

Audit Quality Assurance Workshop

ISQM1 and2

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Agenda



- **International Standard on Quality Management 1 (ISQM 1)**
- **International Standard on Quality Management 2 (ISQM 2)**

Why ISQM?



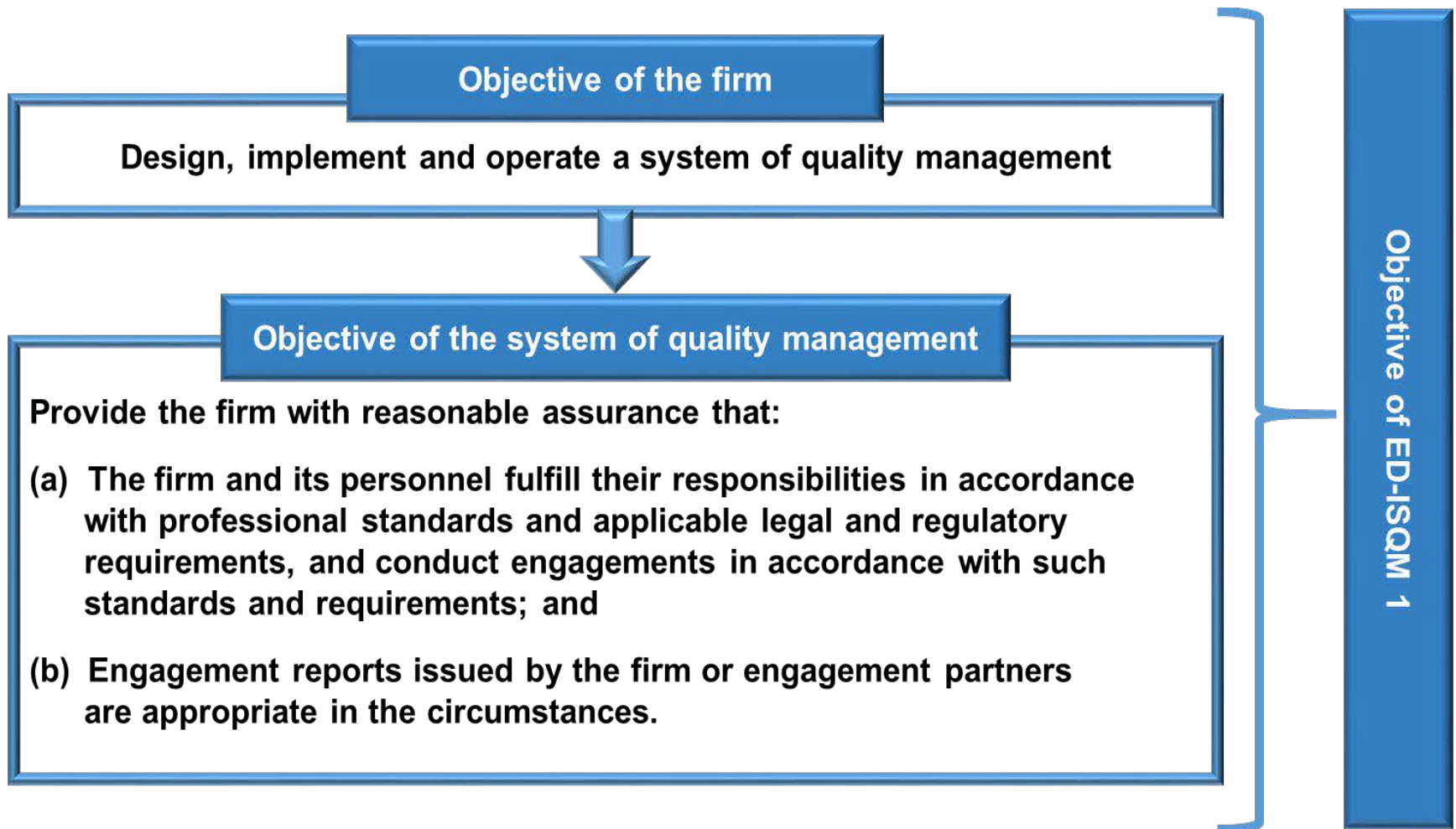
- A new approach focused on quality management by:
 - Setting out the needed system of quality control to manage quality of engagements performed
 - Revising business practices and relevant activities aimed at identifying and responding to risks to quality.
 - Requiring firms to pay attention to risks that impact on their quality and design, implement and operate systems of quality management fir for their circumstances

