



Quality Management at the Firm and Engagement Levels

IAASB CAG

March 6, 2019

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The IAASB's Quality Management Proposals

**February
2019:
Three
exposure
drafts
released
for public
comment**

- Proposed ISQM 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Proposed ISQM 2, *Engagement Quality Reviews*
- Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*
- Also released: a covering explanatory memorandum – addresses:
 - The relationships between the standards
 - Overall matters
 - Possible effective dates, including a question to seek views about the time needed to implement the standards

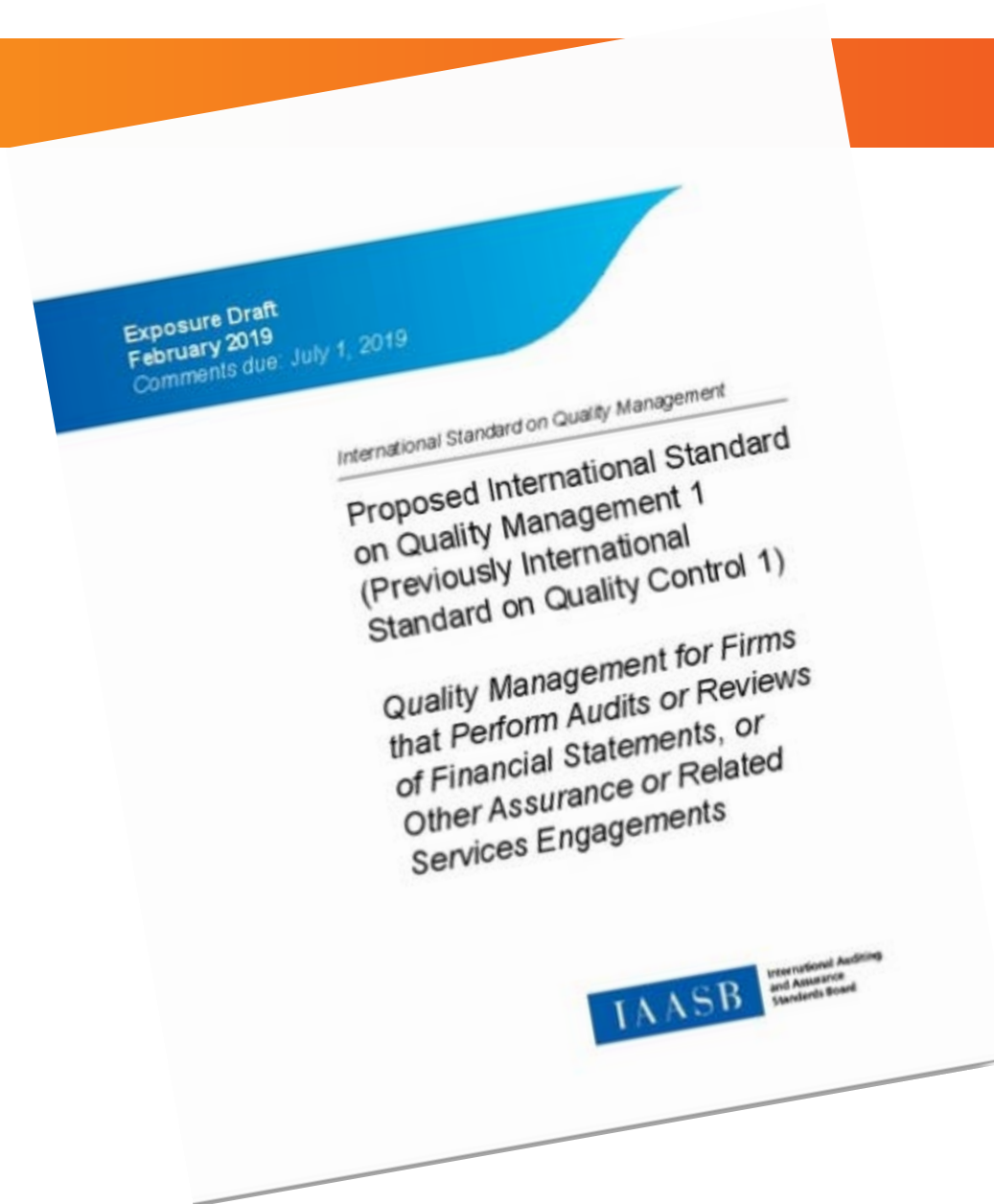
**February
2019 – June
2019**

- Global outreach and consultation

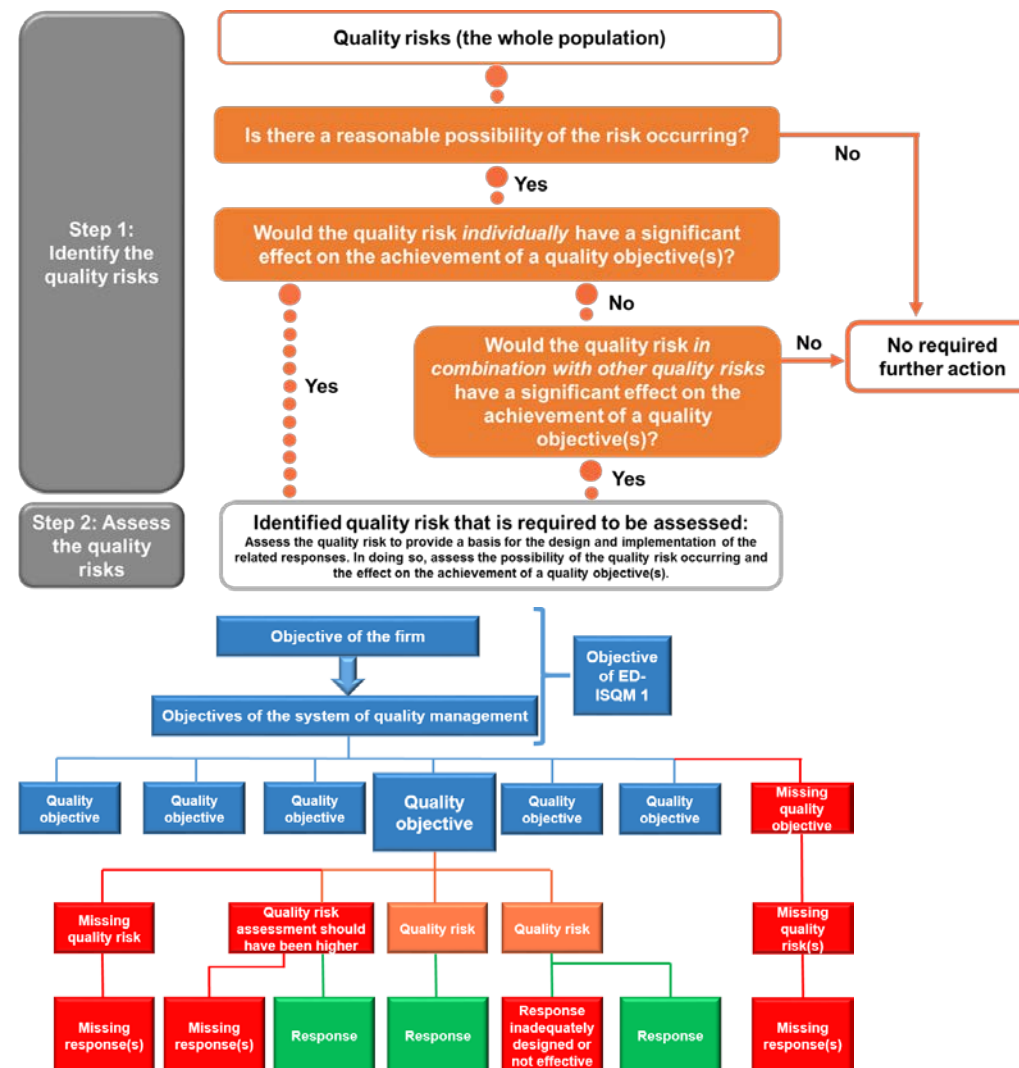
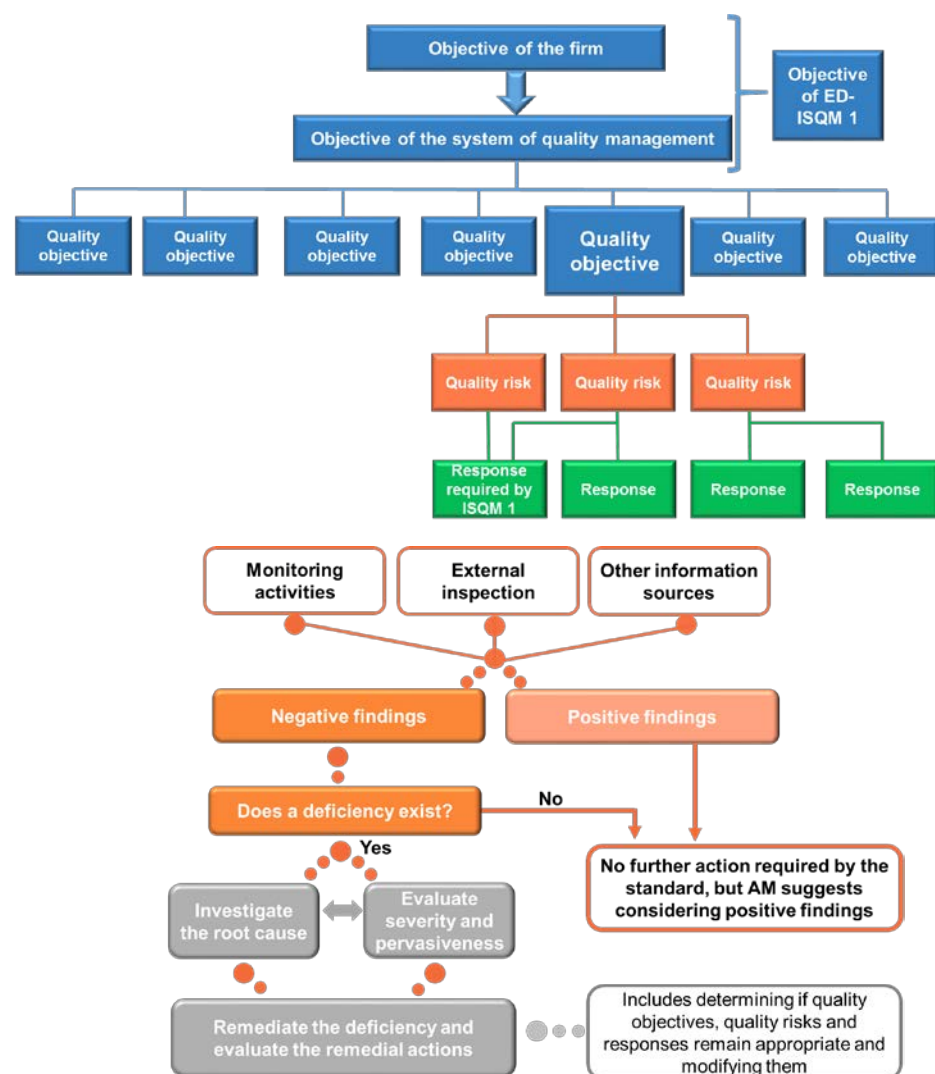
July 1, 2019

