



QUALITY MANAGEMENT STANDARDS

Practical Guidance on the Implementation of
the Quality Management Standards

Issued September 2022



COPYRIGHT © 2022

THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

Copyright in all publications originated by The South African Institute of Chartered Accountants rests in the Institute. Apart from the extent reasonably necessary for the purposes of research, private study, personal or private use, criticism, review or the reporting of current events, as permitted in terms of the Copyright Act (No. 98 of 1978), no portion of this guide may be reproduced by any process without written permission.

PREFACE

This practical guidance has been developed by the South African Institute of Chartered Accountants (SAICA), primarily to seek to give guidance to members and associates on the practical implementation of the quality management standards.

This guidance does not impose requirements on practitioners beyond those included in the International Standards included and referred to throughout the guidance, but also does not change the practitioner's responsibility to comply with the requirements of any standards, codes, other pronouncements and laws and regulations that may be applicable to a particular practice and/or engagement. Although specific references to various International Standards have been included in the guidance, the practitioner is required to have an understanding of the entire text of each applicable standard to assess how it is relevant to a particular practice and/or engagement and to enable the practitioner to comply with all the requirements of all standards relevant to a practice and/or engagement.

This guidance is not a substitute for reading, understanding and applying the International Standards issued by the International Auditing and Assurance Standards Board (IAASB), as well as the pronouncements of the Independent Regulatory Board for Auditors (IRBA).

Where the guidance suggests a particular view, such a view is based on SAICA's interpretation at that point in time, of the relevant standards and related pronouncements. Although SAICA has consulted with IRBA and the Assurance Guidance Committee (AGC) of SAICA, it is possible that a different view may ultimately be followed in practice.

This document has not been subject to any formal process of the IRBA or SAICA.

This is a live document that is subject to change and is non-authoritative.

The concepts of professional scepticism and professional judgement should be applied in all the scenarios described in the guidance. The different approaches presented are not necessarily the only acceptable approaches.

Every effort has been made to ensure that the guidance included in this guide is correct. Nevertheless, this guidance is provided to members and associates of SAICA to assist them with particular practical aspects relating to the subject matter of the guidance, and SAICA will have no responsibility to any person for any claim of any nature whatsoever that may arise out of or related to the contents of this guidance.

Practical Guidance on the Implementation of the Quality Management Standards

Contents

Page

Introduction

Section 1	ISQM 1 General (including Scalability)	
Question 1	How is ISQM 1 different compared to ISQC 1?	12
Question 2	Who has the operational responsibility for the System of Quality Management (SOQM) within an organisation?	13
Question 3	How is this to be implemented in a small practice with limited resources?	13
Question 4	ISQM 1 requires that the individual with operational responsibility for the System of Quality Management (SOQM) has sufficient time, knowledge, and resources to perform this function. The Standard further requires that the person also has the authority to perform this function, which typically means a partner in the firm will have to perform this function. How will a partner ensure that he/she has sufficient resources, time and support to perform this function adequately?	13
Question 5	Does ISQM 1 allow a network of small firms to share in the resources and benefit of a single network quality/technical department?	14

Section 2	ISQM 1 The Firm's Risk Assessment Process	
Question 1	What are the roles of the different parties within the organisation relating to the risk assessment process?	15
Question 2	What are the sources of information for purposes of the risk assessment process?	15
Question 3	How do you assess quality risks?	16
Question 4	How detailed must the risk assessment be?	16
Question 5	When do you stop this process?	17
Question 6	What is required to be documented?	17
Section 3	ISQM 1 Governance and Leadership	
Question 1	How can a firm demonstrate a commitment to quality through its culture?	19
Question 2	How can leadership demonstrate a commitment to quality through their actions and behaviours?	20
Section 4	ISQM 1 Relevant Ethical Requirements	
Question 1	What does the relevant ethical requirements component of ISQM 1 entail?	21
Question 2	How does a firm ensure that others outside of the firm, who are involved in the firm's engagements or activities related to the SOQM, understand the firm's relevant ethical requirements?	21
Question 3	ISQM 1 includes specified responses to relevant ethical requirements. Do all firms have to apply these?	21

Section 5	ISQM 1 Acceptance and Continuance	
Question 1	Do you have to document client acceptance considerations for every single new client? What about clients that are not audit clients?	23
Question 2	What is the difference between acceptance and continuance?	23
Question 3	What's the difference between client acceptance/continuance and engagement acceptance/continuance?	23
Question 4	Do you need separate processes for these, or can these be done within one single process?	23
Question 5	Is it necessary to complete all the acceptance/continuance procedures before any work can commence on an engagement?	24
Question 6	You must communicate (subject to client approval) with the previous auditor before you take on an audit, but sometimes you don't get a response, or you get it very late. How do you deal with this challenge in accepting new audit clients?	25
Section 6	ISQM 1 Engagement Performance	
Question 1	How is the revised definition of an engagement team per ISQM 1 different from ISQC 1?	27
Question 2	What are the practical implications of the revised definition of an engagement team?	28
Question 3	When should an engagement quality review be performed per ISQM 1?	28
Question 4	When should the engagement partner become involved in engagements?	29
Section 7	ISQM 1 Resources	

Question 1	ISQM 1 has a very particular focus on resources, which includes human, technical, intellectual resources, and service providers. The backbone to all practices is the human resources available. How will you go about, firstly, to consider and establish if the right human resources are available in your audit practice?	30
Question 2	ISQM 1 requires a firm to assign to each engagement resources that have the appropriate competence, capabilities, and time to ensure quality audit (and other) engagements. From your experience what are the common pitfalls with this requirement and how will you go about to address these pitfalls?	31
Question 3	ISQM 1 requires a firm to consider and implement policies and procedures to ensure that the human (and other) resources available from external service providers are aligned to the firm's System of Quality Management (SOQM). How will you approach this?	32
Question 4	To add to the above question regarding external service providers, how will you approach this in a small- and medium sized firm? Do you use service providers in your firm?	33
Question 5	Which service providers do you find most challenging to manage, and how have you overcome these challenges?	34
Question 6	ISQM 1 includes a particular focus on technological resources. With the global COVID-19 pandemic it is easy to understand why the IAASB felt the need to include a specific section in the standard. How exactly do you distinguish which technological resources need to be included within the scope of ISQM 1?	34
Question 7	Can the increasing use of technological resources, including Artificial Intelligence (AI) and other advanced tools, enhance the quality of audits, beyond the benefits derived from efficiency gains?	35
Question 8	Will smaller firms be at a disadvantage in terms of ISQM 1 compliance and quality with regards to the use of new technology, as they cannot necessarily afford it?	35
Question 9	The need for the use of intellectual resources has always been there. Why has the IAASB then included intellectual resources as a specific resource in ISQM 1? Furthermore, what are the implications for the firm?	36

Question 10	ISQM 1 requires that the firm needs to have appropriate intellectual resources to enable the operation of the firm's SOQM and the consistent performance of quality engagements. How can firms practically implement this?	36
Section 8		
Section 8	ISQM 1 Information and Communication	
Question 1	In terms of para. 33 (a) of ISQM 1, one of the quality objectives a firm must establish is an information system that identifies, captures, processes and maintains relevant and reliable information that supports the System of Quality Management (SOQM). Practically, what can a firm's information system entail and/or include?	38
Question 2	ISQM 1 para. 33 requires a firm to establish quality objectives that address communicating information within the firm and to external parties on a timely basis. How will the response to above differ from a large firm to a smaller firm?	39
Question 3	Adding to the question above, when communicating within the firm, should the communication always be centrally initiated and disseminated through the firm?	39
Question 4	The Quality Management Standards (QMS) state that communication to external parties may be required. When would a firm be required, as a result of legislation, to communicate with parties external to the firm? What would a firm be required to communicate with service providers?	40
Section 9		
Section 9	ISQM 1 Networks	
Question 1	A key concern about firms that are part of a network is the overreliance on the network resources. What must a firm, that is part of a network, do to prevent over reliance on the network?	41
Question 2	In the current auditing environment, you often find that smaller firms form a network firm in terms of a brand, whilst remaining autonomous in terms of managing individual companies as branches of the network. Does ISQM 1 offer any possible benefit to such firms, and if yes can you provide some examples?	41

