



# **SMP practical training on ISQM1 and 2:**

**Presentation by:**

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# Course Outline



- ❑ An understanding of:
  1. ISQM1 : Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
  2. ISQM2 : Engagement Quality Reviews

# International Standard on Quality Management 1 - ISQM1



- ❑ International Standard on Quality Management 1 was previously International Standard on Quality Control 1 is for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

# International Standard on Quality Management 1 - ISQM1



- ❑ ISQM1 focuses on identifying and responding to risks to quality.
- ❑ The new quality management (QM) approach aims to improve the **scalability** of ISQM 1 because it requires a firm to customize the **design, implementation and operation of its system of QM** based on the nature and circumstances of the firm and the engagements it performs

# International Standard on Quality Management 1 - ISQM1 Cont'd



- ❑ ISQM1 should not be read in isolation but in conjunction with relevant standards.
- ❑ ISA 220 (Revised), for example, deals with the specific responsibilities of the auditor regarding **quality management at the engagement level** for an audit of financial statements and the related responsibilities of the engagement partner.

# Application of ISQM1



- ❑ This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements that is; if the firm performs any of these engagements, this ISQM applies.

# Responsibility & Objectives under ISQM1



- ❑ Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
  - a. The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - b. Reports issued by the firm or engagement partners are appropriate in the circumstances.

# Responsibility under ISQM1



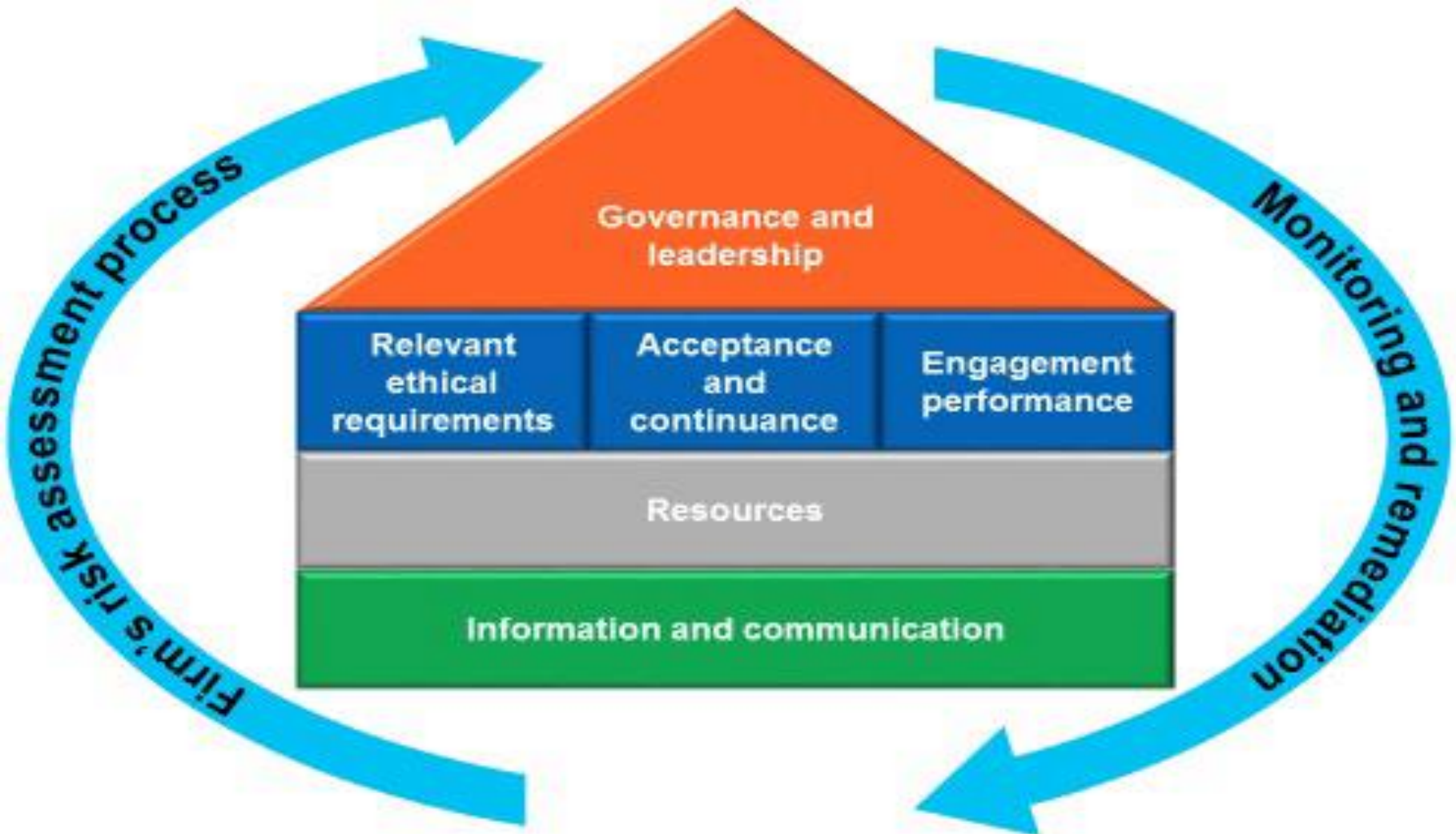
- ❑ In developing the requirements, the IAASB considered who in the firm should be ultimately responsible for the system of quality management, and whether that responsibility should be extended to quality more broadly.
- ❑ The IAASB resolved to retain the requirement of ISQC 1, which assigns this role to the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners.

