



Quality Management: IAASB Proposed Standards

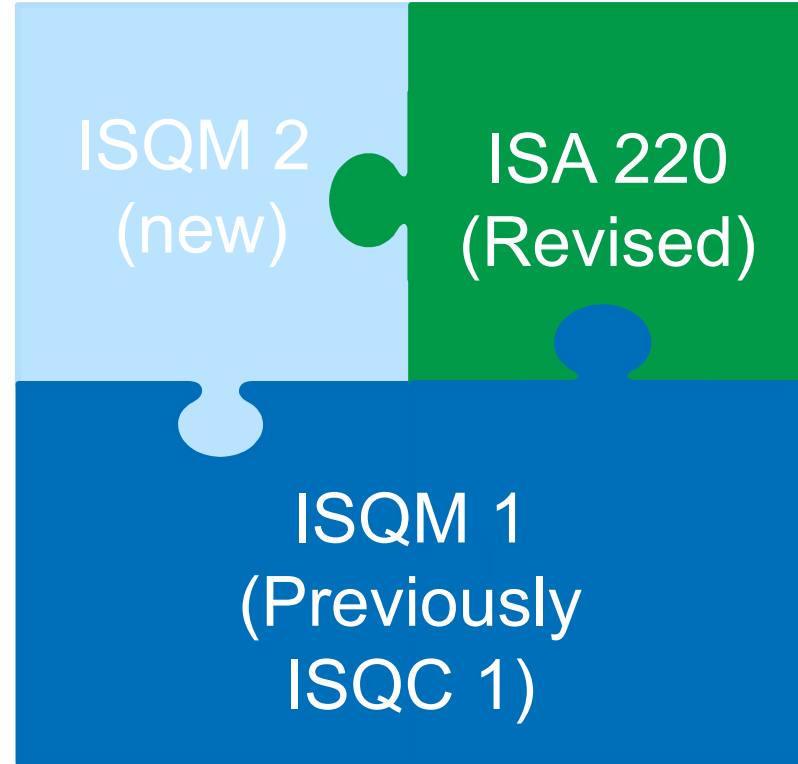
IAASB Quality Management Standards (Proposed)

International Standard on **Quality Management** (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

ISQM 2, *Engagement Quality Reviews* (New!)

ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Related conforming amendments



Project History





ASB implications

- Lack of convergence would result in many firms needing dual systems of quality control and quality management – not practicable
- PCAOB issued Concept Release in December 2019 that considers using ISQM 1 as a starting point for a future PCAOB QC standard
- ASB policy is to converge with IAASB standards
- ASB expects to issue exposure draft of proposed quality management standards in 2021



Issues Identified



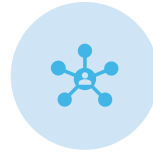
Firm governance and leadership's **responsibility** and **accountability** for quality.



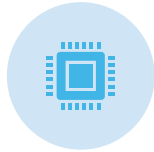
The **engagement partner's responsibilities**, including clarity regarding the appropriate direction, supervision and review.



Firm's **monitoring** process.



Undue reliance on **networks**.



The application of the standards by small and medium practices (**scalability**)



Increasing demand for **communication with external stakeholders**, including through **transparency reports**

Public Interest Considerations

- Fostering an appropriately independent and challenging skeptical mindset of the auditor
- Encouraging proactive quality management at the firm and engagement level
- Exploring transparency and its role in audit quality
- Focusing more on firms' (including networks') structures and communication processes and their internal and external monitoring and remediation activities
- Reinforcing the need for robust communications and interactions during the audit engagement

