

# Emerging Issues in Audit

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# Topics for Today

- ISQM 1
- ISQM 2
- ISAE

# Isqm1 Background

- ISQM 1 applies to all firms that perform audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, ISQM 1 applies to managing quality for those engagements).
- Under ISQM 1, firms are required to design a system of quality management to manage the quality of engagements performed by the firm.
- replaces the current standard, International Standard on Quality Control (ISQC) 1, which addresses firms' systems of quality control.
- Firms are required to have their system of quality management designed and implemented by December 15, 2022

# Isqm1 Key components

- There are 8 key Components
  1. Governance & leadership
  2. The firm's risk assessment process
  3. Resources
  4. Information and communication
  5. Relevant ethical requirements
  6. Acceptance and continuance
  7. Engagement performance
  8. Monitoring and remediation process

# GOVERNANCE AND LEADERSHIP

The firm needs to demonstrate a commitment to quality through its culture which exists throughout the firm, this includes recognizing and reinforcing:

- The firm's role in serving the public interest by consistently performing quality engagements
- The importance of quality in the firm's strategic decisions and actions, including those related to the firm's financial and operational priorities

The roles, responsibilities and accountability of leadership, leadership's qualifications, and undertaking performance evaluations of leadership annually

- The firm needs to prioritize the evaluation of its leadership.

# The risk assessment process

Establish quality objectives	IDENTIFY AND ASSESS QUALITY RISKS	DESIGN AND IMPLEMENT RESPONSES
<ul style="list-style-type: none"><li>ISQM 1 prescribes outcome based quality objectives in the components – these are comprehensive</li></ul>	The firm understands the conditions, events, circumstances, actions or inactions that could adversely affect the achievement of the quality objectives	The firm designs and implements responses that address the quality risks
The firm establishes additional quality objectives that the firm considers are necessary to achieve the objectives of the system of quality management	The firm focuses on the nature and circumstances of the firm and engagements it performs	ISQM 1 includes some specified responses – the specified responses are not comprehensive

# Expanded resources

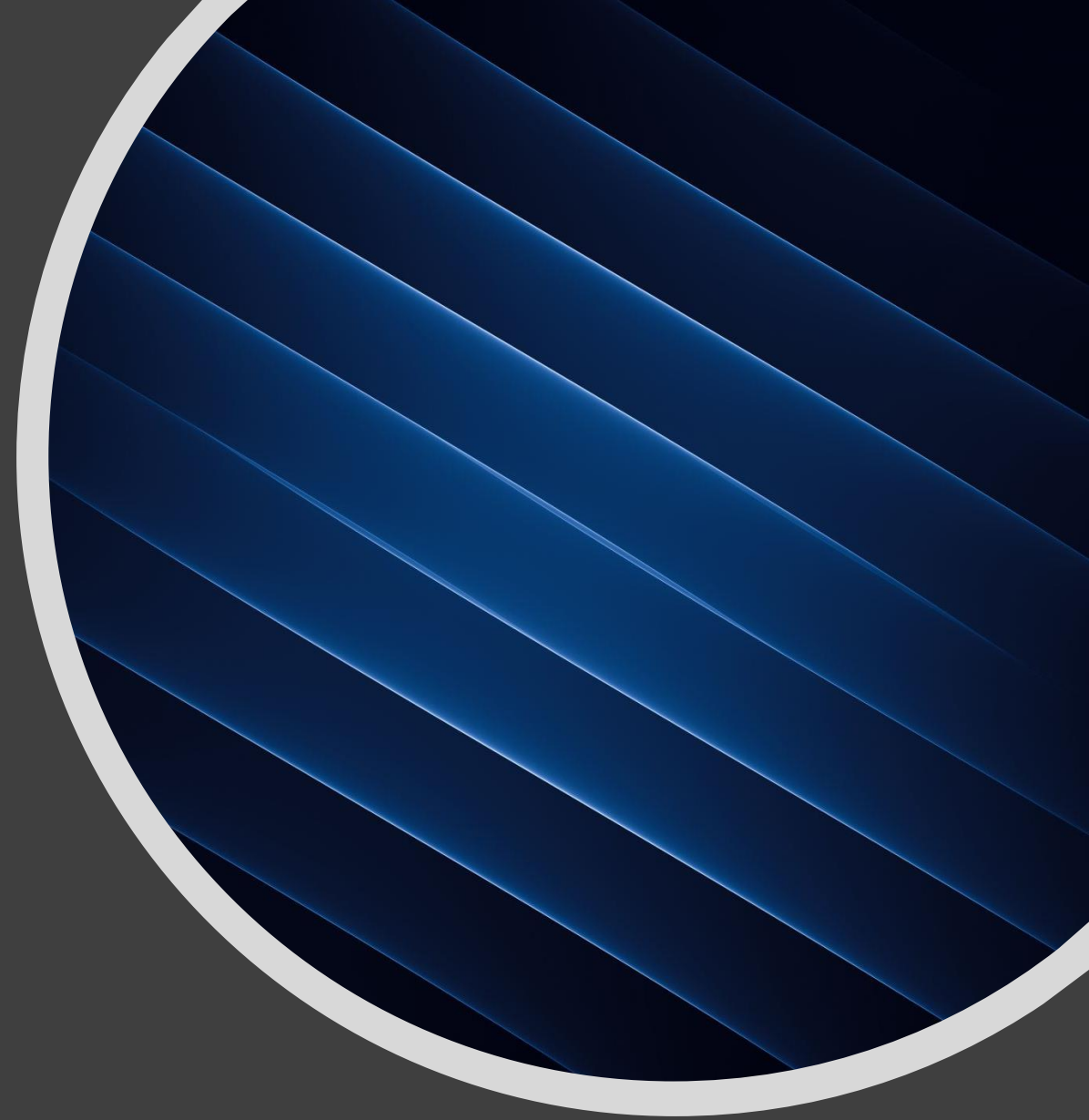
- Three categories of resources needed to operate the system of quality management and perform engagements:  
Human | Technological | Intellectual
- ISQM 1 explicitly deals with resources from service providers
- The firm considers what resources are needed, whether they are appropriate, and how they are used and maintained

