

Audit Quality Assurance (AQA) Workshop - Mt. Kenya Branch

ISQM 1 & 2
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Uphold Public Interest

Overview

- **SMP practical training on:**
 - **ISQM 1; and**
 - **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 for for their circumstances

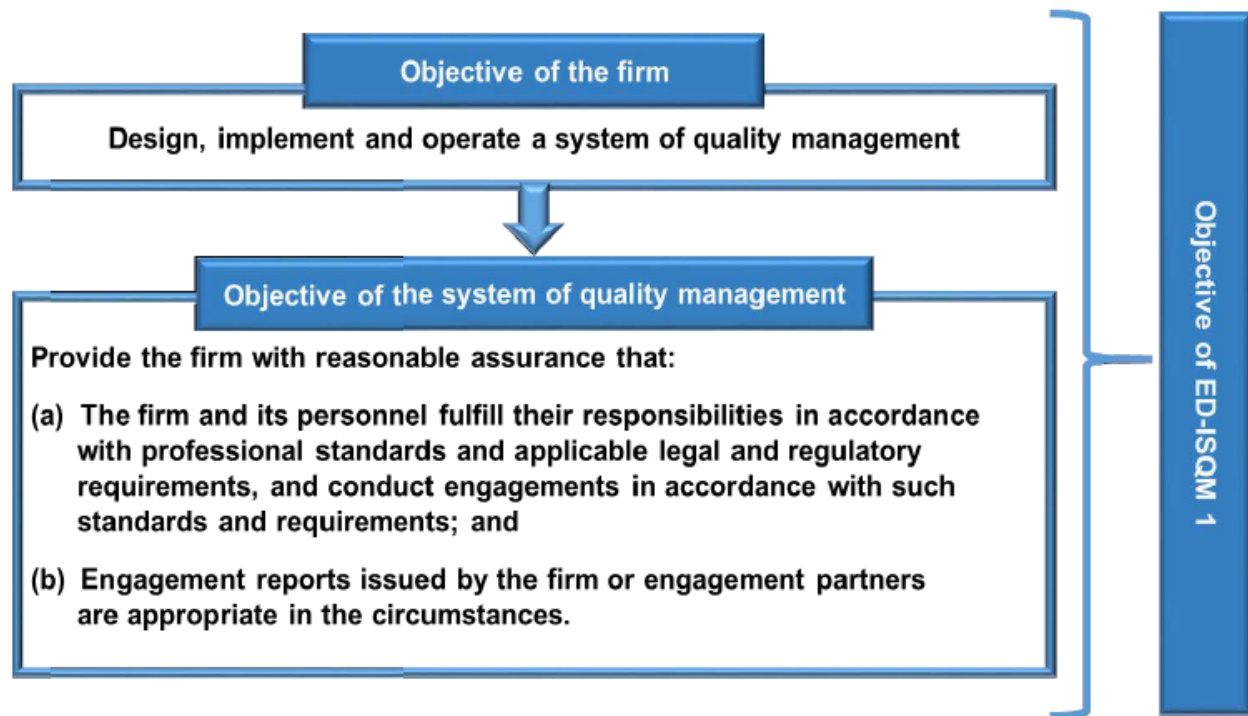
ISQM 1

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**

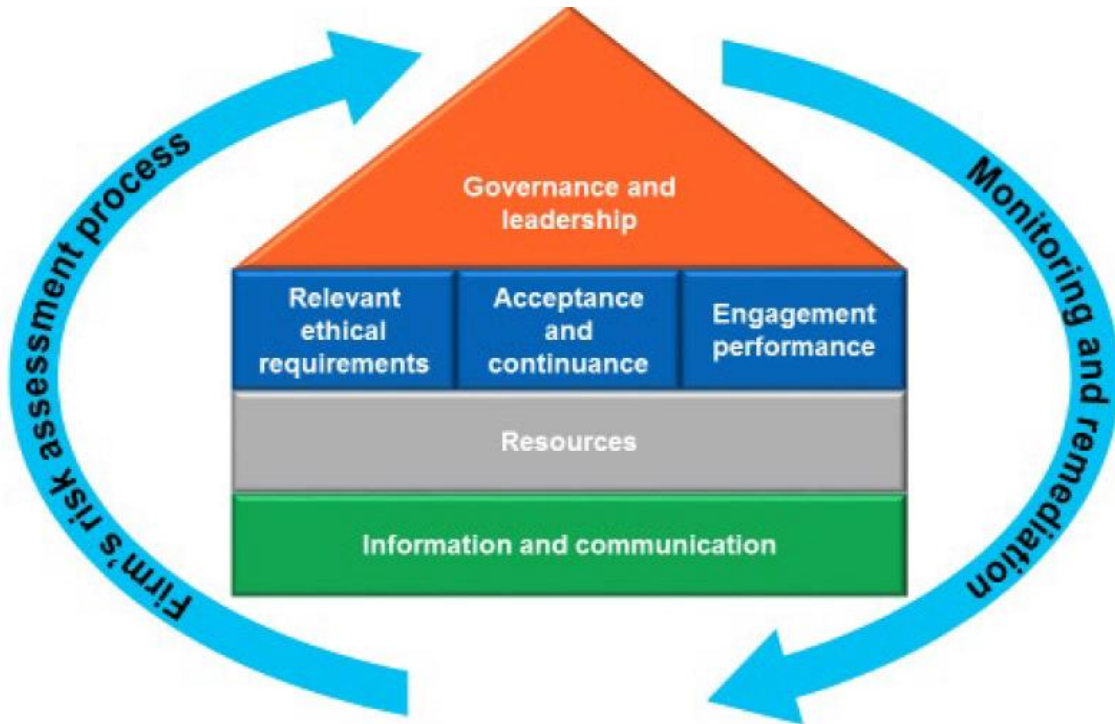
Proposed International Standard on Quality Management 1 (ISQM 1)

