



# **AUDIT FUNDAMENTALS, ESSENTIAL SKILLS OF A DEPENDABLE AUDIT STAFF & INTERNATIONAL STANDARDS ON QUALITY MANAGEMENT (ISQM 1&2)**

**Presentation by:**

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# Presentation agenda



- ✓ Introduction
- ✓ Essential Skills of Dependable Audit Staff
- ✓ International Quality Management (ISQM 1) : Quality Management at Firm Level
- ✓ International Quality Management (ISQM 2): Engagement Quality Reviews

# Essential Skills of Dependable Audit Staff



## ☐ **Communication**

Ability to effectively communicate internally and externally

## ☐ **Information Technology**

Use IT in day to day tasks to achieve efficiency and effectiveness

## ☐ **Time management**

Ability to manage time well in order to meet objectives effectively and efficiently

## ISQM 1: Quality Management at Firm Level



*This standard focuses on Quality Management for Firms that Perform:*

- ☐ *Audits of Financial Statements*
- ☐ *Reviews of Financial Statements*
- ☐ *Other Assurance or Related Services Engagements*

*The Standard replaces extant ISQC 1*

# ISQM 1:Quality Management at Firm Level Scope



This ISQM deals with the Firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements or other assurance or related services engagements .

This ISQM requires the firm to apply a risk-based approach in the design, implementation and operation of a system of quality management, taking into consideration:

# ISQM 1: Quality Management at Firm Level

## Objective of the Standard



### Objective of the Firm



To design ,implement and operate a system of quality Mgt.

### Objective of the System of Quality Management



To provide the Firm with reasonable assurance that:

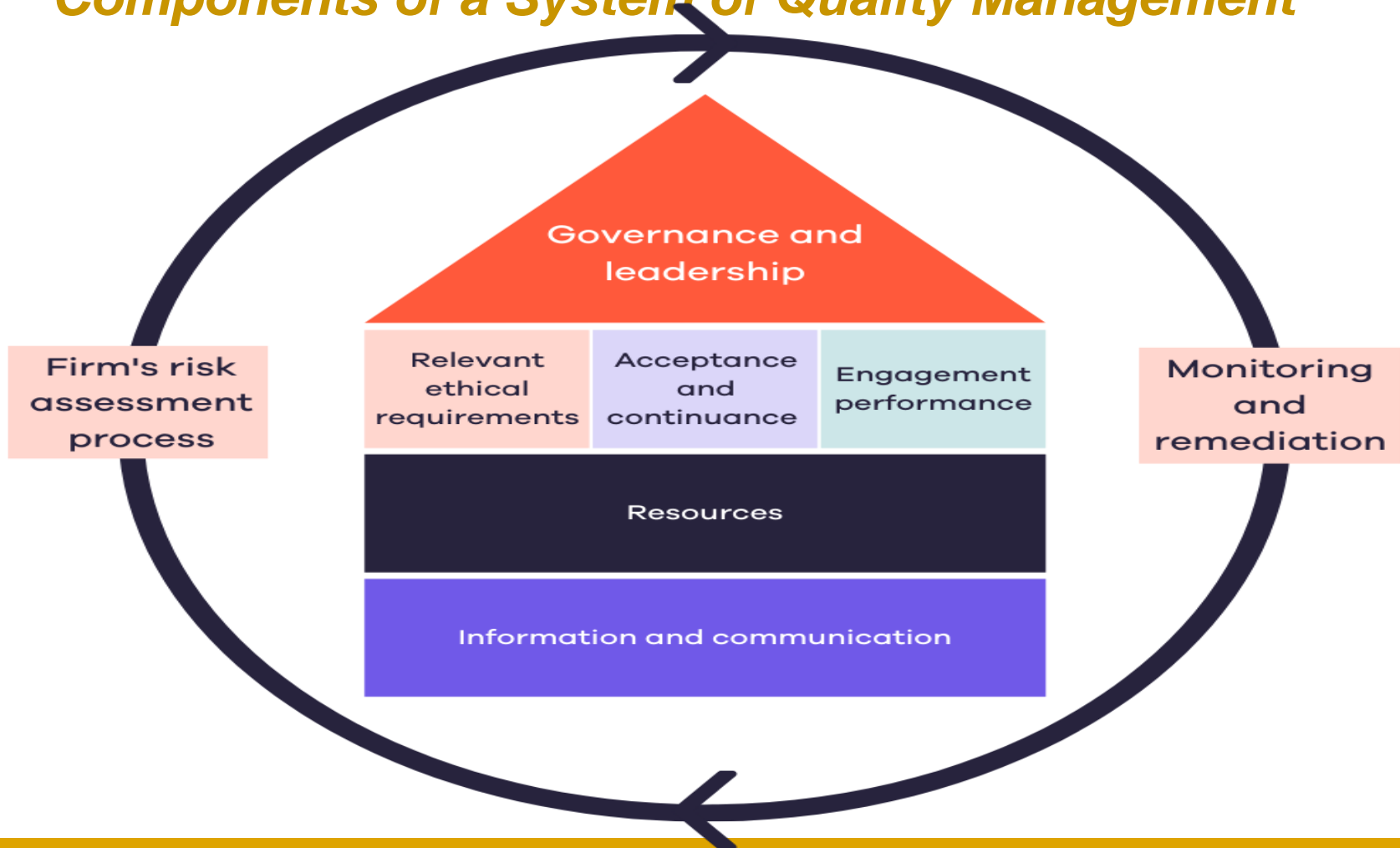
- The Firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements ,and conduct engagements in accordance with such standards and requirements
- Engagement reports issued by the Firm or engagement partners are appropriate in the circumstances