# IMPROVING INFORMATION AND COMMUNICATION

ISQM 1 emphasizes the continual flow of information within the firm, and with engagement teams, and drives firms to establish an information system

The firm culture needs to embed the need to exchange information

The firm communicates with external parties when it is appropriate – Includes communicating to those charged with governance about the system when the firm performs an audit of financial statements of listed entities





PROACTIVE  
MONITORING OF THE  
SYSTEM AS A WHOLE,  
AND TIMELY AND  
EFFECTIVE  
REMEDIATION

- **Monitor**
  - The firm monitors the system as a whole
  - The firm tailors the nature, timing and extent of the monitoring activities, based on factors described in ISQM 1
  - Inspection of completed engagements – ISQM 1 has an increased focus on risk-based selection and factoring in other monitoring activities performed by the firm

PROACTIVE  
MONITORING OF THE  
SYSTEM AS A WHOLE,  
AND TIMELY AND  
EFFECTIVE  
REMEDiation

- EVALUATE FINDINGS AND IDENTIFY DEFICIENCIES
  - ISQM 1 includes a framework for evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of the deficiencies
  - The firm is required to investigate the root cause(s) of deficiencies
- DESIGN AND IMPLEMENT RESPONSES
  - The firm appropriately remediates deficiencies that is responsive to the root cause(s)
  - Leadership is required to determine that remedial actions are effective

# EVALUATING THE SYSTEM OF QUALITY MANAGEMENT ON AN ANNUAL BASIS



Leadership evaluates and concludes whether the system of quality management is achieving its objectives



Evaluation required to be undertaken at least annually



The firm takes further action if the conclusion is unsatisfactory

# ADDRESSING THE USE OF NETWORKS

ISQM 1 focuses on reinforcing the firm's responsibility for its own system of quality management

The firm understands network requirements or network services and the effect on the firm's system of quality management

The firm understands monitoring activities undertaken by the network across network firms, including those to determine that network requirements have been appropriately implemented across network firms

# ISQM 1

## Closing thoughts

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Quality objectives are outcome-based – the firm determines how to achieve the quality objectives

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Quality risks are tailored to the firm - in identifying and assessing quality risks, the firm focuses on understanding conditions, events, circumstances, actions or inactions that relate to the nature and circumstances of the firm and its engagements