Key ISQM 1 ED Proposals

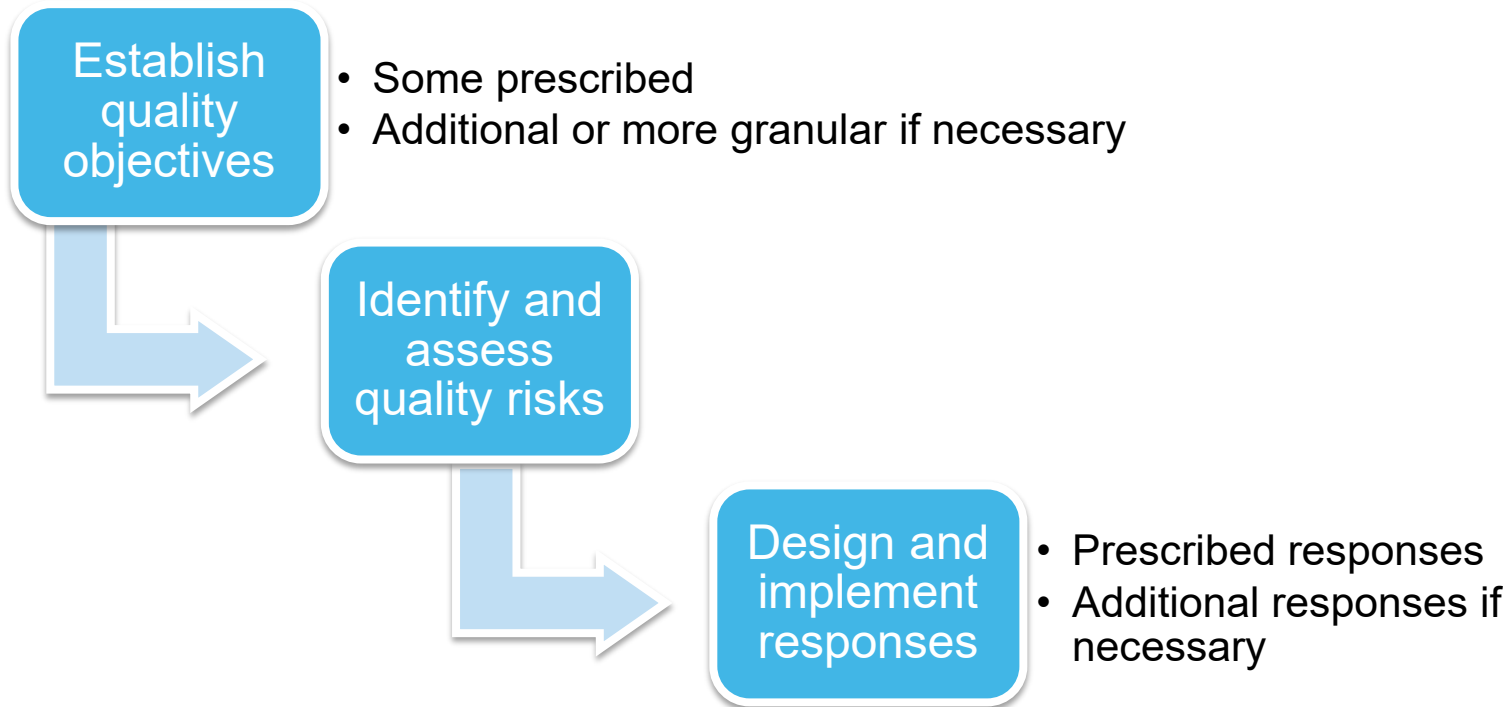
Key aspects that clarify and improve proposed ISQM 1 include

1. New **risk-based approach** focused on **quality management**
2. Revised components of the system of quality management
3. **New** Risk assessment process
4. Enhanced Monitoring and remediation process
5. **New** Requirements for networks and service providers