# ISQM 1: Quality Management at Firm Level

## The Firm's System of Quality Management



### *Components of a System of Quality Management*



# ***Components of a System of Quality Management***



## ***1. GOVERNANCE AND LEADERSHIP***

The firm shall establish the following quality objectives that address the aspects of the firm's environment that support the design, implementation and operation of the other components of the system of quality management, including the firm's culture, decision-making process, actions, organizational structure and leadership:



## 1. **GOVERNANCE AND LEADERSHIP**

- ☐ The firm's culture promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm
- ☐ The firm has leadership who are responsible and accountable for quality
- ☐ The firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality.
- ☐ The firm has an organizational structure with appropriate assignment of roles, responsibilities and authority that supports the firm's commitment to quality

# **1. GOVERNANCE AND LEADERSHIP**



- ❑ The firm plans for its resource needs, including financial resources, and obtains, allocates or assigns resources in a manner that supports the firm's commitment to quality and enables the design, implementation and operation of the firm's system of quality management.
- ❑ The firm fulfills its responsibilities in accordance with law, regulation and professional standards that relate to the governance and leadership of the firm, if applicable

## ***2.RELEVANT ETHICAL REQUIREMENTS***



The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics:

- ☐ The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence.
- ☐ The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements, including those related to independence

## ***2.RELEVANT ETHICAL REQUIREMENTS***



- ❑ The firm, its personnel and others subject to relevant ethical requirements identify and appropriately respond to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.

# ISQM 1: Quality Management at Firm Level

## The Firm's System of Quality Management



### *3. THE FIRM'S RISK ASSESSMENT PROCESS*



### 3. THE FIRM'S RISK ASSESSMENT PROCESS



- This sets out the process the firm is required to follow in implementing the risk-based approach to quality management, which consists of establishing **quality objectives**, identifying and assessing **quality risks** to the achievement of the quality objectives and designing and implementing **responses to address the assessed quality risks**.
- The firm is required to establish the quality objectives set out in this ISQM and additional quality objectives beyond those required by ISQM, when those objectives are necessary to achieve the objective of the ISQM.