Section 10	ISQM 1 Documentation	
Question 1	Is documentation required for the proper implementation of the SOQM available as a checklist with templates?	43
Question 2	What are some of the benefits of a properly documented SOQM for a firm?	43
Section 11	ISQM 1 Monitoring and Remediation	
Question 1	If a firm provides services other than audit, are there other files that should be selected for a monitoring review?	45
Question 2	How does it affect the monitoring activities when there is a change to the System of Quality Management (SoQM) to address an identified deficiency or there are changes in quality objectives, quality risks or responses because of changes in the nature and circumstances of the firm and its engagements?	45
Question 3	ISQM 1 requires you to accumulate findings from relevant sources when evaluating findings. Firstly, what are findings? And secondly, what sources of information are relevant, to evaluate findings and identify deficiencies?	46
Question 4	Can you give an example of a deficiency that would affect the firm and explain how the root cause is addressed?	46
Question 5	How do you assess or evaluate a deficiency if it is not remediated within one year or is only partially remediated?	47
Question 6	What do you do if you find, in investigating the root cause(s) of an identified deficiency that there are circumstances that have similarities to other circumstances where there were findings that were not considered a deficiency?	47

Question 7	You can no longer just assess whether the actions taken to remediate deficiencies have been implemented. You also need to assess whether those actions taken are effective (i.e., achieve the desired outcome based on the root causes identified). Why is this important and how do you evaluate whether the remedial actions implemented to address previously identified deficiencies, are in fact effective?	48
Question 8	How do we communicate with those charged with governance when performing audits of financial statements of listed entities about how the SoQM supports the consistent performance of quality engagements?	48
Section 12 ISQM 2 Engagement Quality Reviews		
Question 1	Pronouncements by the IAASB are supposed to be scalable for different size audit firms. How has this been incorporated into the ISQM 2 standard?	50
Question 2	How does the EQR fit into the ISQM 1 risk assessment process?	50
Question 3	Does the EQRer need to be registered with a relevant body? For instance, must the reviewer be a registered auditor or a Chartered Accountant (CA)?	52
Question 4	Can the EQRer be an internal resource?	52
Question 5	At what stage of the engagement should the EQRer be involved?	52
Question 6	Can the engagement partner prescribe the sections that the reviewer must focus on?	52
Question 7	What is the extent of documentation required for a quality review and is there flexibility in how evidence of the EQR may be documented?	53

Introduction

ISQM 1¹, ISQM 2² and ISA 220 (Revised)³ come into effect on 15 December 2022. These standards are expected to have a significant impact on all firms that perform engagements in accordance with the IAASB standards. The South African Institute of Chartered Accountants (SAICA), in collaboration with the Pan African Federation of Accountants (PAFA) and the Independent Regulatory Board for Auditors (IRBA), introduced a series of monthly virtual workshops, where different aspects of the international quality management standards were addressed, and participants had an opportunity to share practical insights and clarify their understanding of the implementation of the standards.

This guidance document provides a summary of the pertinent questions answered by panel members throughout the series of workshops.



¹ International Standard on Quality Management (ISQM) 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 Management (ISQM) 2, *Engagement Quality Reviews*

³ International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*

Section 1

ISQM 1: General (including Scalability)

1	How is ISQM 1 different compared to ISQC 1?	<p>ISQC 1 addressed firms' systems of quality control mostly in a rule-based manner. ISQM 1 replaces ISQC 1 and was specifically revised to be more principle based and scalable to the different circumstances of firms.</p> <p>Under ISQM 1, firms are required to design a system of quality management to manage the quality of engagements performed by the firm. ISQM 1 consists of eight components of quality management that operate in an iterative and integrated manner, and other requirements relating to the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services, and documentation. Refer to the IAASB ISQM 1 Fact Sheet for a summary of the key changes brought about by the new standard: https://www.ifac.org/system/files/publications/files/IAASB-ISQM-1-Fact-Sheet.pdf</p> <p>The biggest change is that firms now need to follow a risk assessment process, by specifying quality objectives, identifying and assessing relevant quality risks, and formulating appropriate responses to the quality risks identified. This means that firms will not be able to follow a simple "checkbox" approach anymore but should rather start fresh by properly applying their minds on how to actively manage quality within their firms.</p> <p>The ISQM workshops held during this year and up to February 2023 are specifically held to raise awareness of these key changes brought about by ISQM 1, ISQM 2 and ISA 220 (Revised), and to assist firms by discussing practical implementation considerations.</p>
---	--	--

2	Who has the operational responsibility for the System of Quality Management (SOQM) within an organisation?	<p>Each firm will have to identify who would be the best person to take the operational responsibility for the system in their circumstances.</p> <p>In larger firms, there will probably be a dedicated quality manager or technical partner that may be taking on the operational responsibility for the system.</p> <p>In smaller firms, however, this responsibility can be taken on by either a partner, director or manager in the firm.</p> <p>It is critical that the person who is assigned this responsibility has the necessary knowledge of the requirements of the standard.</p> <p>This person must also have sufficient time available and the required influence and authority within the firm to effectively execute their responsibility.</p> <p>It is therefore possible, that this person may not be able to take on a full client portfolio due to the time and effort required to design, implement, and operate the SOQM.</p>
3	How is this to be implemented in a small practice with limited resources ?	<p>Scalability depends on the nature and circumstances of the firm as well as the engagements performed by the firm. A firm with limited resources will have a less complex and more informal SOQM. For example, the person with ultimate responsibility and accountability for the SOQM may be assigned to a single partner (or sole practitioner) with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the SOQM, including operational responsibility for the SOQM, compliance with independence requirements and the monitoring and remediation process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive than for a more complex firm.</p>
4	ISQM 1 requires that the individual with operational responsibility for the System Of Quality Management (SOQM) has sufficient time, knowledge , and resources to perform this function. The Standard further requires that the person also has the authority to perform this	<p>First prize would be for the partner with operational responsibility for the SOQM, to have a reduced portfolio or no portfolio, allowing him/her sufficient time to perform this function.</p> <p>This may not be possible in a small to medium firm.</p>

	<p>function, which typically means a partner in the firm will have to perform this function. How will a partner ensure that he/she has sufficient resources, time and support to perform this function adequately?</p>	<p>The other solution could be to establish a quality/technical department that reports to this partner or a dedicated manager assisting this partner.</p> <p>Such a quality/technical department should be responsible for implementing the SOQM and monitoring and remediation.</p> <p>Other functions could be:</p> <ul style="list-style-type: none"> • Training on <ul style="list-style-type: none"> ○ ISQM 1, ISQM 2 and ISA 220 (Revised) • Training on new accounting and auditing standards • Training on the firm’s audit methodology • Providing information on the latest news from IRBA, SAICA and other bodies • Performing file monitoring reviews on how to improve file quality • Providing an annual information session on the findings of the monitoring and remediation process.
5	<p>Does ISQM 1 allow a network of small firms to share in the resources and benefit of a single network quality/technical department?</p>	<p>ISQM 1 recognises that firms within a network may provide services to each other in terms of the SOQM within each firm.</p> <p>Pooling the resources of the network firms to establish a combined quality/technical department would allow smaller firms to have the same benefit that larger firms enjoy.</p> <p>Smaller firms do not always have the luxury of having personnel solely dedicated to delivering quality and technical services. Providing such services amongst the firms within the network allows them the benefit while complying with ISQM 1.</p>