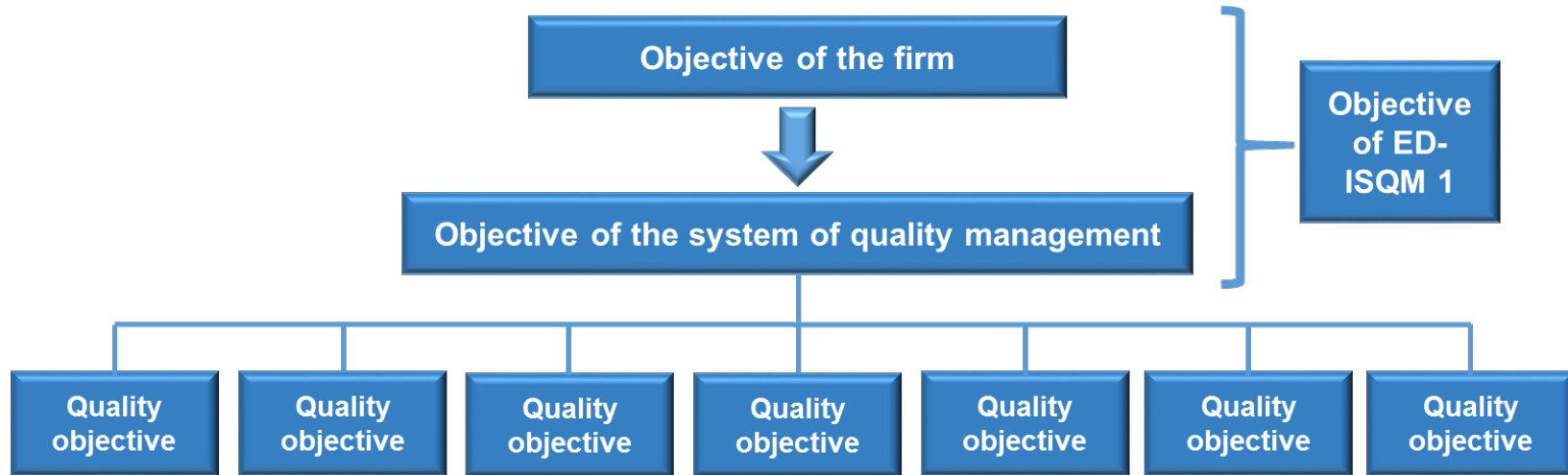
Components of a firm's system of quality management