- Comment letters due – see <http://www.iaasb.org/quality-management> for links to the above documents and to post comments

Proposed ISQM 1



Proposed ISQM 1: Facilitating and Understanding of the Standard



Proposed ISQM 1: Support Materials

IAASB

Draft Frequently Asked Questions
February 2019

DRAFT FREQUENTLY ASKED QUESTIONS REGARDING PROPOSED ISQM 1¹

This publication is a draft and has been prepared by a Task Force of the International Auditing and Assurance Standards Board (IAASB) based on the exposure draft of ISQM 1 (ED-ISQM 1). It is intended to provide further clarity on various matters in ED-ISQM 1. The questions addressed in this publication are not exhaustive and examples provided are illustrative only.

This publication will be reconsidered when ED-ISQM 1 is finally approved by the IAASB.

The exposure draft of proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1²), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1), was approved for exposure by the IAASB in December 2018. This publication is intended to assist respondents in understanding ED-ISQM 1 and providing feedback to the IAASB regarding the usefulness of the publication.

General

1. Does the system of quality management cover all engagements performed by the firm?

ED-ISQM 1 requires the firm to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. In circumstances when the firm performs other types of engagements (e.g., tax or consulting services), ED-ISQM 1 does not require that the system of quality management extend to such engagements. However, these other types of engagements, or personnel performing such engagements, may be affected by matters relating to the firm's system of quality management. For example, the firm's policies or procedures may prohibit the performance of certain non-assurance services for clients for whom the firm performs audits or reviews of financial statements, or other assurance engagements.

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

² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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Draft Examples
February 2019

DRAFT EXAMPLES: HOW THE NATURE AND CIRCUMSTANCES OF THE FIRM AND THE ENGAGEMENTS IT PERFORMS AFFECT THE IMPLEMENTATION OF PROPOSED ISQM 1¹

This publication is a draft and has been prepared by a Task Force of the International Auditing and Assurance Standards Board (IAASB) based on the exposure draft of ISQM 1 (ED-ISQM 1). It is intended to illustrate how ED-ISQM 1 can be applied in a scalable manner by firms with varying circumstances. The scenarios described in this publication are hypothetical and have been simplified to illustrate key principles of applying the standard and do not:

- Include all factors regarding the nature and circumstances of the firm and its engagements for the examples provided;
- Include all quality objectives, quality risks or responses that may be necessary or appropriate; or
- Represent how a firm should document its quality objectives, identified and assessed quality risks and responses.

