

ISQM Implementation Initiative - 2022

Working paper to make notes on during workshops

Quality Objective (As per ISQM 1)	Example risks identified	Assessment of risk		Level of risk (L, M, H)	Detail of <u>example</u> responses (Where required)
		(In the absence of controls)			
		Possibility of occurrence (L, M, H)	Significance of effect (L, M, H)		
GOVERNANCE AND LEADERSHIP					
a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces: (i) The firm's role in serving the public interest by consistently performing quality engagements. (ii) The importance of professional ethics, values, and attitudes. (iii)The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behaviour; and (iv)The importance of quality in the firm's strategic	Risk 1 There is a risk that, even though the firm is committed to quality, this is not communicated properly within the firm and the network offices. 				

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decisions and actions, including the firm's financial and operational priorities					actions, including the firm's financial and operational priorities.
b) Leadership is responsible and accountable for quality.	<p>Risk 1 No formal acceptance of ultimate responsibility for the SOQM which means no one is accountable.</p> <p>Risk 2 Those with ultimate and operational responsibility may not understand or have proper knowledge of the new ISQM standards.</p>				<p>Risk 1</p> <ol style="list-style-type: none"> 1. The firm assigned ultimate responsibility and accountability for the SOQM to the managing partner/ managing director/ CEO. 2. The managing partner/ managing director/ CEO delegated the following responsibilities: XXX 3. The individual(s) who is assigned operational responsibility for the SOQM, compliance with independence requirements and the monitoring and remediation process, have a direct line of communication with the individual(s) assigned ultimate responsibility and accountability for the SOQM. <p>Risk 2</p> <ol style="list-style-type: none"> 1. The firm's personnel attend annual training on the quality management standards to ensure a proper understanding of the relevant ISQMs, including the application and other explanatory material, to understand the objective of the ISQMs and to apply its requirements properly.

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	<p>Risk 3 Those with ultimate and operational responsibility may not have the time, experience, or resources to implement the SOQM.</p>				<p>2. Upon induction to the firm, the firm's policies, and procedures to address quality management is provided to the new employee(s) and acknowledgement of receipt is signed by the employee(s).</p> <p>3. The firm's policies and procedures to address quality management is made available to all personnel on the central server.</p> <p>Risk 3</p> <p>1. The individual(s) who are assigned responsibilities have the appropriate experience, knowledge, influence, and authority within the firm, and sufficient time, to fulfil their assigned responsibility and understand their assigned roles and that they are accountable for fulfilling them.</p> <p>a. This is achieved by employing a technical / quality resource to assist the individual in achieving the responsibilities he has been tasked with (a separate resource might not be necessary in a smaller firm); and/or</p> <p>b. In a smaller firm, reducing the fee portfolio to provide them with sufficient time to perform the</p>

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	<p><u>Risk 4</u> Quality objectives may need to be amended or added due to a change in the circumstances of the firm and this may not be identified or acted upon.</p> <p><u>Risk 5</u> Those with ultimate and operational responsibility may not perform their duties in such a way to provide for a proper SOQM.</p>				<p>required tasks which are required in terms of the responsibilities that accompany the delegation.</p> <p><u>Risk 4</u> 1. The SOQM is revised with sufficient regularity to address changing circumstances, at least annually. This revision is based on the results of the ongoing monitoring and remediation.</p> <p><u>Risk 5</u> 1. The individual(s) assuming specific responsibilities and duties are assessed upfront, before assignment of the function responsibilities and duties, and after assignment assessed annually regarding sufficient and appropriate experience, ability and authority and time available to carry out their responsibilities as well as their understanding of the requirements of ISQM. 2. The firm takes corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives in terms of the firm's HR policy.</p>

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c) Leadership demonstrates a commitment to quality through their actions and behaviours .	<p>Risk 1 Actions and behaviours of leadership do not demonstrate a commitment to quality.</p> <p>Risk 2 Unclear, inconsistent, and infrequent actions and communications at different levels of the firm create a culture that does not demonstrate a commitment to quality.</p>				<p>Risks 1 and 2</p> <ol style="list-style-type: none"> 1. Leadership provides regular communications across all levels within the Firm (email or social media methods) with a focus on quality. 2. Leadership prepares and executes an annual communication plan of the firm's values and commitment to quality through various mediums such as presentations, newsletters, promotional material, and social media messaging. 3. Track quality messaging from leadership 4. Periodic partner and staff meetings include a discussion on quality. Highlights of the discussion are documented as well as action points.
d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation, and operation of the firm's system of quality management.	<p>Risk 1 The organizational structure does not support the design, implementation, and operation of the firm's system of quality management.</p>				<p>Risk 1</p> <ol style="list-style-type: none"> 1. CEO / managing partner / managing board of partners or equivalent has / have ultimate responsibility and accountability for the system of quality management of the firm. 2. Those who have been allocated operational responsibility shall have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

