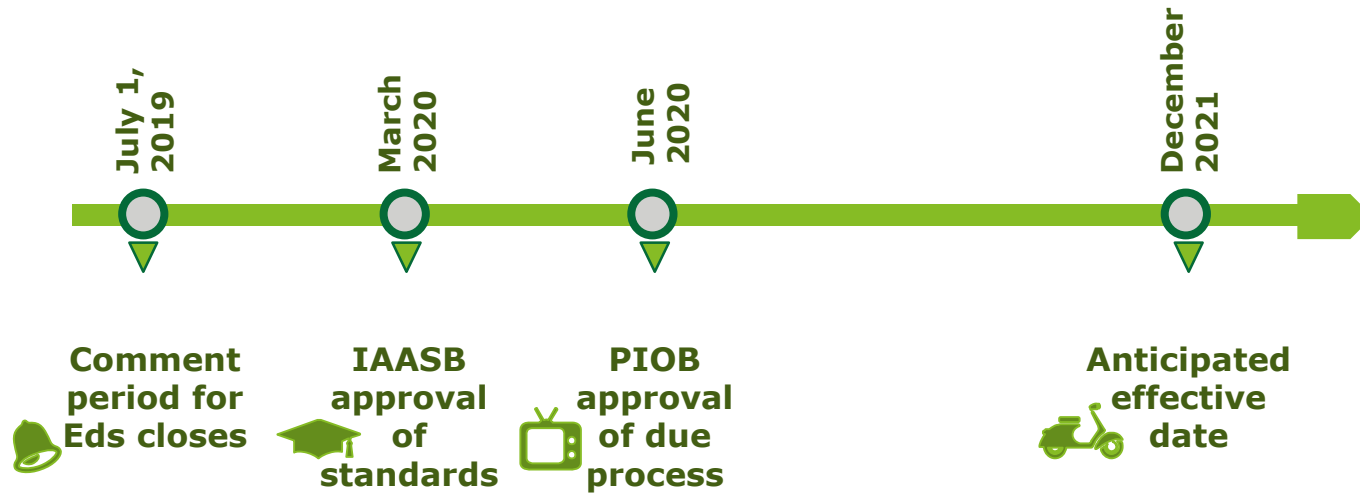
-New requirement to comply with Ethical requirements,

-Limitations e.g served as previous partner in line with cooling –off(guideline for 2 years), and applicable provisions of law or regulation relevant ethical requirements

Enhanced application material on appropriate authority of the EQR (firm policies in addressing differences of opinion may enhance authority)

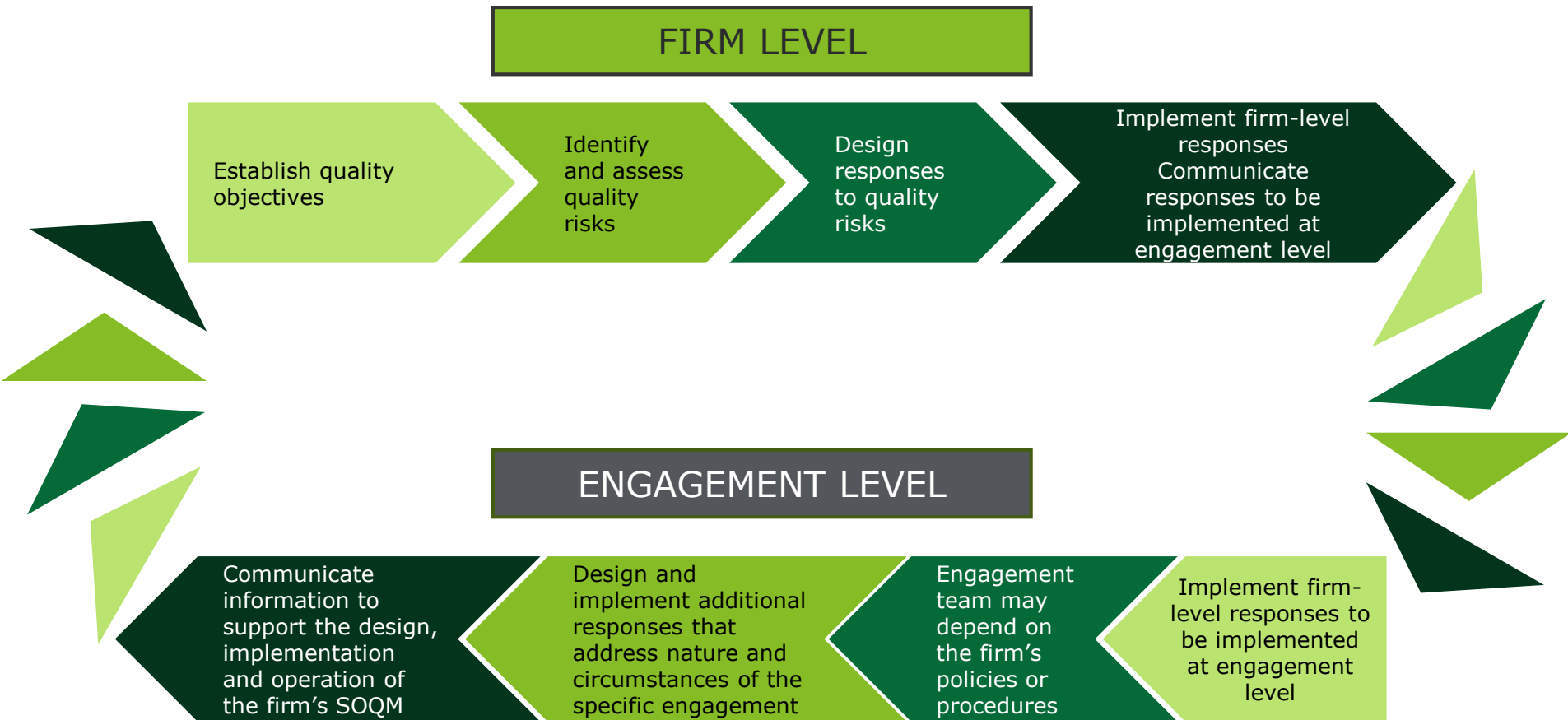
Rules on those who assist the EQR also add but does not dilute the responsibility of EQR

Illustrative Timeline



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

Linkage between ED-ISQM 1 and Management at the Firm Level Engagement Level



The engagement Partner's overall Responsibility for Managing and Achieving Quality on Audits, Including Engagement Performance and Standing Back – ISA 220 (proposed)



Sufficient and appropriate involvement throughout the engagement

LEADERSHIP RESPONSIBILITY

EP is responsible for achieving quality at the engagement level

STANDBACK

EP shall be satisfied that involvement has been sufficient and appropriate to provide basis for taking overall responsibility

DIRECTION, SUPERVISION, AND REVIEW

EP is responsible for nature, timing, and extent, in view of engagement circumstances

THANK YOU