Section 2

ISQM 1: The Firm's Risk Assessment Process

1.	What are the roles of the different parties within the organisation relating to the risk assessment process?	<p>The different roles identified in the standard include:</p> <ul style="list-style-type: none">• The individual(s) assigned ultimate responsibility and accountability for the SOQM,• Those that have the operational responsibility for the SOQM,• Those that have the operational responsibility for compliance with independence requirements, and• Those that have operational responsibility for the monitoring and remediation process. <p>These roles should be documented as part of the SOQM.</p> <p>The standard further indicates that the firm may assign additional roles, procedures, tasks or actions to other individuals to assist those individuals that have been assigned responsibility. Keeping in mind that ISQM 1 promotes integrating quality management into the culture of the firm, the firm's strategy, operational activities and business processes; it is not only one or two individuals that are affected, but the whole firm.</p> <p>Considering, that the firm's risk assessment process is the process that is used to establish quality objectives, identify and assess quality risks and design and implement responses and that this process applies to all the components of ISQM 1, except for monitoring and remediation, it really shows that this is not a stand-alone process, only affecting audit - it affects all areas of a firm.</p>
2	What are the sources of information for purposes of the risk assessment process?	Given the proactive and continual approach to manage quality, the information the firm uses to establish quality objectives, identify and assess risks, and design and implement responses includes information from the firm's SOQM itself, such as:

		<ul style="list-style-type: none"> • Results of the firm's monitoring and remediation process. • Changes in the SOQM that affect other aspects of the system (e.g., changes in the firm's resources). • Information regarding complaints and allegations about failures to perform work in accordance with professional standards. • Results of external inspections. • Information from regulators (e.g., regulated industries).
3	How do you assess quality risks?	<p>In assessing the identified risks, the firm must consider two elements, namely the “possibility or likelihood that the risk may occur” and the “possible impact of that risk negatively affecting the achievement of the quality objectives”.</p> <p>The combination of these two considerations will result in the assessed level of risk.</p> <p>The firm must choose a threshold above which risks are considered “quality risks”. These assessed quality risks will require responses in the form of policies or procedures that will address the quality risk.</p> <p>The whole organisation should be involved in the risk assessment process, especially leadership, as this process should not be done in isolation and all risk assessment considerations and conclusions should be documented.</p> <p>In smaller firms less people will be involved, however it is unlikely that one person will be able to assess all risks without consulting with others in the firm.</p>
4	How detailed must the risk assessment be?	<p>In the risk assessment process, a firm can identify endless risks that can adversely affect the achievement of the quality objectives.</p> <p>Not all risks have to be considered quality risks and it is not practicable for a firm to identify, assess and design a response for every risk.</p> <p>Firms must focus on risks that have the greatest impact on achieving quality objectives, so that those risks are appropriately addressed by the firm.</p> <p>Business risks identified should be listed separately and addressed as part of your business risk assessment process.</p>

		It is important to document all risks identified and to assess them. Only once a risk is assessed as not being a quality risk (assessed as lower than your threshold), can one indicate that no response is required.
5	When do you stop this process?	Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in further quality risks . For example, the firm may implement a resource (e.g., a technological resource) to address a quality risk, and quality risks may arise from the use of such resource. Therefore, this process will continue and your risk registers or relevant documentation will be a “live” document. In stating that this is a live document you should consider your quality risks as an when they occur. Firms should not wait for the annual assessment of the system of quality management to update the quality risks.
6	What is required to be documented ?	<p>The standard requires a firm to prepare documentation on its SOQM that is sufficient to:</p> <ul style="list-style-type: none"> • Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of engagements; • Support the consistent implementation and operation of the responses; and • Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM. <p>Specific documentation requirements regarding the monitoring and remediation process will be unpacked as part of the monitoring and remediation process workshop.</p> <p>The firm is not required to document the consideration of every condition, event, circumstance, action or inaction for each quality objective, or each risk that may</p>

	<p>give rise to a quality risk. However, the granularity and form of documentation of the quality objectives, quality risks and responses may assist the firm in identifying and evaluating deficiencies, including investigating the root cause(s) of deficiencies. If the documentation is clear, it may enable the firm to identify where the deficiencies have arisen, how they affect the achievement of the related quality objective, the severity and pervasiveness of the deficiency and the remedial actions needed to address the deficiency.</p> <p>Documentation can also be useful for training personnel and engagement teams, ensuring the retention of organisational knowledge and providing history of the basis of decisions made by the firm about its SOQM.</p> <p>What form should the documentation take on? It can be formal written manuals, checklists, manual forms, informally documented (e-mails), IT applications or other digital forms.</p> <p>The nature and complexity of the firm, its engagements and frequency and extent of the changes to the firm's SOQM will dictate how often these documents will need to be updated.</p>
--	---

Section 3

ISQM 1: Governance and Leadership

1	How can a firm demonstrate a commitment to quality through its culture ?	<p>Firstly, leadership sets the tone at the top by accepting their responsibility for understanding ISQM 1 and their accountability for quality.</p> <p>Firms should establish trust through consistent, regular, and open communication which can be difficult to implement, especially for larger firms. Leadership should be transparent within the firm about actions to address quality, and the effectiveness of those actions.</p> <p>Secondly, the firm's personnel must also be committed to quality. ISQM 1 has the following quality objectives that deal with the actions and behaviour of personnel and their commitment to quality:</p> <ul style="list-style-type: none">• Reinforcing the responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM; and• As part of resources, personnel being expected to develop and maintain the appropriate competence to perform their roles, and to be held accountable or recognised through timely evaluations, compensation, promotion, and other incentives. <p>Firms are also encouraged to do the following:</p> <ul style="list-style-type: none">• Establish a code of conduct (based on the fundamental ethical principles of the IESBA⁴ Code).• Define how quality will be measured and incorporating quality-related measures in personnel evaluations, with associated effects on compensation and promotion. Some of the 'hard' outcome measures include measuring quality by the number of EQR and IRBA findings. However, the use of the number of review queries as a quality-related measure can be
---	---	--

⁴ International Ethics Standards Board for Accountants

		<p>perceived as being unfair, especially for the trainees, supervisors and managers who perform audits on different types of entities and at different levels of simplicity and complexity. Firms need to think carefully before using this as a measure of quality for personnel other than the engagement partners and possibly the senior managers.</p> <p>Another measure could be when audited financial statements need to be restated. This may be more appropriate at engagement partner level.</p> <p>For the firm as a whole, their values, ethics and attitudes can be measured by measuring their behaviour in respect of their responsibilities, as well as their general behaviour with other personnel within and outside the firm.</p> <ul style="list-style-type: none"> • Establish developmental opportunities for personnel that reinforce quality which can include mentoring, “off-the-job” training and formal training. <p>Lastly, quality management is not a separate function of the firm. The firm should embed quality in its strategic decisions and actions, including its financial and operational priorities. Firms should establish values that recognise quality.</p>
2	<p>How can leadership demonstrate a commitment to quality through their actions and behaviours?</p>	<p>This links closely to the establishment of the firm’s culture that should demonstrate a commitment to quality.</p> <ul style="list-style-type: none"> • All partners and personnel should to varying degrees be responsible for implementing the quality management policies and procedures. This should be evaluated annually during performance evaluations of personnel. • Where performance evaluations indicate non-adherence to a procedure, these should be addressed to ensure the required level of quality throughout the firm. • Where disciplinary action is necessary this should be addressed per the firm’s HR policy. • A firm should avoid incentives that are focused on financial and operational priorities that may discourage behaviours that demonstrate a commitment to quality. Incentives should reward outstanding quality.