The new quality management approach aims to improve the scalability of ED-ISQM 1 because it requires a firm to **customize** the design, implementation and operation of its system of quality management based on the **nature and circumstances of the firm and the engagements it performs**

Proposed International Standard on Quality Management 1 (ISQM 1)

(Previously International Standard on Quality Control 1 (ISQC 1))

ISQM 1 - Objectives

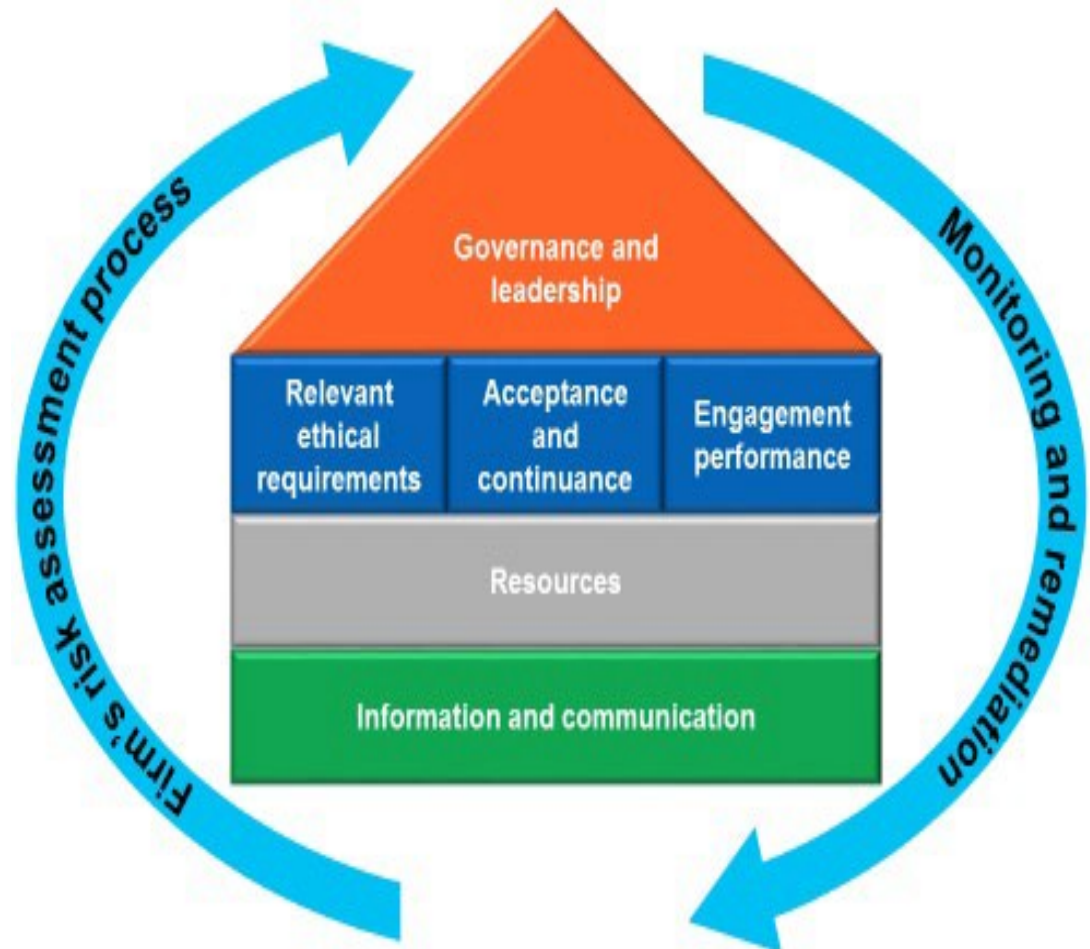


The Components of a System of Quality Management

ISQM 1 Components

ISQC 1 Components

1. Leadership responsibilities for quality within the firm.
2. Relevant ethical requirements.
3. Acceptance and continuance of client relationships and specific engagements.
4. Human resources.
5. Engagement performance.
6. Monitoring.