This publication will be reconsidered when ED-ISQM 1 is finally approved by the IAASB.

The exposure draft of proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1²), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, was approved for exposure by the IAASB in December 2018. This publication has been developed to illustrate how the nature and circumstances of the firm and the engagements it performs affect the firm's implementation of ED-ISQM 1. In particular, the examples demonstrate that the scalability of the standard is achieved through tailoring the nature, timing and extent of responses designed and implemented by the firm. The illustration is intended to assist respondents in commenting on ED-ISQM 1.

The new quality management approach in ED-ISQM 1 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

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

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Proposed ISQM 1: Key Changes Since September 2018

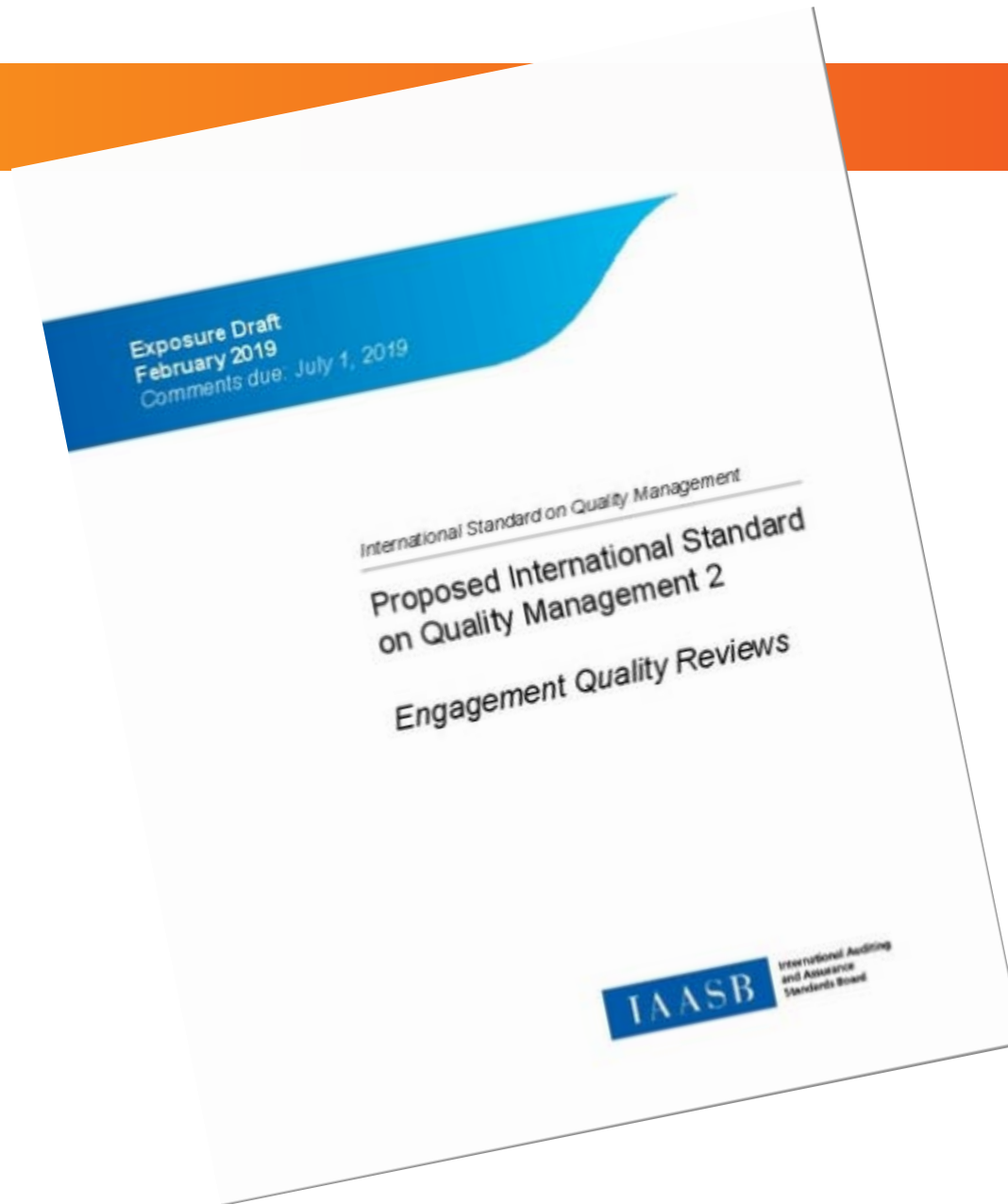
- Public interest
- Scalability
- Addressing when the firm is required to do more beyond the requirements of the standard
 - Requirement to establish additional quality objectives
- Communication with external stakeholders
- Monitoring and remediation
 - Definition of deficiencies
 - Inspection of engagements
- Networks

