

ISQM Workshop 3



DRAFTWORX
Financial Statements | Working Papers



Where are we now?



Acceptance and Continuance



Acceptance and Continuance of Client Relationships and Specific Engagements

How has ISQM 1 changed from the extant standard?

The application material in paragraphs A67–A69 and A72 of ISQM 1 provide examples of information the firm may obtain in judging whether to accept or continue a client relationship or specific engagement, factors that may affect the information obtained, and the sources of the information.

- Adjusted to **principles-based requirements** to establish **quality objectives** addressing the acceptance and continuance of client relationships and specific engagements.
- Focus on the **firm's judgments** in determining whether to accept or continue the client relationships and specific engagements.
- Enhanced requirement to drive the firm to **obtain information** about the **nature and circumstances** of the **engagement** the **integrity and ethical values of the client** (including management, and, when appropriate, those charged with governance).
- **New requirement** addressing the **financial and operational priorities of the firm** in the context of making decisions about whether to accept or continue a client relationship or specific engagement → “do not lead to inappropriate judgements” (see next slide)

Based on

The Firm's Financial and Operational Priorities (Ref: Para. 30(b)): Application and Other Explanatory Material

*"A73. **Financial priorities** may focus on the **profitability** of the firm, and fees obtained for the performance of engagements influence the firm's financial resources. **Operational priorities** may include **strategic focus areas**, such as **growth of the firm's market share**, industry specialization or new service offerings.*

*There may be circumstances when the firm is **satisfied with the fee quoted** for an engagement, but it is **not appropriate** for the firm to **accept or continue** the engagement or client relationship (e.g., when the client lacks integrity and ethical values).*

*A74. There may be other circumstances when the **fee quoted for an engagement is not sufficient** given the **nature and circumstances of the engagement**, and it may diminish the firm's ability to perform the engagement in accordance with **professional standards** and applicable legal and regulatory requirements.*

*The IESBA Code addresses fees and other types of remuneration, including circumstances that may create a **threat** to compliance with the fundamental principle of **professional competence and due care** if the fee quoted for an engagement is too low."*

"Lowballing (LB) is the practice of setting audit fees lower than audit costs during the initial year of an audit engagement to better compete for large and prestigious clients" (DeAngelo, 1981, Kanodia and Mukherji, 1994, Bruce, 2010, Desir et al., 2014).

Acceptance and Continuance of Client Relationships and Specific Engagements

The following requirements in extant ISQC 1 have been captured in ISQM 1 as follows:

- ISQC 1 included specific requirements regarding the firm's ability to **comply with** relevant ethical requirements and conflicts of interest. The firm's SOQM would still need to address fulfilling ethical requirements, including conflicts of interest, through the quality objectives dealing with **relevant ethical requirements** (already covered in workshop 2).
- ISQC 1 included specific requirements for the firm to **document how issues have been resolved** when issues have been identified by the firm. ISQM 1 includes new principles-based requirements regarding **documentation** of matters related to the SOQM (to be covered in workshop 5).





Engagement Performance





Engagement Performance

How has ISQM 1 changed from the extant standard?

- Adjusted to **principles-based** requirements to establish **quality objectives** addressing engagement performance. Principles-based requirements still include **consultation, differences of opinion** and addressing the assembly, maintenance and retention of **engagement documentation**.
 - Enhanced requirement addressing **direction and supervision** of engagement teams and **review of the work** performed, which is focused on what is appropriate given the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams.
 - Requirements dealing with **engagement quality reviews** have been relocated in ISQM 1 and **ISQM 2** (see further details in **the specified responses** section par 34 (f)) (to be covered in workshop 7).
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Engagement Performance

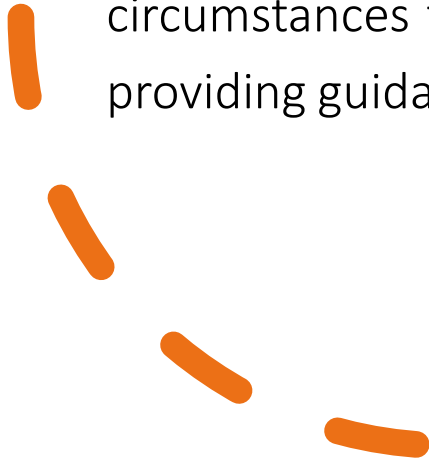
How has ISQM 1 changed from the extant standard?

- **New requirement** addressing **engagement teams' responsibilities** in connection with engagements, including the **overall responsibility of an engagement partner** for managing and achieving quality on an engagement and being sufficiently and appropriately involved throughout the engagement.
- **New requirement** addressing engagement teams exercising **appropriate professional judgment** and, when applicable to the type of engagement, **professional skepticism** (see next slide).



Examples of other aspects of the SOQM that may support engagement teams in exercising appropriate professional judgment and professional skepticism

- Taking robust actions to embed **a culture** that demonstrates the firm's commitment to quality.
- **Leadership taking responsibility and accountability for quality**, and demonstrating their commitment to quality through their actions and behaviors.
- **Assigning appropriate resources to engagements**, including human resources, technological resources, and financial resources (e.g., the engagement team may need financial resources for the purposes of engaging an expert or to physically visit certain locations).
- **Developing appropriate intellectual resources**, including creating alerts for engagement teams on circumstances that are giving rise to the need for professional judgment and professional skepticism and providing guidance for engagement teams in these circumstances.





Examples of other aspects of the SOQM that may support engagement teams in exercising appropriate professional judgment and professional skepticism

- **Managing the assignment of personnel to engagements**, including ensuring they have adequate time to perform their work and fulfill their responsibilities.
- Making **appropriate judgments about accepting and continuing engagements**, such as considering whether the firm has appropriate resources to perform the engagement, and whether the firm has the time to undertake the engagement given the firm's other commitments.
- Providing appropriate **training**.



Engagement Performance

The following requirements in extant ISQC 1 have been captured in ISQM 1 as follows:

- ISQC 1 included more specific requirements for consultation that the firm needs to have **resources to enable consultation**. The firm's SOQM would still need to address having resources to support consultation through the **resources component** (to be covered in workshop 4).
- ISQC 1 included more specific requirements for **consultation and differences of opinion** related to the **documentation of these matters**. Documentation is addressed through the principles-based requirements regarding documentation of matters related to the SOQM (to be covered in workshop 5).

Next: Panel Discussion