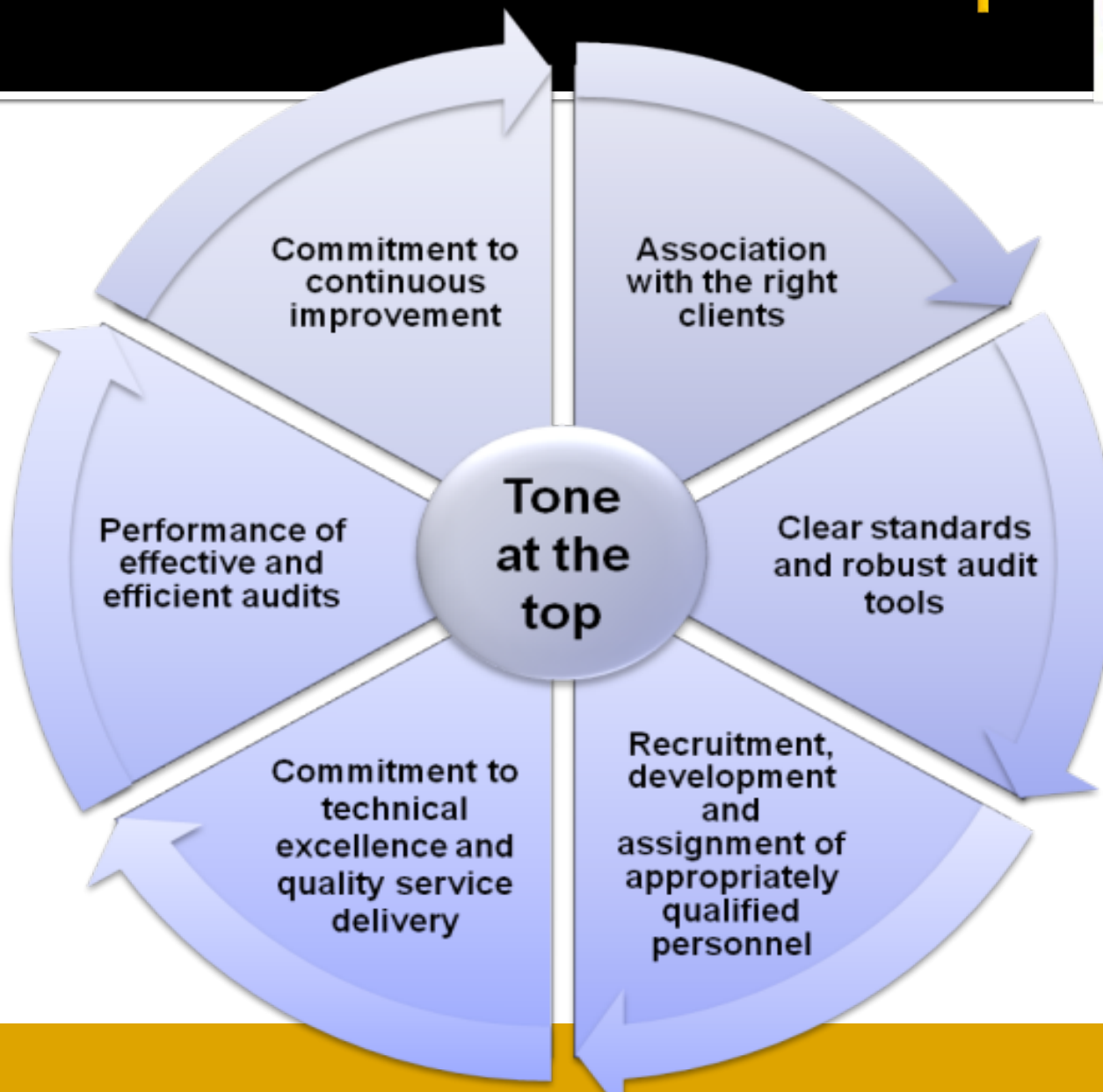


Governance and Leadership



- **Embedding culture and ethics and self-regulations to manage quality. Tone at the top that, among others:**
 - ❖ Promote commitment to quality (trainings, etc.)
 - ❖ Responsible and accountable for quality
 - ❖ Assigning operational responsibilities for the firms system of quality control to persons with appropriate experience, ability to identify, understand and develop QC issues