# Responsibility under ISQM1



- ❑ However, recognizing that SMPs may not have these types of roles in their leadership structures, additional option to acknowledge SMPs that is the firm's managing partner.
- ❑ The managing partner is therefore responsible and accountable for the system of quality management that supports the consistent performance of quality.

# The Components of a System of Quality Management



# The Components of a System of Quality Management Cont'd



Elements of ISQM1 are;

1. Governance and leadership (adapted from “leadership responsibilities for quality within the firm” in extant ISQC 1);
2. The firm’s risk assessment process (new);
3. Relevant ethical requirements;
4. Acceptance and continuance of client relationships and specific engagements;
5. Engagement performance;

# The Components of a System of Quality Management Cont'd



6. Resources (adapted from “human resources” in extant ISQC 1);
7. Information and communication (new); and
8. Monitoring and remediation process (adapted from “monitoring” in extant ISQC 1).

# Components of ISQM 1 explained



1. Governance and leadership (G&L)
  - The tone at the top and other aspects of the firm's system which are established but are not formally documented policies or procedures are critical.
  - G&L is of paramount importance to engagement quality, as it is the way in which the firm embeds its culture and ethics and self-regulates, and serves as the framework for how the firm's decisions are made.

# Components of ISQM 1 explained



## 2. The Firm's Risk Assessment Process

- The firm shall understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives, taking into account the nature and circumstances of the firm and its engagements, to provide the basis for the identification and assessment of quality risks.

# Components of ISQM 1 explained



## 3. Relevant Ethical Requirements

- The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence

# Components of ISQM 1 explained



4. Acceptance and Continuance of Client Relationships and Specific Engagements.
  - The firm obtains sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client.
  - This is used to make judgement as to whether to accept or continue.

# Components of ISQM 1 explained



## 5. Engagement Performance

- The engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.

# Components of ISQM 1 explained



## 6. Resources

- Human resources - hire, develop and retain personnel, who have the competence and capabilities .
- Technological resources
- intellectual resources

# Components of ISQM 1 explained



## 7. Information and Communication

- Information system that supports the system of quality management by identifying, capturing, processing and maintaining relevant and reliable information, whether from internal or external sources.

# Components of ISQM 1 explained



## 8. Monitoring and Remediation Process

- The firm's monitoring and remediation process provides relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management
- The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

# ISQM 2 : ENGAGEMENT QUALITY REVIEWS



- ❑ This International Standard on Quality Management (ISQM 2) deals with:
  1. The appointment and eligibility of the engagement quality reviewer; and
  2. The engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

# ISQM 2 : ENGAGEMENT QUALITY REVIEWS Cont'd



- ❑ Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- ❑ Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

# ISQM 2 : ENGAGEMENT QUALITY REVIEWS Cont'd



- ❑ Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking an engagement quality review.
- ✓ International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)

# Appointment of Quality Reviewer



- ❑ The firm shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfil the responsibility.
- ❑ The policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer.

# Performance of the Engagement Quality Review



- ❑ The firm shall establish policies or procedures regarding the performance of the engagement quality review that address.
  1. The engagement quality reviewer's responsibilities to perform procedures to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

# Performance of the Engagement Quality Review



2. The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review;
3. Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer.

# Performance of the Engagement Quality Review



- ❑ The Quality Reviewer shall;
  1. Read and understand the information;
    - Obtained from the engagement team about the nature and circumstances of the engagement; and
    - Provided by the firm about the results of its monitoring and remediation, in particular about identified deficiencies that may relate to, or affect, the areas involving significant judgments by the engagement team.

# Performance of the Engagement Quality Review



2. Discuss significant matters with the engagement partner and, if applicable, other members of the engagement team.
3. Identify the areas involving significant judgments made by the engagement team,
4. Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon.

# Performance of the Engagement Quality Review



5. Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations.
6. For audits of financial statements, evaluate the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.

# Completion of the Engagement Quality Review



- ❑ The engagement quality reviewer shall determine whether the requirements in this ISQM with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If so, the engagement quality reviewer shall notify the engagement partner that the **engagement quality review is complete.**

***THE END***



**THANK YOU**