MGI WORLDWIDE

INTRODUCTION TO THE NEW QUALITY MANAGEMENT STANDARDS

MGI Worldwide Technical Committee

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THE NEW STANDARDS

KEY DIFFERENCES

MAIN CHALLENGES

NETWORK-LEVEL CHANGES

THE NEW STANDARDS

Suite of three new / revised quality management standards

ISQM1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (replaces ISQC 1)

ISQM 2 *Engagement Quality Reviews* (new standard)

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

ISQM 1

ISQM 1 deals with the firm's responsibility for having a system of quality management (SOQM).

Covers a firm's responsibilities to design, implement and operate a SOQM where the firm undertakes:

- ✓ Audits or reviews of financial statements performed under the ISAs and ISREs;
- ✓ Assurance engagements other than audits or reviews of historical financial information performed under the ISAEs (e.g., assurance of extended external reporting, or assurance on controls at service organizations); or
- ✓ Related services engagements performed under the ISRSs (i.e., agreed-upon procedures and compilation engagements).

ISQM 2

First time that the Engagement Quality (EQ) Review requirements have been set out in a separate standard.

Which engagements should have an EQ Review iscovered in ISQM 1.

ISQM 2 addresses:
- ✓ the appointment and eligibility of the EQ reviewer
- ✓ the reviewer's responsibilities for the performance and documentation of their review.

One of the aims of the new standard is to enhance the robustness of the EQ reviewer process.

ISA 220 (Revised)

Focuses on quality management at the **audit engagement level**

Requires the audit partner to <u>actively</u> manage and take responsibility for the achievement of quality.

✓ Need to consider whether there is sufficient and appropriate involvement of the partner in the engagement; and

✓ Adherence to the firm's policies or procedures and the requirements of the standard.

Objective similar to the existing standard but more emphasis that the auditor's objective is about <u>managing and achieving quality</u>, rather than implementing quality control procedures.
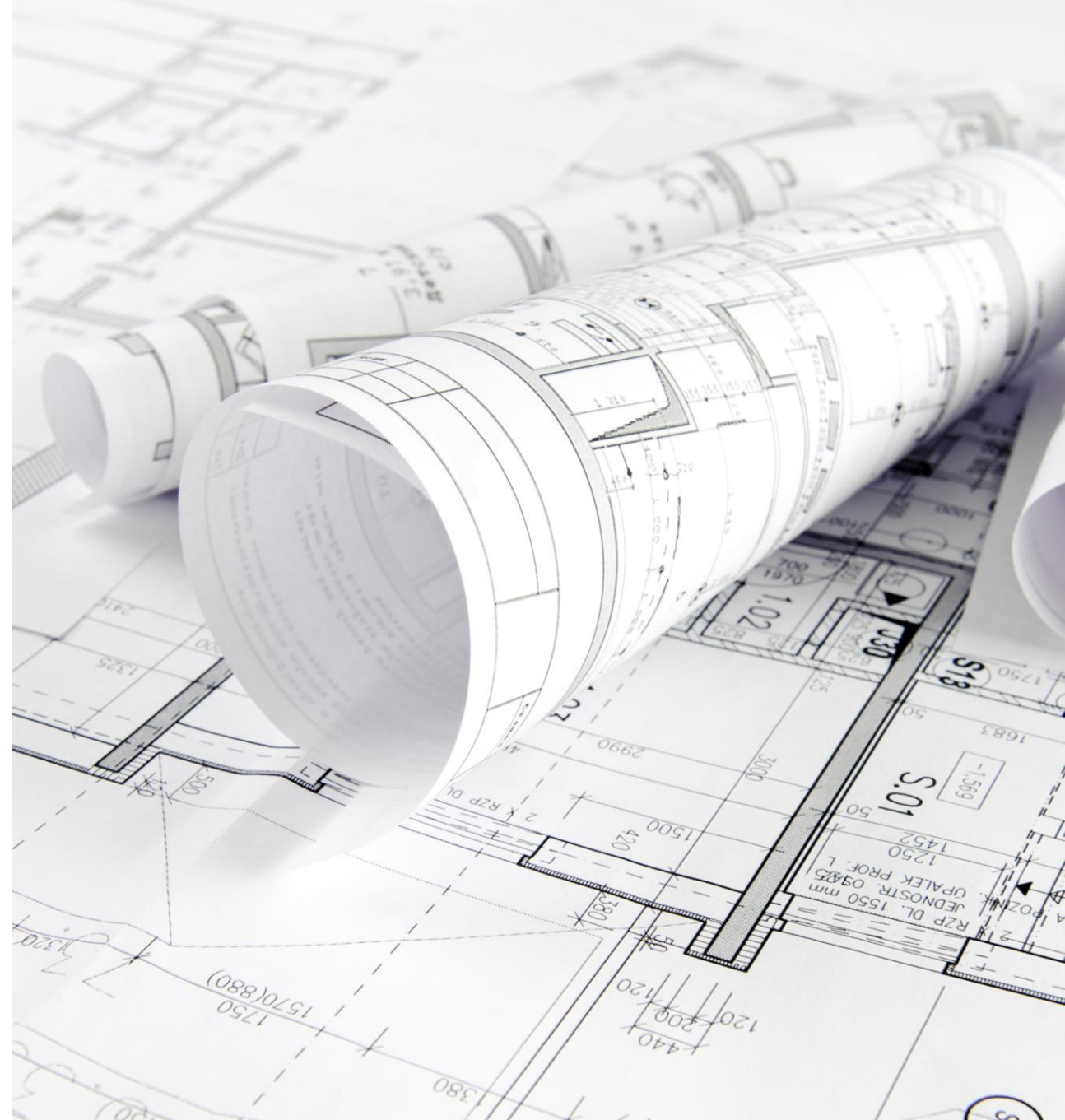
Objective of ISQM 1