Governance and Leadership



Relevant ethical requirements



The fundamental principals of professional ethics:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality;
- Professional behaviour; and
- Independence (needs to document compliance).

“An ethical corporate culture is one in which the employees are empowered and expected to act in ethically responsible ways, even when the law does not require it.”

(DesJardins 2009)

Acceptance and continuance of client relationships and specific engagements



- Acceptance and continuance:
 - Competencies
 - Resources to perform the work
 - Ethical issues
 - Clients Integrity
- New client proposals
- Resignation of a client relationship

Engagement performance



- Personnel understand and perform their responsibilities
- Appropriate direction and supervision
- Role of the Engagement Partner
- Planning, supervision and review
- Consultation policies
- Policies to address differences of opinion
- Engagement quality control review (EQCR)

Resources



1. Human resources

- Recruitment and retention
- Performance evaluation
- Capabilities and Competence
- Career development and Promotion
- Compensation and rewarding compliance

2. Technological resources

3. Intellectual resources

Monitoring and Remediation process



- Design and perform monitoring activities
- Evaluating Findings and Identifying Deficiencies
- Responding to Identified Deficiencies
- Ongoing Communication Related to Monitoring and Remediation
- Evaluating the System of Quality Management

The firm's risk assessment processes



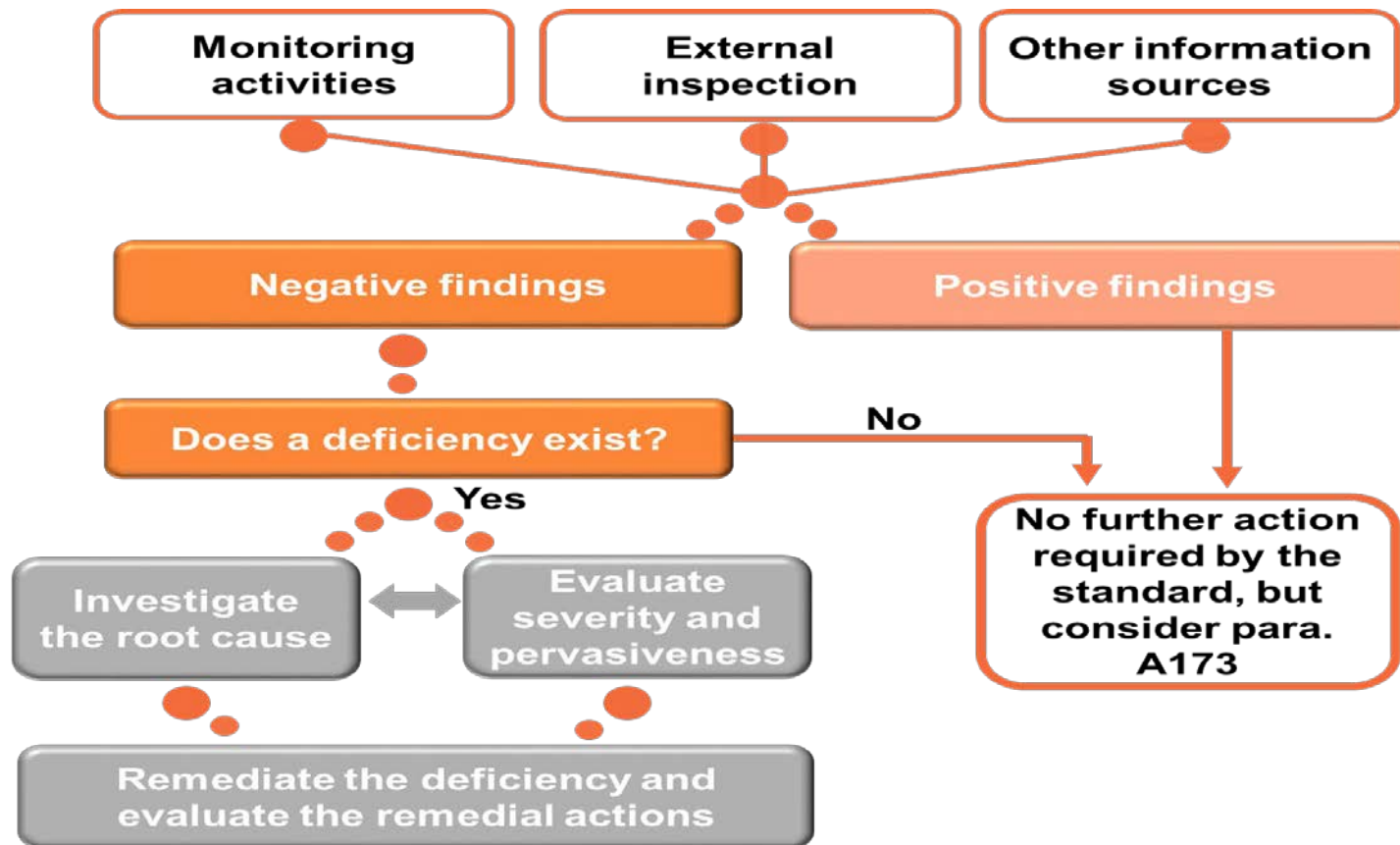
- ❑ ED-ISQM 1 includes a new approach that focuses firms' attention on risks that may have an impact on engagement quality.
- ❑ The firm's risk assessment process is applied to the other seven components of the system of quality management.
- ❑ The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.



