

International Standard on Quality Management 1 (ISQM 1)



Agenda

- What is ISQM1 ?
- Key activities under ISQM1:
 - Risk assessment process
 - Monitoring and remediation process
 - Annual evaluation process
 - Greater emphasis on the roles and responsibilities of professional firm's leadership

What is ISQM 1 ?

ISQM 1 overview – SOX for professional firms ?

- International Standard on Quality Management (ISQM1) requires all professional firms that performs **audits or reviews of financial statements, or other assurance or related services engagements** to design, implement and operate **Systems of Quality Management (SQM)** that provides the firm with **reasonable assurance** that:
 - (a) 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; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances

ISQM 1 overview – what is new ?

- New **risk-based approach to Quality Management**
- Expands **monitoring and remediation activities**
- Requires an **Annual evaluation conclusion** on effectiveness of the System of Quality Management
- **Scalability**: Requires Audit Firms to design, implement and operate a system of quality management based on the nature and circumstances of the Audit Firm and the engagements it performs
- **Takes into consideration the evolution of audit practice** (such as the use of technology,...) and also the different types of operating model (network, multi disciplinary firms, ...)
- Emphasizes the **responsibility and accountability of the firm leadership**

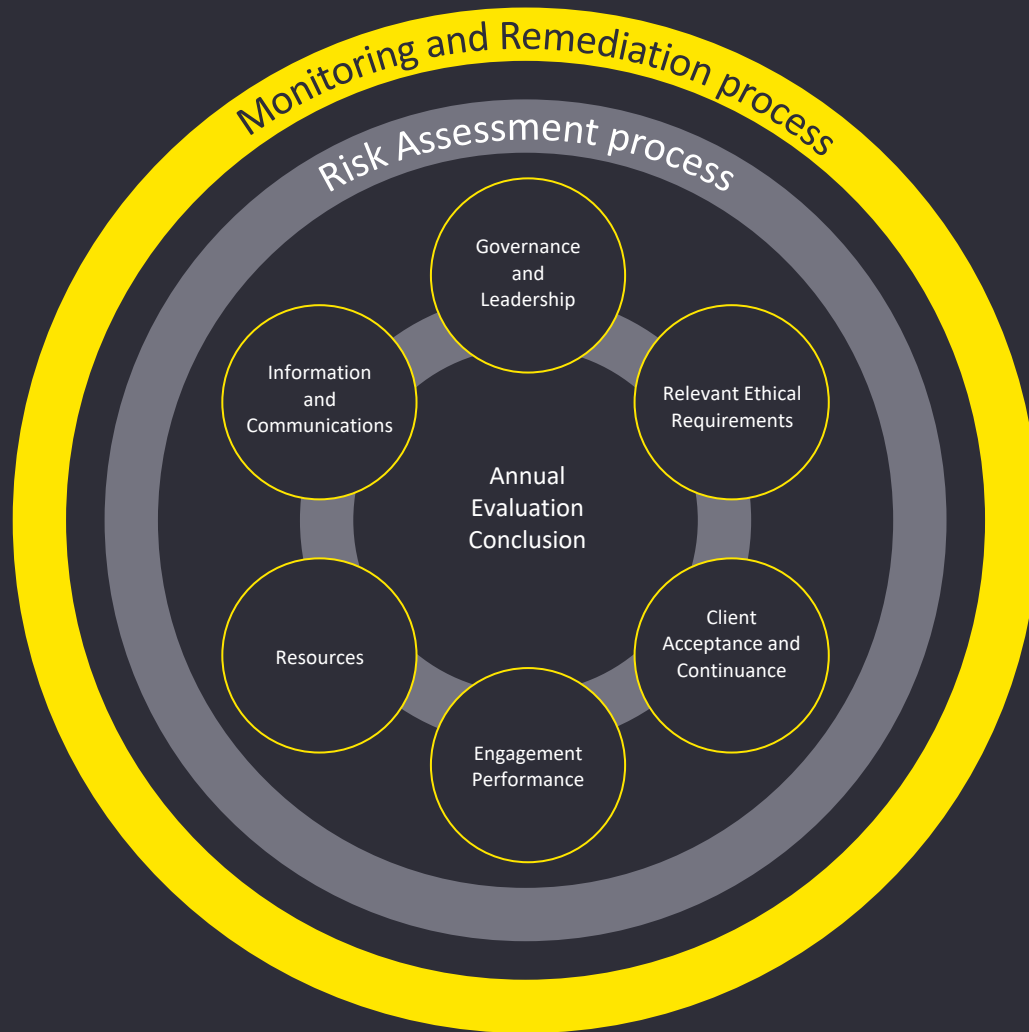
When ?