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	<p>Risk 2 The firm has not documented quality accountabilities and responsibilities (including delegated responsibilities) for all key leadership roles throughout the organisation, so that individuals know what is expected of them.</p>				<p>3. Require that management and/or board have regularly scheduled meetings as necessary (e.g., semi-annually, quarterly, monthly) with a preset agenda that includes a discussion on quality.</p> <p>4. At least annually, individual assigned ultimate responsibility and accountability for the system of quality control) and/or the individual assigned operational responsibility for the system of quality control present(s) to the managing board the results of the firm's ISQM 1 activities, assessments, and results.</p> <p>Risk 2 1. Document terms of reference for leadership roles throughout the organisation, so that individuals know what is expected of them.</p>
e) Resource needs , including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is	<p>Risk 1 Resource needs are not planned or budgeted as necessary to meet the firm's commitment to quality. Resource needs are not</p>				<p>Risk 1 1. Annual budgets include an allocation for 'quality resources' to ensure monies are spent to enhance quality. 2. An annual 'quality survey' could be held with staff to determine whether they</p>

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consistent with the firm's commitment to quality.	<p>obtained and allocated as necessary to meet the firm's commitment to quality.</p> <p>Risk 2 Unanticipated resource needs are not addressed in a timely manner consistent with the firm's commitment to quality.</p>				<p>feel that they have sufficient access to resources, including technical and intellectual resources. Based on the results, the firm can determine whether additional resources need to be obtained, or whether current resources should be allocated differently.</p> <p>Risk 2 1. Quality funds are set aside specifically for training on quality, technology to support engagements, development of intellectual resources, monitoring of processes and remediation.</p>
RELEVANT ETHICAL REQUIREMENTS					
<p>a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and</p> <p>(ii) Fulfil their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.</p>	<p>Risk 1 The firm and/or its personnel do not know and/or understand the relevant ethical requirements to which the firm and the firm's engagements are subject.</p> <p>Risk 2 The firm and/or its personnel do not identify, evaluate, and address threats to compliance</p>				<p>Risk 1 1. Annual training on the relevant ethical requirements to which the firm and the firm's engagements are subject to.</p> <p>Risks 2 and 3 Specified responses: 1. The firm must develop and implement policies or procedures for:</p>

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	<p>with relevant ethical requirements.</p> <p>Risk 3 Risk that an impermissible service is provided to an audit client or related entity that impairs independence or fails to comply with relevant external regulations.</p>				<ul style="list-style-type: none"> identifying, evaluating, and addressing threats to compliance with relevant ethical requirements. identifying, communicating, evaluating, and reporting any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. <p>Steps to a process when threats / breaches to compliance with relevant ethical requirements have been identified could include:</p> <ul style="list-style-type: none"> Who to report any identified threats / breaches to? Evaluate whether the threat / breach is significant and whether it has an impact on the firm's independence and any other relevant ethical requirements. What was the root cause of the threat / breach; and What are the necessary actions, if any, to be taken to satisfactorily address the consequences of a threat / breach identified? Communicate the breach to any relevant parties, including external parties, such as those charged with governance of the entity to

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	<p><u>Risk 4</u> The firm does not investigate and/or resolve complaints and allegations received.</p> <p><u>Risk 5</u> The firm does not receive complaints and allegations</p>				<p>which the breach relates to, or an external oversight authority.</p> <ul style="list-style-type: none"> Confirm and document that the actions have been completed. <p>2. The firm must obtain annual confirmations of compliance with relevant ethical requirements (with specific confirmation of compliance with independence requirements) from personnel. Completeness of confirmations are monitored and followed up. Exceptions disclosed in the confirmations are monitored and followed.</p> <p><u>Risk 4</u> Specified response:</p> <p>1. The firm must develop and implement policies or procedures for investigating and resolving complaints and allegations received about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies and procedures established in accordance with ISQM 1.</p> <p><u>Risk 5</u> 1. Set up an independently operated whistleblower hotline.</p>

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<p>b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:</p> <p>(i) Understand the relevant ethical requirements that apply to them; and</p> <p>(ii) Fulfil their responsibilities in relation to the relevant ethical requirements that apply to them.</p>	<p>Risk 1 Others do not understand the relevant ethical requirements that apply to them</p> <p>Risk 2 Others do not identify, evaluate, and report threats to compliance with the firm's relevant ethical requirements.</p>				<p>Risk 1</p> <ol style="list-style-type: none"> 1. Include specific clauses in service level agreements indicating the relevant ethical requirements that the service provider needs to comply with. 2. When component auditors are involved (either from the same network or from another network firm), the relevant ethical requirements must be included in the group audit instructions, or where appropriate, training must be provided to component auditors that highlights the relevant ethical requirements. <p>Risk 2</p> <ol style="list-style-type: none"> 1. The firm must develop and implement policies or procedures for others to identify, evaluate and report threats to compliance with the firm's relevant ethical requirements. Steps could include: <ul style="list-style-type: none"> • Ensure that others understand the relevant ethical requirements that apply to them • Inform others who to report threats identified to. • Evaluate the significance and impact of any threats reported. • Determine the actions to be taken to address the threat.

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					<ul style="list-style-type: none"> Confirm and document that the actions have been completed.

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