Section 4

ISQM 1: Relevant Ethical Requirements

1	What does the relevant ethical requirements component of ISQM 1 entail?	<p>The relevant ethical requirements component of ISQM 1 includes compliance with:</p> <ul style="list-style-type: none">• the provisions of the IESBA Code;• any local jurisdictional requirements that are more restrictive than the IESBA Code, the IRBA and SAICA Codes of Conduct; and• any additional more restrictive requirements stipulated by the firm or network firm that the firm is a member of. <p>The ethical requirements apply to the firm and its personnel, as well as others outside the firm, which include the network, network firms, individuals in the network or network firms, or service providers that the firm may appoint to assist in the performance of engagements or other activities in the SOQM.</p>
2	How does a firm ensure that others outside of the firm , who are involved in the firm's engagements or activities related to the SOQM, understand the firm's relevant ethical requirements?	<p>The responses in the SOQM designed and implemented for others outside the firm, could include:</p> <ul style="list-style-type: none">• specific clauses in the service level agreement indicating the relevant ethical requirements that the service provider needs to comply with; or• when component auditors are involved (from the same network or another network firm), the relevant ethical requirements may be included in the group audit instructions, or where appropriate, training may be provided to component auditors which highlights these requirements.
3	ISQM 1 includes specified responses to relevant ethical requirements. Do all firms have to apply these?	<p>Yes, paragraph 34 of ISQM 1 states that a firm SHALL include the following specified responses:</p> <ul style="list-style-type: none">• Policies or procedures for<ul style="list-style-type: none">○ Identifying, evaluating and addressing threats to compliance with relevant ethical requirements;

		<ul style="list-style-type: none">○ Identifying, communicating, evaluating and reporting any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches timeously.● Obtaining annual confirmations of compliance with relevant ethical requirements (including independence requirements) from personnel.
--	--	--

Section 5

ISQM 1: Acceptance and Continuance

1	Do you have to document client acceptance considerations for every single new client ? What about clients that are not audit clients?	<p>ISQM 1 applies to assurance and related services, so it obviously applies to all audit and review clients (those clients where you perform independent reviews in terms of ISRE 2400 (Revised)), as well as agreed-upon procedures and compilation clients. If you only do, say tax compliance, for a client, ISQM 1 is not applicable.</p> <p>But it's best practice to do this for all clients. All firms probably have a process already whereby they consider if they have the necessary skills and resources and whether they want to be associated with this potential new client or not. And then firms probably have some documentation already, like a new client application form where you record the client's details like VAT number, address, etc. Just expand this documentation to include the factors that you think pose a risk to your firm.</p>
2	What is the difference between acceptance and continuance ?	<p>This may sound like a silly question because everyone understands the difference between accepting a client and continuing with a client. But in practice it's easy to mix them up and end up only doing one of the two. The principle is just that you must keep both steps in mind: there are certain considerations when a new client is taken on, but at some stage you also need to decide if you want to continue with the client relationship. This is for client acceptance and continuance.</p>
3	What's the difference between client acceptance/continuance and engagement acceptance/continuance?	<p>There's a next level – which is engagement acceptance and continuance. Just as you must decide if you want to accept a client, you then must decide if you want to do a particular engagement for a client.</p>
4	Do you need separate processes for these, or can these be done within one single process?	<p>It depends on the nature of your firm and its clients.</p>

		<p>If one partner supervises all the work for a specific client, it is possible for that client to just consider once a year if you still want to continue with the client and make that decision for all the engagements you are going to perform for that client.</p> <p>If a client is serviced by different divisions in the firm, it may be necessary to split the decision into a client acceptance/continuance decision for the whole firm, and then separate decisions per service line. Each service line can decide how often they need to make the decision also.</p> <p>So, it all comes back to the firm's quality objectives and quality risks – is there a risk that your objectives may not be achieved? What do you do about it?</p> <p>And remember what was said in one of the previous workshops – a response to one risk may create a risk in another place. By allowing one department to decide to provide a non-assurance service to a client, an independence threat is created if you also do the audit.</p>
5	<p>Is it necessary to complete all the acceptance/continuance procedures before any work can commence on an engagement?</p>	<p>Again, it depends on the risk. There's no absolute red line between acceptance and continuance and starting the work, but you must never allow a situation where you have done so much work that it's impossible or not practical to discontinue the engagement or where the client thinks the engagement has already been accepted.</p> <p>Sometimes you even need to make the engagement continuance decision before the current engagement is finished, for example if you notice this year that the client's Public Interest Score is likely to increase in the next year to preclude you from providing certain services, the evaluation needs to be done long before you reach that point, so that the client and the firm can prepare for changes if necessary.</p>

		<p>Also remember the other logistical considerations – for example, should the engagement letter be signed before any work is performed at all? ISA 210⁵ para. A23 states that it is in the interests of both the entity and the auditor that the auditor sends an engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. So, ideally, yes but that’s not always possible for example if those charged with governance are overseas and the client has a reporting deadline. You may need to do some preliminary work just based on mutual agreement by email before the engagement letter is signed..... So how much do you allow?</p> <p>And all these decisions are still subject to the firm’s established policies, or the network’s policies if you are part of a network. The firm may have set a policy, for example that no audit staff may start fieldwork at a client’s premises until the relevant engagement letter has been signed.</p>
6	<p>You must communicate (subject to client approval) with the previous auditor before you take on an audit, but sometimes you don’t get a response, or you get it very late.</p> <p>How do you deal with this challenge in accepting new audit clients?</p>	<p>ISQM 1 doesn’t contain any new requirements, the Code of Conduct⁶ is still applicable. In the case of an audit or review of financial statements, a registered auditor shall request the existing or predecessor accountant to provide known information regarding any facts or other information of which, in the existing or predecessor accountant’s opinion, the proposed accountant needs to be aware before deciding whether to accept the engagement.</p> <p>If unable to communicate with the existing or predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats to the fundamental ethical principles, such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.</p>

⁵ International Standard on Auditing (ISA) 210, *Agreeing the terms of audit engagements*

⁶ IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)

		<p>So, this is one of your considerations for client acceptance and you should go back to the risk assessment. Is there a risk if you start the engagement without the previous auditor's response and what is the likelihood and magnitude of this risk? Your response will depend on the answers to these questions. It might be that the previous auditor's response is only a formality (where sufficient information was obtained through other steps taken), or in other cases you absolutely need that information from the prior auditor (where sufficient information could NOT be obtained through other steps taken) to decide if you even want to accept the client or not.</p>
--	--	---

Section 6

ISQM 1: Engagement Performance

1	How is the revised definition of an engagement team per ISQM 1 different from ISQC 1?	<p>Per ISQM 1 para.16(f), the engagement team is defined as “<i>All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement</i>”.</p> <p>From this revised definition and further explanatory material included in ISA 220 (Revised) para. A17, it can be seen that “<i>any other individuals who perform procedures on the engagement</i>” goes much wider than the definition per ISQC 1, since this can include individuals who are from a network firm, a firm that is not a network firm, or another service provider.</p> <p>For example, an individual from another firm may perform audit procedures on the financial information of a component in a group engagement, attend a physical inventory count or inspect physical fixed assets at a remote location. This individual forms part of the engagement team in terms of the definition in ISQM 1.</p> <p>The only individuals that do not form part of the engagement team are those whose involvement is limited to consultation, engagement quality reviewers, auditors’ external experts and internal auditors providing direct assistance.</p> <p>(Note that the proposed revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) para. 400.D states that “...<i>the engagement quality reviewer and any other individuals performing the engagement quality review are <u>audit team</u> members, but not engagement team members.</i>”)</p>
---	--	--