Risk Assessment Process



Risk Assessment Process: Establish Quality Objectives

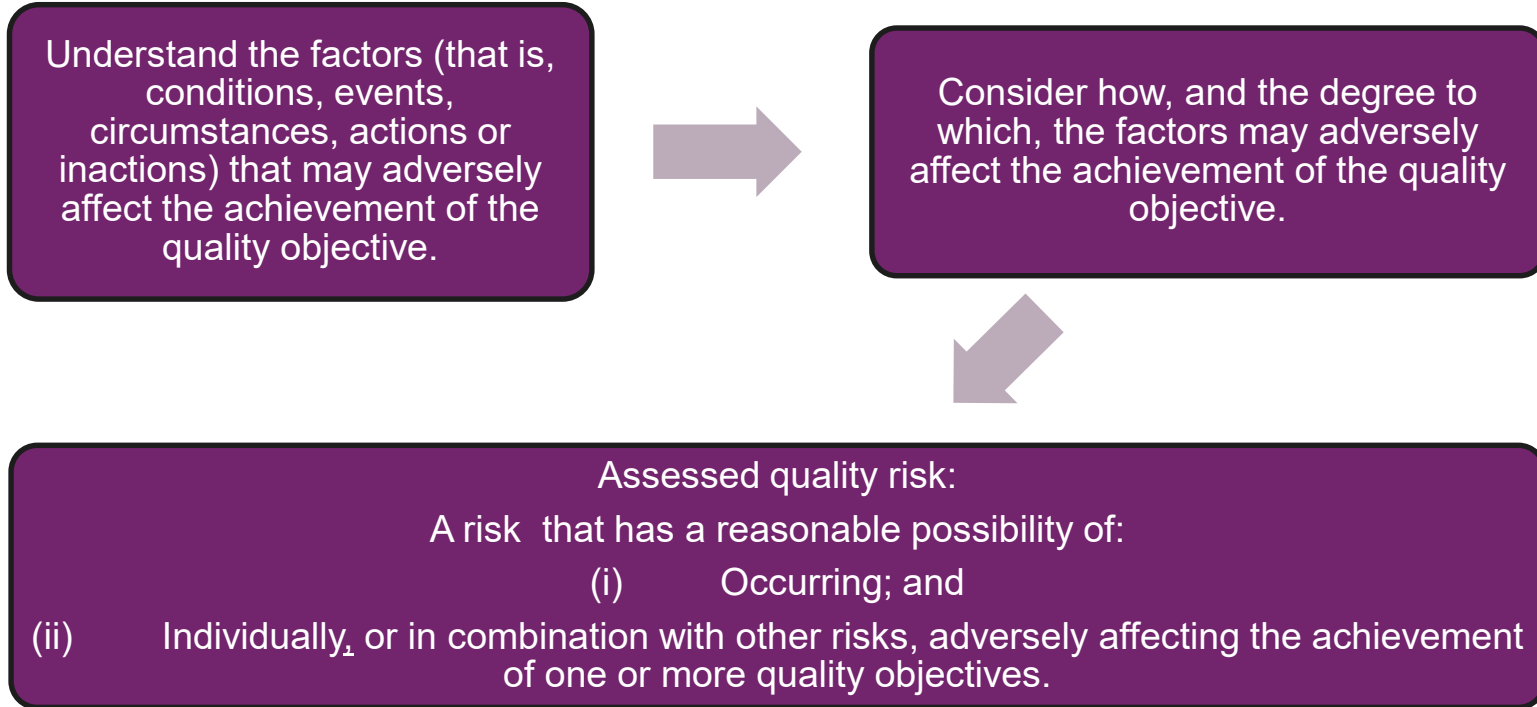


Risk Assessment Process: Identify and Assess Quality Risks