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

Objectives?



Components of a system of quality management



1. Governance & leadership

- **Embedding culture and ethics and self-regulations to manage quality. Tone at the top that, among others:**
- Promote commitment to quality (trainings, etc.)
- Assign quality control responsibilities to persons with appropriate experience, ability to identify, understand and develop QC issues

1. Governance & leadership (continued)

- Key considerations:
- 1. Commitment to continuous improvement
- 2. Performance of effective and efficient audit
- 3. Commitment to technical excellence and quality service delivery
- 4. Recruitment, development and assignment of appropriately qualified persons
- 5. Clear standards and robust audit tools
- 6. Association with the right clients

2. Relevant ethical requirements

- The fundamental principals of professional ethics:
 - Integrity;
 - Objectivity;
 - Professional competence and due care;
 - Confidentiality;
 - Professional behaviour; and
- ***Independence (document compliance).***

3. Acceptance & continuance

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

4. 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)

5. Resources

1. Human resources

1. Recruitment and retention
2. Performance evaluation
3. Capabilities and Competence
4. Career development and Promotion
5. Compensation and rewarding compliance

2. Technological resources

3. Intellectual resources

6. Monitoring and remediation

- 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

7. Information and communication

- Establish an information system that ensures for effective two-way communication within the firm.
- ED-ISQM : Exchange of valuable and insightful information about the firm's systems of quality management with the firm's stakeholders.

8. Firm's risk assessment process

- ❑ 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.



ISQM 2

- 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

- The requirements for engagement quality reviews currently reside in ISQC1 and ISA220.
- 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) Enhancement the **requirements for the eligibility** of EQCR and the performance of the review.
 - c) Clearly differentiate the **responsibilities** of the firm and the engagement quality reviewer.

Engagement Quality Reviewer

Key considerations for the appointment 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
- Timing of the Engagement Quality Review
- Significant Judgments and Significant Matters
- Documentation

Key changes

- A new proactive risk-based approach to firms' system of quality management in ISQM 1.
- Modernising the standards for an evolving and increasingly complex environment including addressing the impact of technology, networks, and the use of external service providers.
- Increasing firm leadership responsibilities and accountability, and improving firm governance.
- More rigorous monitoring of quality management systems and remediation of deficiencies.
- Enhancing the engagement partner's responsibility for audit engagement leadership and audit quality.
- Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance.

Why the change

1. To more proactively manage quality
2. To address stakeholder expectations and concerns.
3. To improve the scalability of the standards.
4. To modernise the standards and keep them fit for purpose.

Need for change

Issues Identified that Needed to be Addressed

- **Firm governance and leadership's responsibilities and accountability for quality**
- **Firms' monitoring process**, for example:
 - Monitoring the **entire system** (not only engagement inspections)
 - Addressing **results of external inspections**
 - Understanding **causal factors** of findings, implementing **remedial actions** to respond to findings, and **monitoring the effectiveness** of remedial actions
- The **engagement partner's responsibilities**, including clarity regarding appropriate **direction, supervision and review**
- **Undue reliance on networks**
- Increasing demand for **communication with external stakeholders**, including through **transparency reports**
- The application of the standards by **small and medium practices (SMPs)**, i.e., **scalability**

Need for change

Issues Identified that Needed to be Addressed

- **Engagement quality control reviews**, including:
 - **Engagements subject to review** (including entities that have public interest)
 - **Eligibility** of the engagement quality control reviewer
 - Areas addressed in **performing the review** and the review **timing**
- Other issues:
 - Need for **robust two-way communication** within the firm
 - Matters related to **human resources**, for example, assessment of personnel and personnel rewards and incentives
 - Increasing use of **alternative delivery models**

Resources

- <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/guide-practice-management-small-and-medium-sized-practices>



Contacts

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