		<p>You would also note that I have referred to ISA 220 (Revised) while responding to this question about ISQM 1 and I may also refer to ISQM 2 later. This is because all three the quality management standards are interlinked. Even though we are only covering ISA 220 (Revised) and ISQM 2 later in the year in detail, some of our current actions and responses already link us to these other standards.</p>
2	<p>What are the practical implications of the revised definition of an engagement team?</p>	<p>Per ISA 220 (Revised) para. A23, engagement team members are responsible for implementing the relevant policies and procedures that are applicable to the engagement. If the engagement team includes individuals who are from another firm, the engagement partner may need to take different actions to implement the firm’s policies and procedures in respect of the work of those individuals.</p> <p>For example, obtaining information from the other firm or a licensing or registration body to evaluate whether these individuals have the appropriate competence and capabilities to perform the engagement. This can also include providing information, manuals or guides on relevant ethical requirements applicable to the engagement and obtaining written independence confirmations.</p>
3	<p>When should an engagement quality review be performed per ISQM 1?</p>	<p>Per ISQM 1 para. 34 (f), engagement quality reviews must be performed for:</p> <ul style="list-style-type: none"> (i) audits of financial statements of listed entities, (ii) audits or other engagements for which an engagement quality review is required by law or regulation, or (iii) audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks. <p>ISQC 1 para. 35 also required such a review for audits of listed entities, but then further required firms to set their own criteria against which their engagements should be evaluated to determine when a review should be performed. Many firms have set quantitative thresholds or criteria for this purpose, resulting in many</p>

		<p>audits falling within the criteria while there is a very low risk attached to these engagements when considering qualitative factors.</p> <p>ISQM 1 changed this by requiring firms to consider where their quality risks lie and then implement appropriate responses to address these quality risks. Therefore, firms now need to specifically consider the qualitative factors and quality risks attached to their engagements to determine when engagement quality reviews would be required in response to these quality risks.</p>
4	<p>When should the engagement partner become involved in engagements?</p>	<p>ISQM 1 para. 31(a) requires the engagement partner to manage and achieve quality on the engagement and be sufficiently and appropriately involved throughout the engagement. This includes taking responsibility for appropriate direction, supervision and review.</p> <p>ISA 220 (Revised) para. 31 further explains that this means review of work at appropriate points in time during the engagement. The engagement partner should be involved and review work at different stages throughout the engagement.</p> <p>With the technology available today, it has become much easier for engagement partners to review work remotely, when necessary, while their engagement team is still on the job, and not just at the end of the engagement directly prior to signing the engagement report. Technology can also be harnessed for managing the engagement team when in-person interactions are not always possible. Therefore, there should be no excuse anymore for not being involved earlier throughout engagements. It is important to note, though, that it is still best for engagement partners to be in the field with their teams rather than purely relying on a remote review process.</p>

Section 7

ISQM 1: Resources

1	<p>ISQM 1 has a very particular focus on resources, which includes human, technological, intellectual resources, and service providers.</p> <p>The backbone to all practices is the human resources available.</p> <p>How will you go about, firstly, to consider and establish if the right human resources are available in your audit practice?</p>	<p>ISA 220 (Revised) places a responsibility on the engagement partner to determine if sufficient, skilled, and appropriate audit resources are available.</p> <p>From an ISQM 1 point of view, the leadership team in the firm will need to critically review the performance of the team and actively manage the measurement of the engagement team's performance on each engagement, identify areas where the performance can be improved and implement remedial actions if required.</p> <p>This also requires the engagement partner to actively partake and to be involved in the audit engagement, as one cannot be expected to measure and intervene with the team's performance if not actively involved in the engagement team, together with structured performance measurement tools that need to be well thought through, implemented, and reviewed regularly.</p> <p>It is the leadership of the firm and more specially the engagement partner's responsibility to assign the appropriate team members to the engagement but also to upskill the engagement team if required. It is the leadership's role to set the team up for success and this could also require the firm to have dedicated training, simulations, and interventions to improve the skills and experience of the team members.</p> <p>The firm's leadership, under direction of the managing partner, will also need to consider the firm's strategy and possible future clients to ensure the team have the skills and required staff complement to ensure quality audit engagements.</p> <p>It goes without saying that if the firm is expanding, it is imperative to recruit for success and ensure that capable resources are available to assign to new engagements. This leaves many small-and medium-sized firms with a conundrum</p>
---	--	--

		<p>as the implementation of ISQM 1 is already placing an additional time and cost burden on the firm.</p> <p>But the question needs to be, what is the alternative? To summarize the above, the firm will need to firstly measure their current resources available, ensure they are trained, skilled and capable and then recruit and hire new employees to complement these resources as well as to support the intended strategy and growth of the firm.</p>
2	<p>ISQM 1 requires a firm to assign to each engagement resources that have the appropriate competence, capabilities, and time to ensure quality audit (and other) engagements.</p> <p>From your experience what are the common pitfalls with this requirement and how will you go about to address these pitfalls?</p>	<p>From my own experience, it is imperative to have a forward-looking approach with respect to this.</p> <p>It happens so often that we may plan for two or three engagements, without due consideration of statutory deadlines and the client's reporting deadlines, or even to consider an employee's leave request or even worse when some of our team members fall ill or have an emergency.</p> <p>From this, the biggest pitfalls are the lack of planning and to not have enough employees available in the engagement team.</p> <p>We should typically plan at least two months and in most instances four months ahead with our engagements, ensure that the clients are informed of the expected deliverables from the client, the reporting deadlines and the team assignment to their engagement.</p> <p>From this, we can ensure we have enough resources that we can assign, plan ahead and if we need additional resources, we have sufficient time to recruit or to engage with other firms to obtain seconded trainees.</p> <p>I also think it is imperative to have a well-structured planning and assignment resource (i.e., a staff planner) to consider human resources, skills, and hours available and to assign this before the actual engagement commences, as and</p>

		<p>when the engagement is agreed to. This again has the added benefit that the firm can actively manage the resources available.</p> <p>Through this process it is also quite possible that you will find that in some instances you have been undercharging your long-standing clients compared to the actual billable hours booked to them to ensure a quality engagement. This is then also an opportunity to engage with them to ensure you bill the correct hours and fees for the engagement and to advocate your own firm's views on quality and your commitment to continuous improvement of quality.</p> <p>Lastly, I have the view that we all need to employ a sufficient number of employees to be ahead of the power curve, and to have at least a few team members that are available and not fully assigned to a specific engagement/s. From a business perspective, this will mitigate the risk of vacancies, emergencies and employee shortages and we all will be able to attend quicker to client needs.</p>
3	<p>ISQM 1 requires a firm to consider and implement policies and procedures to ensure that the human (and other) resources available from external service providers are aligned to the firm's System of Quality Management (SOQM).</p> <p>How will you approach this?</p>	<p>We currently have a lot of service providers in South Africa to support audit firms, be it support in terms of accounting, tax, and audit software, EQR, ISQM implementation, training service providers, trainee support software, practice management, other firms that provide trainees etc.</p> <p>Once you have established your own firm's ISQM manual and risk register, and implementation is either completed or a work in progress, you will need to engage with your service providers to discuss and debate their own SOQM (or similar framework for quality management).</p> <p>You will need to consider how this is aligned to your own SOQM and whether this supports and / or compliments your own system. I have also enquired about the service providers' resources, commitment to quality, the risks identified by them with the implementation of their own SOQM, and how they have implemented or improved their SOQM.</p>

		<p>I have had some difficult discussions to this extent in the past, but the leadership of the firm needs to take a definitive stance that quality is not negotiable, and you need to ensure that all service providers live up to the same standard and quality that you envision for your firm.</p>
4	<p>To add to the above question regarding external service providers, how will you approach this in a small- and medium sized firm? Do you use service providers in your firm?</p>	<p>In my own firm, I have made a detailed list of services that I have outsourced and during the ISQM implementation:</p> <ul style="list-style-type: none"> • I have firstly considered why I have the service outsourced, • secondly, I have critically considered the risks around it and • thirdly, I have considered what I require from this service provider. <p>After this, I have made a list of all service providers and then listed their advantages, strengths and possible concerns or shortcomings.</p> <p>From this I then identified two or three possible service providers for each service and then had discussions with them to gauge their commitment to quality, the risks identified by them with the implementation of their own SQOM, and how they have implemented or improved their SOQM and what resources are available in their own organisation.</p> <p>I have also considered the service providers' availability, support, staffing, and my firm's previous experience with them, to support my forward-looking approach in terms of my firm's strategy.</p> <p>Cost is not the only consideration, as quality is in my view more important than just cost.</p> <p>I have also considered whether some of the functions cannot be insourced for example:</p> <ul style="list-style-type: none"> • What will the additional requirements be for my own SOQM? • What will the total cost be for my firm? • What additional time will be required by the firm's leadership?