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Specified responses are limited and are scalable

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The monitoring and remediation process is focused on tailoring to the firm's circumstances

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Examples in application material demonstrate how to apply aspects of the standard to less complex and more complex firms

# Isqm 2 Background

- addresses the scope of engagements subject to an EQ review.
- The performance of an EQ review is undertaken at the engagement level by the EQ reviewer on behalf of the firm.
- Accordingly, ISQM 2, Engagement Quality Reviews, addresses:
  - The appointment and eligibility of the EQ reviewer; and
  - The EQ reviewer's responsibilities relating to the performance and documentation of an EQ review

# How does ISQM 2 work

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The new standard aims to respond to issues and challenges with the requirements relating to EQ reviews in extant International Standard on Quality Control (ISQC) 1,

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It also deals with Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and International Standard on Auditing (ISA) 220, Quality Control for an Audit of Financial Statements,

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It does so by making changes that clarify and strengthen aspects of the relevant requirements for a more robust EQ review.

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The revised requirements focus on the objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon

# Effective date

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ISQM 2 is effective for:

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Audits and reviews of financial statements for periods beginning on or after December 15, 2022; and

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Other assurance and related services engagements beginning on or after December 15, 2022.



# WHAT OUTCOME IS THE NEW STANDARD SEEKING TO ACHIEVE?

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The changes in ISQM 2 are intended to:

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Extend the scope of engagements subject to an EQ review (in addition to audits of financial statements of listed entities).

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Strengthen the eligibility criteria for an individual to be appointed as an EQ reviewer.

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Enhance the EQ reviewer's responsibilities relating to the performance (including the nature, timing and extent of procedures) and documentation of the EQ review.

# What are the significant changes

- EXTENDED SCOPE OF ENGAGEMENTS SUBJECT TO EQ REVIEWS
  - Audits of financial statements of listed entities
  - Audits or other engagements for which an EQ review is required by law or regulation
  - Audits or other engagements for which the firm determines that an EQ review is an appropriate response to address one or more quality risk(s)

# What are the significant changes

- ENHANCED ELIGIBILITY CRITERIA FOR EQ REVIEWERS
- Requires a cooling-off period of 2 years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of EQ reviewer.
- Have competence, capabilities, including sufficient time, and appropriate authority
- Comply with provisions of law and regulation relevant to eligibility of EQ reviewers
- Comply with relevant ethical requirements, including objectivity and independence
- Sets out actions to be taken when the EQ reviewer becomes aware of circumstances that impair the EQ reviewer's eligibility to perform the EQ review.
- Permits the use of suitably qualified external EQ reviewers and the use of assistants.

# What are the significant changes

- MORE ROBUST PERFORMANCE AND DOCUMENTATION REQUIREMENTS
- Requires the EQ reviewer to be responsible for the overall performance of the EQ review, and determining the nature, timing and extent of the direction and supervision of assistants, and the review of their work
- Addresses the EQ reviewer's responsibilities to perform the EQ review at appropriate points in time during the engagement. Including planning, performing, reporting.

# What are the significant changes

- Focuses on significant judgments and significant matters, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team
- Requires the EQ reviewer to “stand-back” to determine whether the performance requirements in ISQM 2 have been fulfilled
- Precludes the engagement partner from dating the engagement report until notification has been received from the EQ reviewer that the EQ review is complete.

# Other significant requirements

- Requires the firm to establish policies or procedures for:
  - The EQ reviewer to take responsibility for documentation of the EQ review.
  - The documentation of the EQ review to be included with the engagement documentation.
- Principles-based documentation requirements but clarified that firm's policies and procedures may:
  - Specify engagement documentation to be reviewed by EQ reviewer.
  - Indicate that the EQ reviewer exercises professional judgment in reviewing additional engagement documentation relating to the significant judgments.

# Closing thoughts on ISQM2

- The nature, timing and extent of the EQ reviewer's procedures vary depending on the nature and circumstances of the engagement or the entity (e.g., likely to be less extensive for engagements involving fewer significant judgments).

# ISAE 3000

International Standard on Assurance Engagements

Deals primarily with audit of non-financial information

Some of this non-financial information may be regulatory and voluntary disclosures

Some information may have multidisciplinary subject matters

This information may be sourced from different data bases