Proposed ISQM 1: The Firm's Risk Assessment Process



- Quality objectives required by ED-ISQM 1 (comprehensive)
 - Additional quality objectives beyond those required by ED-ISQM 1, when those objectives are necessary to achieve the objective of the standard
-
- The firm identifies the quality risks that:
 - Have a reasonable possibility of occurring
 - If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s)
 - The firm assesses the identified quality risks
-
- Responses required by ED-ISQM 1
 - Additional responses designed and implemented by the firm (always required as responses in ED-ISQM 1 are not sufficient to address all quality risks)

Proposed ISQM 2



Proposed ISQM 2: Key Changes Since September 2018

- Public interest
- Scalability
- Engagements for which an engagement quality review is required
 - Entities of significant public interest
 - Requirements and guidance included in ISQM 1 (paragraph 37(e))
- Eligibility criteria
 - Sufficient time
 - Authority
 - External engagement quality reviewer and assistants
- Performance of an engagement quality review
 - Significant judgments and significant risks (audits and other engagements)
 - Timing of review
 - Stand-back requirement
- Documentation of engagement quality review included with engagement documentation

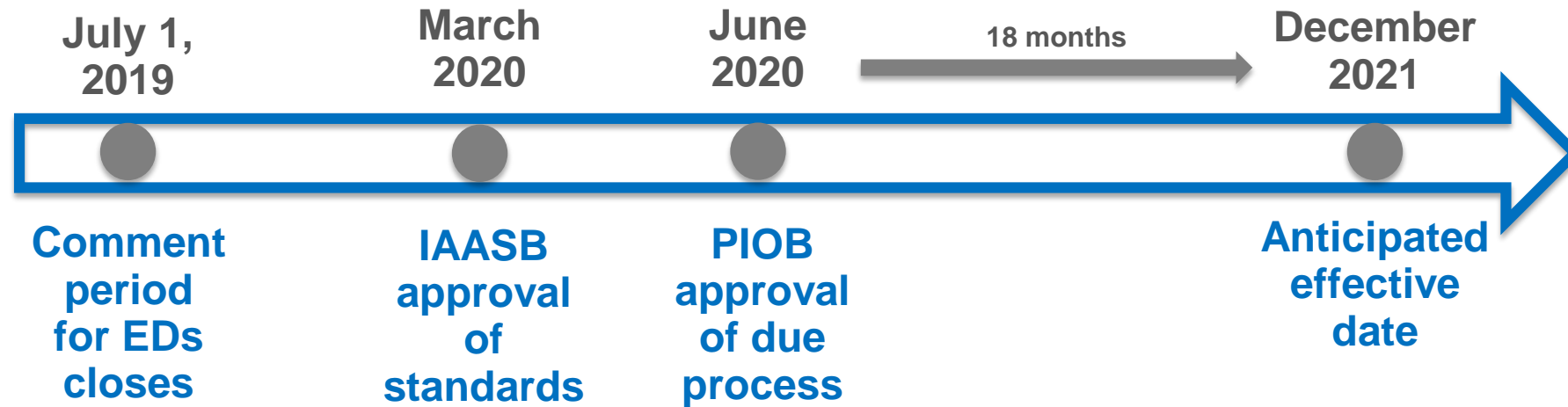
Proposed ISA 220 (Revised)



Proposed ISA 220: Key Changes Since September 2018

- Changes generally minor
 - Linkages with ISQM 1, ISQM 2
- Public interest
 - Professional skepticism, professional judgment
- New application material:
 - Degree to which the engagement partner/team may depend upon the firm's policies or procedures (paragraph A34)
 - Explanation of considerations in determining whether the engagement partner has met the stand-back requirement

Illustrative Timeline



This timeline is for illustrative purposes only—approval dates and the implementation period are dependent on a number of factors, including stakeholders' comments on the exposure drafts and on the implementation period proposed therein

Outreach During Exposure Period

- Standard slide deck for presentations
- Overview video of QM projects
(<https://www.youtube.com/watch?v=l3yuyDeNSI>)
- Discussion at SMP conference, Paris
- Webcasts:
 - March/April/May – dates TBA soon



Why is this important for all firms, including small firms?





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