		I have service providers that range from software providers, be it accounting, audit, tax, and practice management, to seconded trainees and EQRs. I have also engaged with service providers regarding ISQM support but have not yet contracted a service provider.
5	Which service providers do you find most challenging to manage, and how have you overcome these challenges?	<p>The most challenging service providers are the seconded trainees (or support employees outside of my office) as they are an integral part of your engagement team and must not be seen as consultants.</p> <p>The component auditors on groups are also challenging as you need to manage their skills, quality, and their time available, while they are not under your control.</p> <p>I have set out the expectations, deliverables, and terms, agreed for them and then entered into formal agreements that outline these.</p> <p>On group audits, the component auditor is also an integral part of your engagement team and the requirements of ISQM makes it imperative that you also consider the group auditor's:</p> <ul style="list-style-type: none"> • service providers' resources, • commitment to quality, • identified quality risks with the implementation of their own SOQM, and • implementation of and/or improvement to their SOQM <p>to ensure that quality engagements are delivered.</p>
6	<p>ISQM 1 includes a particular focus on technological resources.</p> <p>With the global COVID-19 pandemic it is easy to understand why the IAASB felt the need to include a specific section in the standard.</p>	<p>The key principle to remember is that when ISQM 1 refers to technological resources it refers to:</p> <ul style="list-style-type: none"> • Technological resources that are directly used in designing, implementing, or operating the firm's system of quality management. Examples include: <ul style="list-style-type: none"> ○ Information Technology (IT) applications used to manage your staff, conflicts of interests, etc.

	<p>How exactly do you distinguish which technological resources need to be included within the scope of ISQM 1?</p>	<ul style="list-style-type: none"> • Technological resources that are used directly by engagement teams in the performance of engagements. Examples include: <ul style="list-style-type: none"> ○ Draftworx ○ CaseWare ○ Data analytics tools • Technological resources that are essential to enable the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application. Examples include: Operating systems such as Windows and anti-virus software. <p>(See paragraph A99 for guidance)</p>
7	<p>Can the increasing use of technological resources, including Artificial Intelligence (AI) and other advanced tools, enhance the quality of audits, beyond the benefits derived from efficiency gains?</p>	<p>Audited entities are deploying increasingly complex business models and implementing increasingly sophisticated systems and technologies of their own and, they, themselves, need to prepare financial and corporate reports in compliance with a substantial body of laws, regulations, and standards.</p> <p>Auditors operate in a constant improvement environment. It is therefore essential that we continue to invest in the latest technologies. However, these technologies, in themselves, will not positively change the indicators of audit quality.</p> <p>High quality audits fundamentally rely on training and deploying the highest quality individuals within an environment where behaving ethically and achieving high-quality work, is the backbone of the firm's culture.</p>
8	<p>Will smaller firms be at a disadvantage in terms of ISQM 1 compliance and quality with regards to the use of new</p>	<p>Any firm that chooses not to invest in audit technology will, in the longer term, be at a disadvantage with regards to auditing the most complex entities to the highest level of standards. However, it does not necessarily mean that simply investing in technologies will improve audit capability and quality.</p>

	<p>technology, as they cannot necessarily afford it?</p>	<p>Some technologies (that some firms have invested heavily in) have either failed to have a significant impact on the quality of auditing or have had a relatively short useful life.</p> <p>Equally many of these technologies flow down from a licensed status to one where they are provided by third party suppliers. This phenomenon does provide for a wider range of audit firms to utilise similar technologies with relatively short lead times, should they have the appetite to invest in the training and application thereof.</p>
9	<p>The need for the use of intellectual resources has always been there.</p> <p>Why has the IAASB then included intellectual resources as a specific resource in ISQM 1?</p> <p>Furthermore, what are the implications for the firm?</p>	<p>The IAASB noted that intellectual resources are essential to enabling the performance of quality engagements and are not addressed in extant ISQC 1.</p> <p>Quality engagements are an important output / desired result of the firm's SOQM, and therefore intellectual resources that contribute to that output / result had to be included.</p> <p>Intellectual resources consist of a variety of things. Such as the World Wide Web, manuals, guidelines, policies, procedures and methodologies that are aligned to the professional standards and applicable laws and regulatory requirements.</p> <p>Firms need to "rethink" what their intellectual resources are, and whether they are actually using the most appropriate intellectual resources.</p>
10	<p>ISQM 1 requires that the firm needs to have appropriate intellectual resources to enable the operation of the firm's SOQM and the consistent performance of quality engagements.</p> <p>How can firms practically implement this?</p>	<p>There are 3 steps to ensure that the firm's intellectual resources are appropriate:</p> <ol style="list-style-type: none"> 1. Obtain or develop 2. Implement 3. Maintain <p>Obtaining or developing intellectual resources may not be that difficult and firms may already have most of these in place. The firm must just always ensure that</p>

whatever intellectual resources are obtained or developed are aligned to the professional standards and applicable laws and regulatory requirements. For example, if the firm is performing assurance engagements for greenhouse gas statements, the firm must ensure that its working papers reflect the jurisdictional law and regulation related to emissions.

Implementing intellectual resources requires planning. The firm needs to think of how, by who, to whom and when it will be implemented.

A firm will also need to decide where its intellectual resources will be stored, e.g., server, SharePoint, OneDrive, in a physical library, etc. and possibly set up access and editing rights.

Ensuring that the firm's intellectual resources are maintained will require it to make sure that its intellectual resources:

1. are **complete**
2. are **consistent** – **latest versions** are used
3. are **relevant** to the industries in which its clients operate, e.g., manufacturing, greenhouses gas, insurance, etc.

A person, or persons, must be **given the responsibility** to ensure that the “library” is regularly updated and remains relevant.