Identifying risks



Evaluating Findings and Identifying Deficiencies



Root Cause Analysis – ISQM requires firms to take action to understand the causal factors of inspection findings as a means of improving audit quality.

Information and Communication



- ❑ ISQM 1 includes a new component, *information and communication*, which requires the firm to establish an information system and emphasizes the need for effective two-way communication within the firm.
- ❑ The IAASB recognizes that firms communicate with external parties in a variety of ways and the communication is continually evolving.
- ❑ ED-ISQM 1 requires communication with external parties to be developed in a manner that is adaptable to the circumstances of the firm. The requirements aim to promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

- ED-ISQM 2 addresses the firm's policies or procedures and criteria for the eligibility of an individual to be appointed as an engagement quality reviewer.
- The policies or procedures to include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner.

Proposed International Standard on Quality Management 2 *Engagement Quality Reviews*

ISQM 2 - Benefits



- ❑ The requirements for engagement quality reviews currently reside in extant ISQC 1 and ISA 220.
- ❑ The IAASB concluded that having a separate standard for engagement quality reviews would provide a number of benefits, including:
 - a) Placing emphasis on the importance of the engagement quality review.
 - b) Facilitating the enhancement of the robustness of the requirements for the eligibility of EQCR and the performance of the review.
 - c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the engagement quality reviewer.
 - d) Increasing the scalability of ED-ISQM 1. A firm may determine that there are no engagements for which an engagement quality review should be performed (e.g., a firm that performs only compilation engagements).

EQCR – appointment and eligibility



ED-ISQM 2 requires a firm's policy on appointment and eligibility of the engagement quality reviewer to address:

- The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers.
- The eligibility of individuals to assist the engagement quality reviewer in performing the engagement quality review.
- The engagement quality reviewer taking responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
- Limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner.

Key considerations for the appointment and eligibility of the engagement quality reviewer include:

- Competence and Capabilities, Including Sufficient Time
- Appropriate Authority - a mechanism for the engagement quality reviewer to resolve issues when differences of opinion arise.
- Relevant Ethical Requirements, Including Objectivity – cooling off periods for previous engagement partners
- Use of External Resources to Perform the Engagement Quality Review (eligibility similar to internal appointments)
- Timing of the Engagement Quality Review
- Significant Judgments and Significant Matters
- Documentation

Questions?