Each firm must

- design

- implement   and

- operate

a **system of quality management** for audits and other assurance engagements

System of quality management

> " *system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:*
>
> *(i) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and*
>
> *(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.*

Definitions - ISQM 1

SOQM – eight components

1. The firm's risk assessment process

2. Governance and leadership

3. Relevant ethical requirements

4. Acceptance and continuance of client relationships and specific engagements

5. Engagement performance

6. Resources

7. Information and communication

8. The monitoring and remediation process

Effective date

A firm's SOQM <u>must</u> be designed and implemented by **15 December 2022**

ISQM 2 and ISA 220 are effective for engagement periods beginning on or after **15 December 2022**

KEY DIFFERENCES

Risk-based approach

Move away from "checklist" of ISQC 1

Design of SOQM will vary in areas such as formality and complexity

Each firm will need a risk assessment

Risk-based approach

The risk-based approach is embedded through each firm:

✓ Establishing **quality objectives**

✓ Identifying and assessing risks to the achievement of the quality objectives (**quality risks**)

✓ Designing and implementing **responses** to address the quality risks

Scalable

The new standard is designed to be scalable:

✓ Documentation of the SOQM
✓ Need for additional quality objectives
✓ Complexity of responses
✓ No. of people involved

Other changes

ISQM 1- focus on monitoring the SOQM as a whole: more robust remediation requirements including Root Cause Analysis

ISQM 2 – new standard to emphasize importance of such reviews to enhance the performance and documentation of the review

ISA 220 – more focus on leadership of audit engagements, on wider resource considerations and on areas the audit partner must review

MAIN CHALLENGES

Tom Seidenstein, IAASB Chair

" *We have heard that the scale of work required to put this in place is significant. And it should be significant because we believe it is a step change in terms of rigour, robustness and management of quality control, because it focuses on accountability, tone at the top and setting responsibilities within a firm*

AB Magazine article December 2021

What challenges do members see ahead?

NETWORK-LEVEL CHANGES

Network requirements

Essentially, unchanged:

1. Audit Independence Register for PIE / Listed clients

2. Self-assessment questionnaire completion on annual basis

3. Cyclical QA peer review

Self-assessment questionnaires

Additional questions to cover Information and Communication and Monitoring in more detail.

A few other changes being made at same time.

QA peer review

Will **not** be confirming compliance with ISQM 1.

Change in focus on some areas, following changes in self-assessments.

No large-scale changes envisaged.

Network-level reporting

Annual reporting on the network's review process and OVERALL results, including:

✓ Common findings
✓ Best practice

Network resources – have your say

Technical Committee considering further webinars –
- ✓ What aspects of the new standards would be best to focus on?
- ✓ Is it worth a session on ISQM 2?

MGI Worldwide website

Tools

Further resources / help

IAASB first-time implementation guidance, publications and webinars – links in the notes.

Mercia Group building a library of resources, including three on-demand webinars on the risk assessment and monitoring and compliance components, and on ISQM 2 – see link in the notes.

Mercia Risk Assessment Tool highlights over 100 different potential Quality Management risks and responses and should be released after Easter 2022.

THANK YOU