# ISQM 1: Quality Management at Firm Level

## The Firm's System of Quality Management



### 3. THE FIRM'S RISK ASSESSMENT PROCESS

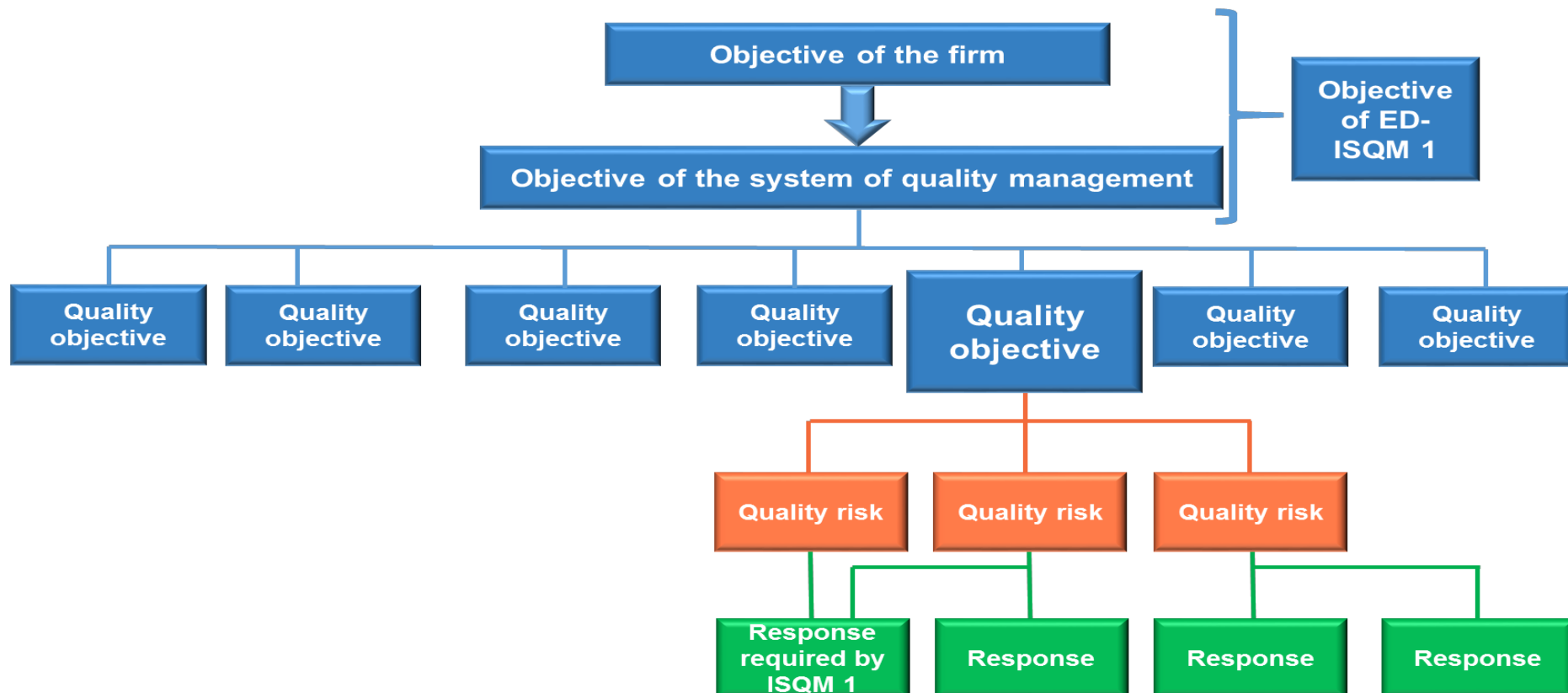


# ISQM 1: Quality Management at Firm Level

## The Firm's System of Quality Management



### 3. THE FIRM'S RISK ASSESSMENT PROCESS





# ISQM 1: Quality Management at Firm Level

## The Firm's System of Quality Management



### ***4. ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS***

The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances:

- ☐ The firm obtains sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client.

## **4. ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS**



- ❑ The firm makes appropriate judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements when determining whether to accept or continue a client relationship or specific engagement, including that the firm has:
  - i. Resources to perform the engagement; and
  - ii. Access to information to perform the engagement, or to the persons who provide such information.
- ❑ The firm's financial and operational priorities do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

## ***5. ENGAGEMENT PERFORMANCE***



The firm shall establish the following quality objectives that address the performance of quality engagements:

- ☐ Personnel understand and fulfill their responsibilities in connection with the engagement
- ☐ Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism, in planning and performing engagements such that conclusions reached are appropriate.
- ☐ The engagement documentation is appropriately assembled and retained.

## 6. RESOURCES



- ❑ The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including human resources, technological resources, and intellectual resources, in a timely manner to enable the design, implementation and operation of the system of quality management:
  - The firm hires, develops and retains personnel, including engagement partners, who have the competence and capabilities to:
    - (i) Consistently perform quality engagements
    - (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.

## 6. RESOURCES



- The firm assigns an engagement partner and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.
- The firm assigns human resources to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.
- Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives.

## 6. *RESOURCES*



- The firm obtains or develops, implements and maintains appropriate technological resources to enable the operation of the firm's system of quality management and the performance of engagements.
- The firm obtains or develops, implements and maintains appropriate intellectual resources to enable the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.
- Personnel appropriately use the firm's technological and intellectual resources.

## 7. INFORMATION AND COMMUNICATION



- ❖ The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management:
  - ❑ The firm has an 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.
  - ❑ The firm communicates relevant and reliable information to personnel, the nature, timing and extent of which is sufficient to enable personnel to understand and carry out their responsibilities

## 7. INFORMATION AND COMMUNICATION



- ☐ The firm's culture promotes and emphasizes the responsibility of personnel to exchange information with the firm and with one another.
- ☐ Personnel communicate relevant and reliable information to the firm when performing engagements or activities within the system of quality management
- ☐ The firm communicates relevant and reliable information to external parties regarding the firm's system of quality management, as the firm determines appropriate.



## 8. MONITORING AND REMEDIATION PROCESS



- ❖ The firm shall establish the following quality objectives that address the firm's 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.

## **8. MONITORING AND REMEDIATION PROCESS**



### ***Designing and Performing Monitoring Activities***

The firm shall determine the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities.