Section 8

ISQM 1: Information and Communication

1	<p>In terms of para. 33 (a) of ISQM 1, one of the quality objectives a firm must establish is an information system that identifies, captures, processes and maintains relevant and reliable information that supports the System of Quality Management (SOQM).</p> <p>Practically, what can a firm's information system entail and/or include?</p>	<p>Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and includes the dissemination of information within the firm and externally.</p> <p>Reliable and relevant information includes information that is:</p> <ul style="list-style-type: none">- accurate,- complete,- timely and- valid <p>to enable the proper functioning of the firm's SOQM and to support decisions regarding the SOQM.</p> <p>The information system may include the use of manuals, policies or Information Technology (IT) applications which affect the way information is:</p> <ul style="list-style-type: none">- identified,- captured,- processed,- maintained and- communicated <p>Example – When engaging with a potential new client, the firm can establish policies to be followed and direct the nature of the information that will be required from all new clients as well as how such information can be captured, processed and verified. All clients may be required to provide their Companies and Intellectual Property Commission (CIPC) registration documents, and the firm can use the CIPC database to verify if any of that information (such as registered name/address/directors) have changed or differ from the</p>
---	---	---

		information received from the client. The firm can then ensure that it performs its risk assessment using accurate and valid information.
2	<p>ISQM 1 para. 33 requires a firm to establish quality objectives that address communicating information within the firm and to external parties on a timely basis.</p> <p>How will the response to above differ from a large firm to a smaller firm?</p>	<p>A larger audit firm would typically have more formal policies and processes in place that outline the lines of communication within the firm, the network and external parties.</p> <p>For a smaller firm, communication may be less formal, such as through direct discussions.</p> <p>What is important to note is that ISQM 1 does not require all communication to be formally documented. It is often not practicable to do so.</p> <p>Firms, no matter the size or complexity, would need to document communication to the extent necessary to address the documentation requirements in ISQM 1 para 57-59.</p> <p>ISQM 1 requires firms to prepare documentation to achieve three principles:</p> <ul style="list-style-type: none"> • Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of engagements; • Support the consistent implementation and operation of the responses; and • Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM.
3	<p>Adding to the question above, when communicating <u>within the firm</u>, should the communication always be centrally initiated and disseminated through the firm?</p>	<p>The standard refers to information that should be “exchanged”.</p> <p>So, although the communication would frequently come from a central source, through manuals & policies, the communication from personnel and engagement teams to the firm’s quality champion on possible deficiencies in</p>

		<p>the existing responses or new risks identified for which an appropriate, response should be formulated is also very important in order to ensure that the quality management process remains relevant.</p> <p>This would require a continuous awareness, amongst the leadership and staff of the firm, of the need to properly identify risks to the overall quality of the work performed by the firm.</p> <p>In a smaller firm, the role players are fewer and thus more closely engaged with each other and the various functions performed.</p> <p>Therefore, maintaining an awareness may be easier than the case may be in bigger firms.</p>
4	<p>The Quality Management Standards (QMS) state that communication to external parties may be required.</p> <p>When would a firm be required, as a result of legislation, to communicate with parties external to the firm?</p> <p>What would a firm be required to communicate with service providers?</p>	<p><u>Communication arising from legislation</u></p> <ul style="list-style-type: none"> • The Auditing Profession Act requires reporting of known or possible reportable irregularities committed by an audit client, to IRBA. • The Companies Act and Regulations also require known or possible reportable irregularities identified on independent reviews to be reported to CIPC⁷. • When money laundering is suspected, the matter needs to be reported to the Financial Intelligence Centre (FIC). <p><u>Service providers</u></p> <ul style="list-style-type: none"> • Deficiencies identified by the quality and risk department, within the area for which the firm uses the service provider, • Network inspections identified a new pervasive finding, that affects the area for which the firm uses the service provider, • The firm underwent a regulatory firm / engagement review with findings that affect the scope of the service provider's work, to prevent such findings from recurring.

⁷ Companies and Intellectual Property Commission

Section 9

ISQM 1: Networks

1	<p>A key concern about firms that are part of a network is the overreliance on the network resources. What must a firm, that is part of a network, do to prevent over reliance on the network?</p>	<p>Each firm is responsible for its own quality management system and accordingly a firm will be required to tailor network requirements to the firm's own circumstances. This would include, but is not limited to:</p> <ul style="list-style-type: none">• Determining based on the local resources and local legislative requirements when network resources will need to be utilised (e.g., training programs, audit experts or quality and risk departments);• Providing training across the firm on methodology developed by the network which the firm utilises; and• Developing policies and procedures to determine that network requirements are adhered to when using component auditors (e.g., minimum duration of industry experience for Public Interest Entities)
2	<p>In the current auditing environment, you often find that smaller firms form a network firm in terms of a brand, whilst remaining autonomous in terms of managing individual companies as branches of the network.</p> <p>Does ISQM 1 offer any possible benefit to such firms, and if yes can you provide some examples?</p>	<p>ISQM 1 does provide for benefits in terms of both quality management and business management for firms in such network situations. Some examples would include:</p> <ul style="list-style-type: none">• In situations where common quality objectives and risks exist across the network firms, the network may provide the individual network firms with responses for such risks. These responses, along with any supporting resources required, can be implemented in the individual network firms. This could bring about a reduction in costs for individual network firms and potentially increase conformity across the network assisting in building brand awareness.• Where the network becomes aware of a deficiency during the remediation process in terms of common risk responses, it would be possible to provide

		<p>guidance to other firms within the network on potential responses. Thereby learning from others within the network.</p> <ul style="list-style-type: none">• Smaller networks may decide to set up shared services like a network quality and technical department to perform the risk assessment, monitoring and remediation functions, thereby reducing the cost structures and enjoying the benefits of a functioning quality and technical department. <p>It is however crucial that when such combined services and processes exist that these be properly documented and managed, in order to get the maximum benefit.</p>
--	--	---

Section 10

ISQM 1: Documentation

1	Is documentation required for the proper implementation of the SOQM available as a checklist with templates?	<p>The documentation of the SOQM will vary according to each firm's risk evaluation and the formulated responses to the risks.</p> <p>There are service providers in the industry that do offer basic frameworks for the building of a SOQM and some template documents that can be commonly used, which would reduce the amount of work that would be required to properly document the SOQM for a firm.</p> <p>One should however be very careful and not blindly accept the risks and responses in these templates as:</p> <ol style="list-style-type: none">1. The <u>only</u> risks that could be relevant and/or2. The <u>only</u> responses that could address the identified risks. <p>Your documentation should be tailored to ensure that it makes sense in your firm's context and really assists in the management and monitoring of your firm's SOQM and the role-players in the various processes, rather than only being another form that gets completed and filed without any real purpose or consequence.</p>
2	What are some of the benefits of a properly documented SOQM for a firm?	<p>There is a phrase in the auditing space that says "if it's not documented then it's not done" so the first benefit would be that documentation provides evidence that the firm complies with ISQM 1.</p> <p>Secondly, the documentation that the firm has produced may also be useful for training personnel and engagement teams.</p> <p>Thirdly, staff will understand their roles and responsibilities within the SOQM and during engagements.</p>

		<p>Documentation will ensure the retention of organisational knowledge and provide a history of the basis for decisions made by the firm about its SOQM.</p> <p>It will help eliminate any ambiguity and provides a point of reference for staff whenever the need arises.</p> <p>Because firms are not the same in size and complexity, each firm's documentation will be different and will address its own needs. As such, firms will have to use judgement in assessing what will be sufficient documentation of their SOQM.</p> <p><u>But generally, documentation may:</u></p> <ul style="list-style-type: none">- take the form of formal written manuals, checklists and forms;- be informally documented (e.g., e-mail communication or postings on websites) or- be held in IT applications or other digital forms (e.g., in databases).
--	--	---

Section 11

ISQM 1: Monitoring and Remediation

1	If a firm provides services other than audit, are there other files that should be selected for a monitoring review?	<p>ISQM 1 requires that each engagement partner be subject to at least one completed engagement being reviewed in a cycle. An engagement partner is the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p>If an engagement partner has issued a report under any of the IAASB standards, for example for independent reviews, agreed-upon procedures or compilations, these would be included as part of and in scope for selection for monitoring. However, as ISQM 1 is a risk-based approach to quality management, if engagement partners of the firm are issuing other reports that are not in terms of the IAASB standards, these should ideally also be included in the scope of engagements that are subject to monitoring. The requirement is that each engagement partner should be subject to a review of a completed engagement in a cycle. This promotes the overall quality of the firm.</p> <p>The firm will however have to perform those monitoring reviews on the non-IAASB engagements using the standards and frameworks that those reports were issued under, such as the International Standards for the Professional Practice of Internal Auditing for internal audit reports.</p>
2	How does it affect the monitoring activities when there is a change to the System of Quality Management	When changes do occur, then previous monitoring activities may no longer be applicable. A change in the approach will be required and if this happens mid-year then it is suggested that a guidance document be