Effective date and annual assessment

- Firms are required to have systems of quality management **designed and implemented** in accordance with ISQM 1 by **15 December 2022**
- SQM annual assessment required by ISQM1 should be **within one year from the effective date**

Risk based approach focused on achieving the quality objectives



Risk Assessment Process



Identify Quality Objectives



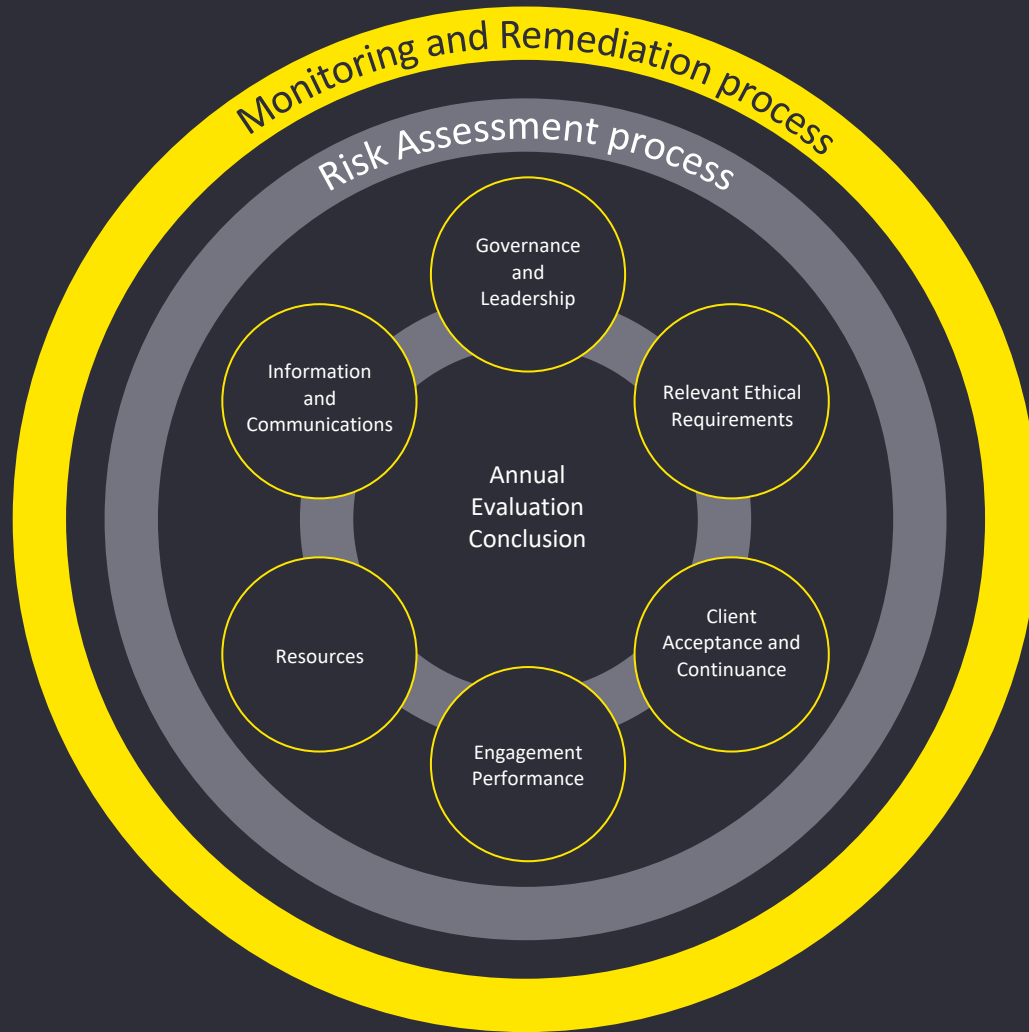
Identify and assess quality risks



Design and implement responses:

- Key controls
- Policies
- Technology

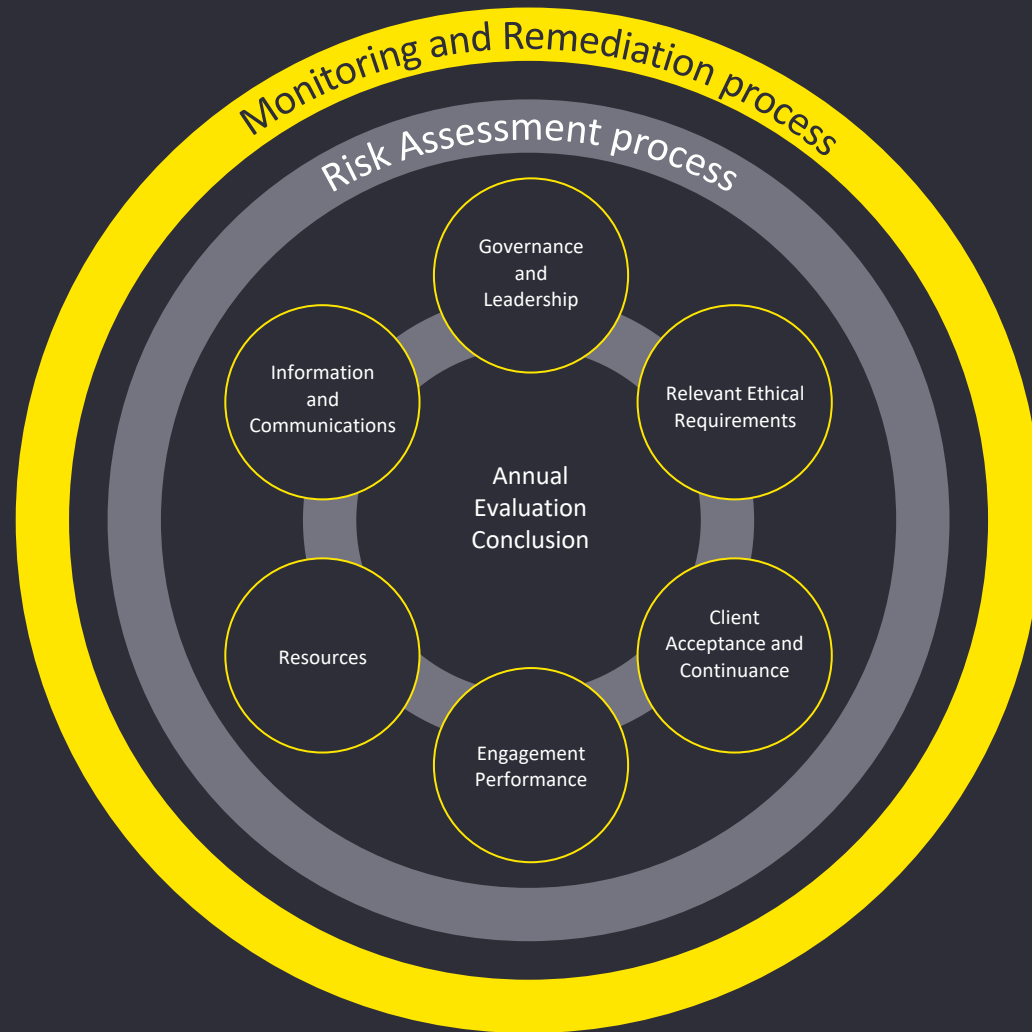
Monitoring and remediation



Monitoring & Remediation

- 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
- 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
- The firm appropriately remediates deficiencies that is responsive to the root cause(s)
- Leadership is required to determine that remedial actions are effective

Annual Evaluation



Annual Evaluation

- Leadership performs annual evaluation whether the SQM is achieving the quality objectives
- Reasonable assurance on operating effectiveness of SQM
- Required communication to those charged with governance of listed entities
- Communication with the Regulators

Annual Evaluation

Unqualified:

(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved;

Qualified / adverse:

(b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved;

(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

Greater emphasis on the roles and responsibilities of leadership

- The firm leadership has ultimate responsibility and accountability for system of quality management
 - In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm.
 - In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals.
- Operational responsibility for certain aspects may be separated from ultimate responsibility in a more complex environment
- Requirement for annual evaluations of leadership for design, implementation and operation of system of quality management.

Q&A