### ***Evaluating Findings and Identifying Deficiencies***

The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process.

## 8. MONITORING AND REMEDIATION PROCESS



### *Responding to Identified Deficiencies*

- ☐ The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis.
  
- ☐ The individual(s) assigned operational responsibility for monitoring and remediation shall evaluate whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s) and determine whether they have been implemented.

## **8. MONITORING AND REMEDIATION PROCESS**



### ***Ongoing Communication Related to Monitoring and Remediation***

The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management:

- ☐ A description of the monitoring activities performed;
- ☐ The identified deficiencies, including the severity and pervasiveness of such deficiencies; and
- ☐ The remedial actions to address the identified deficiencies.

## 8. MONITORING AND REMEDIATION PROCESS



### *Evaluating the System of Quality Management*

- ❖ The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides reasonable assurance that the quality management objectives have been achieved. This evaluation shall take into account:
  - ❑ The severity and pervasiveness of identified deficiencies; and
  - ❑ The evaluation of whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s), and have been implemented.

## 8. MONITORING AND REMEDIATION PROCESS



### *Evaluating Identified Deficiencies*

The firm shall establish policies or procedures addressing:

- ☐ The investigation of the root cause(s) of the identified deficiencies, including that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity; and
- ☐ The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management as a whole.

## 8. MONITORING AND REMEDIATION PROCESS



### *Responding to Identified Deficiencies*

- ❑ The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. In doing so, the firm shall determine whether the firm's quality objectives, assessed quality risks and responses remain appropriate and modify them, as appropriate.

### *Basis for Developing a Separate Standard for Engagement Quality Reviews*

Having a separate standard for engagement quality reviews provides numerous benefits, including:

- ❑ Placing emphasis on the importance of the engagement quality review.
- ❑ Facilitating the enhancement of the robustness of the requirements for the eligibility of engagement quality reviewers and the performance and documentation of the review.
- ❑ Increasing the scalability of ISQM 1 because there may be circumstances when a firm determines that there are no engagements for which an engagement quality review should be performed



## ISQM 2:Engagement Quality Reviews



### Scope of this ISQM

This International Standard on Quality Management (ISQM) deals with:

- ☐ The appointment and eligibility of the engagement quality reviewer; and
- ☐ The engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.
- ☐ This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM 1.

## ISQM 2:Engagement Quality Reviews



### The Firm's System of Quality Management and Role of Engagement Quality Reviews

- ❑ An engagement quality review is an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon.
- ❑ The engagement quality reviewer's evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements.
- ❑ However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.

## ISQM 2:Engagement Quality Reviews

### Appointment and Eligibility of Engagement Quality Reviewers

The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that 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.

Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and:

- ☐ Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review;
- ☐ Comply with relevant ethical requirements

## ISQM 2:Engagement Quality Reviews

### Performance of the Engagement Quality Review

The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:

- ✓ The engagement quality reviewer's responsibilities to perform procedures at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon;
- ✓ 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; and
- ✓ 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, and appropriate actions to take in these circumstances.

### Quality Review Procedures

In performing the engagement quality review, the engagement quality reviewer shall:

☐ Read and understand information:

- i. Obtained from the engagement team about the nature and circumstances of the engagement; and
- ii. Provided by the firm about the results of its monitoring and to, or affect, the areas involving significant judgments by the engagement team.

### Quality Review Procedures

In performing the engagement quality review, the engagement quality reviewer shall:

- ☐ Based on the information obtained in above identify the areas involving significant judgments made by the engagement team, including those related to:
  - (i) The overall strategy and plan for performing the engagement;
  - (ii) The performance of the engagement; and
  - (iii) Forming an opinion or conclusion, when applicable, and reporting on the engagement.

### Quality Review Procedures

- d) Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and evaluate:
  - (i) The engagement team's basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;
  - (ii) Whether the engagement documentation supports the conclusions reached; and
  - (iii) Whether the conclusions reached are appropriate.
- e) 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.

## ISQM 2:Engagement Quality Reviews



### Quality Review Procedures

- ☐ 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.
  
- ☐ Review:
  - i. For an audit of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; or
  - ii. For an assurance or related services engagement, the engagement report, and when applicable, the subject matter information.



## ISQM 2: Engagement Quality Reviews

### Documentation

- The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review.
- The firm shall establish policies or procedures that require documentation of the engagement quality review and that such documentation be included with the engagement documentation.
- The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review.

## ISQM 2:Engagement Quality Reviews



### Documentation

The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes:

- The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
- An identification of the engagement documentation reviewed;
- The engagement quality reviewer's determination in accordance with paragraph 24 of this ISQM ;
- The notifications required in accordance with paragraphs 23 and 24 of this ISQM.