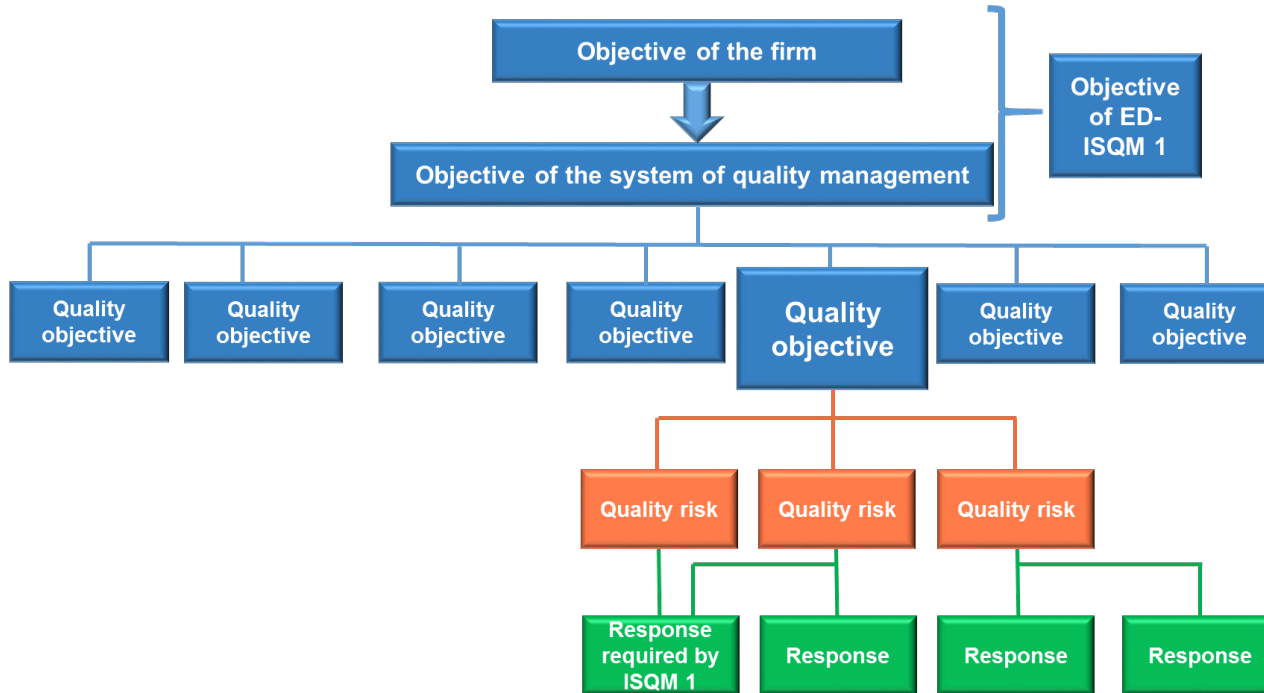




Risk Assessment Process: Identify and Assess Quality Risks



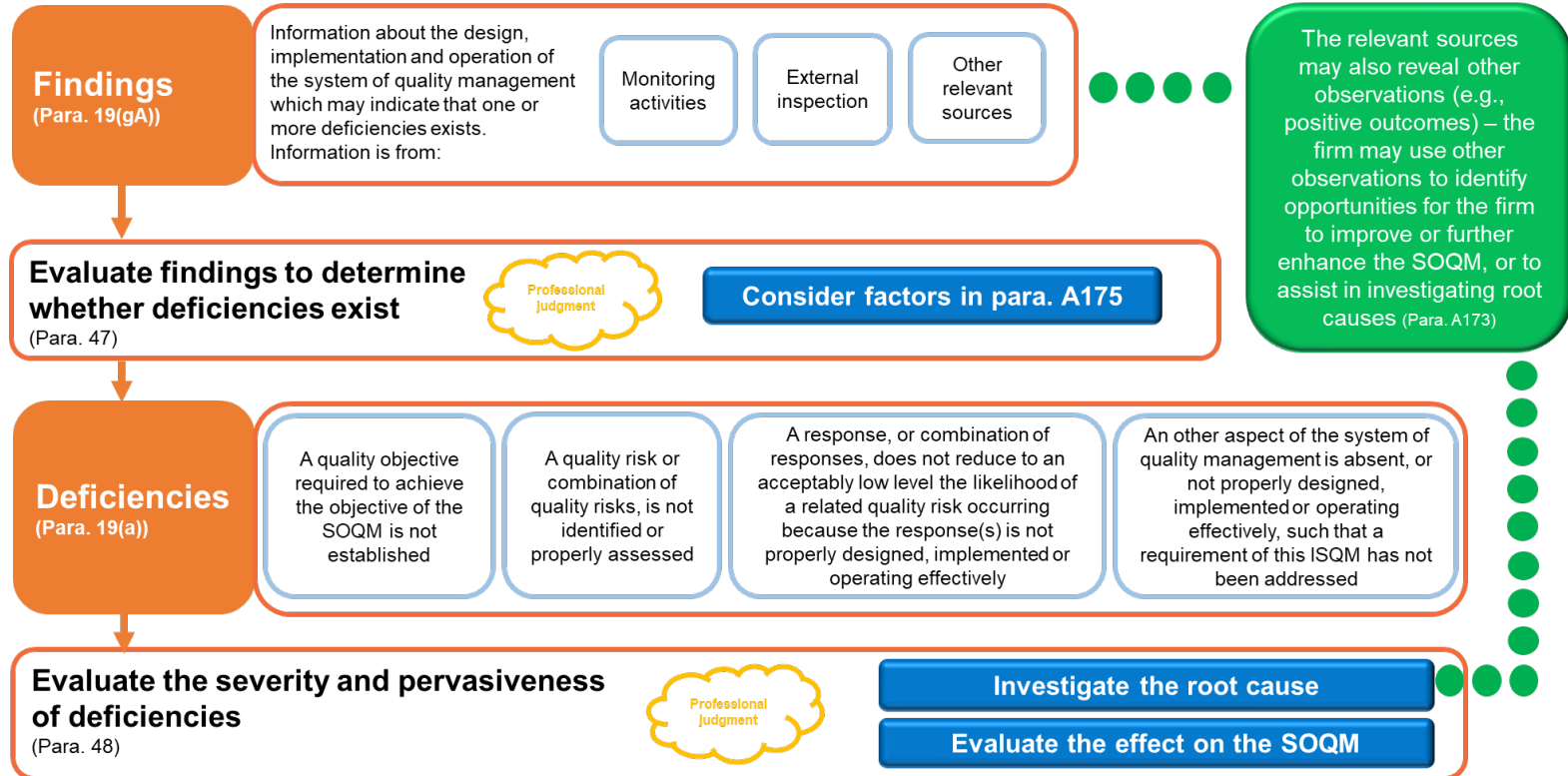
Risk Assessment Process: Design and Implement Responses



Monitoring and Remediation Process

- Increased emphasis on tailoring monitoring activities to circumstances of firm
- Explains difference between **findings** and **deficiencies**
- Requires a root cause analysis for all deficiencies
- Enhanced responsibilities of firm leadership to include requirement to determine effectiveness of remedial actions, and evaluate, at least annually whether objective of system has been achieved

Monitoring and Remediation Process



Network and Service Provider Requirements

- **New requirements** to address
 - Network requirements or network services
 - So firms understand how the network requirements or network services affect the firm's system of quality management
 - The use of service providers in the firm's system of quality management
 - To determine whether it is appropriate to use that resource in the system of quality management



ISQM 2, Engagement Quality Review

New Standard

- Built on requirements of extant ISQC 1 and ISA 220
 - ISQM 1 requires that the firm determine when an engagement quality review is an appropriate response to quality risks
 - ISQM 2 contains requirements for policies and procedures addressing, and for performing, engagement quality review
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ISQM 2, Engagement Quality Review

Benefits of a separate standard

- ✓ Emphasizing the importance of EQRs
 - ✓ Enhancing the robustness of the requirements for the eligibility of EQRs and performance and documentation
 - ✓ Providing an avenue to differentiate responsibilities of the firm and EQRs
 - ✓ Increased scalability
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Engagements Subject to EQR (ISQM 1)

Audits of listed entities

EQR required by law or regulation

Firm determines EQR appropriate response to assessed risk



ISQM 2, Engagement Quality Review

Appointment and eligibility

- Eligibility of individuals within the firm responsible for the appointment of EQ reviewers
- Eligibility of EQ reviewers
 - Mandatory 2 year cooling-off period for previous engagement partner
- Eligibility of individuals to assist the EQR in performing the engagement quality review
- EQR taking responsibility for the performance of the engagement quality review

ISQM 2, Engagement Quality Review

Procedures

- More specificity in ISQM 2 than in ISQC 1
- No longer repeated in ISA 220



ISA 220 ED Proposals

Key items that clarify and improve proposed ISA 220 include:



Clarifying the roles and responsibilities of the engagement partner



Introduction of a stand-back requirement



Modernizing the standard for an evolving environment

Key ISA 220 ED Proposals

Clarifying the roles and responsibilities of the engagement partner

- Roles and responsibilities have been clarified to focus on the engagement partner's responsibility for **managing** and **achieving quality** at the engagement level
- Engagement partner can assign procedures, tasks or actions to others but still has **overall responsibility**

Key ISA 220 ED Proposals

Stand-back requirement for the engagement partner

- Stand-back requirement requiring the engagement partner to assess whether he or she has taken **overall responsibility** for **managing** and **achieving** quality, including being sufficiently involved throughout the engagement
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Key ISA 220 ED Proposals

Modernizing for an evolving environment



Evolving use of varying audit delivery models



Engagement team may be located together or across different geographic regions



Revised definition of **engagement team** that includes partner, staff and **any other individuals** who perform audit procedures on the engagement, including those engaged by a network firm



Requirements have been enhanced to recognize the use of technological resources in the audit



Effective date and implementation period

- ISQM 1 – system designed and implemented **by** the effective date; evaluated within one year following the effective date
- ISQM 2 and ISA 220 – effective for periods **beginning** on or after effective date
- Assuming IAASB standards are approved in September 2020, effective date is likely to be **December 15, 2022.**

IAASB Resources

Recorded webcasts

Videos

Draft practical example

Draft FAQs

<http://www.iaasb.org/quality-management>



Thank you