	(SoQM) to address an identified deficiency or there are changes in quality objectives, quality risks or responses because of changes in the nature and circumstances of the firm and its engagements?	included in the relevant monitoring evidence to demonstrate the before and after effects of the changes. This is to ensure there is no break in the cycle of monitoring and the risk of a deficiency not being identified has been sufficiently managed in the cross over period.
3	<p>ISQM 1 requires you to accumulate findings from relevant sources when evaluating findings.</p> <p>Firstly, what are findings?</p> <p>And secondly, what sources of information are relevant, to evaluate findings and identify deficiencies?</p>	<p>Findings are information about the design, implementation and operation of the SoQM identified from the performance of monitoring activities, external inspections and other relevant sources which may indicate an area requiring improvement at the engagement level and/or SoQM level.</p> <p>Findings can be identified from the following sources of information:</p> <ol style="list-style-type: none"> 1. Regulatory reviews at both a firm and an engagement level 2. Ongoing and periodic monitoring 3. Restatements/ prior year adjustments; and 4. Complaints, claims or potential claims that relate to professional services, ethical issues or any other matters, from parties outside of the firm.
4	Can you give an example of a deficiency that would affect the firm and explain how the root cause is addressed ?	<p>The monitoring processes could identify that an audit report has been issued which is not using the latest template applicable to the engagement. Further investigation of root cause may reveal that the template being used by the firm was not updated, and it's still the old template being used. As the old template was used by everyone in the firm, this would potentially mean that all the reports that have been issued by the firm using the old template are incorrect.</p> <p>Steps the firm could then take would be to communicate to the firm that the old template should not be used and where the new template may be</p>

		<p>accessed. The firm would then need to consider whether the reports that have been issued using the old template should be withdrawn and reissued, or dealt with in another way, depending on the nature of the difference between the old and new reporting template.</p> <p>It should be noted that the report issued by the firm is pretty much the only document that the public sees in relation to the work performed on an engagement.</p> <p>So, it's very important in relation to how the public would perceive a specific firm, but also the entire accounting profession. This is why audit regulators place so much importance on the audit report being technically correct when they perform their regulatory reviews.</p>
5	How do you assess or evaluate a deficiency if it is not remediated within one year or is only partially remediated ?	<p>Should a deficiency not be remediated this could indicate other deficiencies within the design of the root cause analysis process. The initial assessment of the pervasiveness of a deficiency and whether the associated controls are complete (i.e., the rigour of identifying the causes (including any culture indicators)) is imperative to ensure that a deficiency is remediated or partially remediated timeously.</p> <p>Should a deficiency be present in year 2, it is recommended that additional explanations are provided within your SoQM as to why the deficiency is not fully remediated, and more regular assessment of remediation is required.</p>
6	What do you do if you find, in investigating the root cause(s) of an identified deficiency that there are circumstances that have similarities to other circumstances where there	<p>In such instances, you may need to adjust your evaluation of the other findings and classify them as a deficiency too.</p>

	were findings that were not considered a deficiency ?	
7	<p>You can no longer just assess whether the actions taken to remediate deficiencies have been implemented. You also need to assess whether those actions taken are effective (i.e., achieve the desired outcome based on the root causes identified).</p> <p>Why is this important and how do you evaluate whether the remedial actions implemented to address previously identified deficiencies, are in fact effective?</p>	<p>Your list of remedial actions taken should ideally be treated as a live document.</p> <p>An important element of this document is the firm's ongoing monitoring of the effectiveness of remedial actions and implementation of further adjustments, when appropriate. This type of self-monitoring and self-correcting will allow firms to more timely identify instances where initial remediation efforts appear not to be sufficiently responsive in terms of design or implementation, and to react accordingly.</p> <p>An assessment of the existing ongoing and periodic monitoring in place should be analysed to conclude if changes to the nature, timing and extent of the monitoring activities are needed to ensure that the deficiencies identified are remediated on a timely basis.</p> <p>This might for example include performing your periodic monitoring on a more regular basis and not only on an annual basis if that was your firm's approach in the past.</p>
8	<p>How do we communicate with those charged with governance when performing audits of financial statements of listed entities about how the SoQM supports the consistent performance of quality engagements?</p>	<ul style="list-style-type: none"> • Through a transparency report or a similar report, information relating to the various SoQM elements within your firm can be documented. Input can be obtained from the various and many functions at the firm. • The Risk and Quality division (or similar) of the firm will manage the process to ensure appropriate, accurate and transparent communication. • A letter (template prepared by The Risk and Quality division of the firm) can be circulated to all engagement teams (addressed to client

		<p>leadership) which summarises the firm's SoQM self-evaluation for the year.</p> <ul style="list-style-type: none">• The Risk and Quality division of the firm will monitor compliance with the requirement to communicate with those charged with governance through a listing of all audit clients. Engagement teams should be responsible for sending the Risk and Quality division of the firm the finalised letter to ensure compliance with processes that are designed and in place for this communication.
--	--	--

Section 12

ISQM 2: Engagement Quality Reviews

1	<p>Pronouncements by the IAASB are supposed to be scalable for different size audit firms.</p> <p>How has this been incorporated into the ISQM 2 standard?</p>	<p>The standard includes scalability as, it is acknowledged in the standard that the nature, timing and extent of an Engagement Quality Reviewer (EQRer)'s procedures will vary dependent on the nature and circumstances of the engagement and / or the entity.</p> <p>Practically speaking in less complex engagements, the duration of the review should be significantly reduced as a result of lack of numerous significant risks and areas of judgement that are present in the engagement.</p> <p>Furthermore, the extent of documentation will also vary depending on the:</p> <ul style="list-style-type: none">• Nature and complexity of the engagement;• Type of entity subject to the quality review;• Quantum and type of matters that are subject to the review; and• Extent of engagement working papers reviewed. <p>These factors facilitate that the reviews will be less complex and time consuming and hence scalable for smaller engagements.</p>
2	<p>How does the EQR fit into the ISQM 1 risk assessment process?</p>	<p>The EQR is a specified response required by ISQM 1 in paragraph 34f.</p> <p>The standard however does not indicate to which objective it is relevant to.</p> <p>The ISQM 1 objective can however be identified when we look at the ISQM 2 objective for the EQR. The objective of an EQR is to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon.</p>

		<p>As such the ISQM 1 component we are dealing with is engagement performance and the objective is the following: <i>“Engagement teams exercise appropriate professional judgement and... professional skepticism.”</i></p> <p>The risk identified may be that team members are not able to apply appropriate professional judgement or professional skepticism because of the complexity/high risk industry/new industry in which they do not have experience, etc. The appropriate response is to perform an EQR on these engagements.</p> <p>This will lead to its own risks, in that:</p> <ul style="list-style-type: none"> a) the team does not know when to perform an EQR and b) the team may fail to identify that it is necessary for a specific client <p><u>The response to this would be to:</u></p> <ul style="list-style-type: none"> a) have a list of the type of clients/engagements where an EQR is required in the firm and ensure this list is available to everyone and properly communicated (training on ISQM 2 is also an option) b) evaluate each client against this list during acceptance procedures. <p>Once it is identified that an EQR is required, the next risk is that the EQR may not be performed in compliance with the requirements of ISQM 2, either because:</p> <ul style="list-style-type: none"> a) The team does not understand the ISQM 2 requirements b) The team/firm does not appoint an appropriate EQRer that has the necessary knowledge and competence c) The EQR is not properly documented <p><u>For each of these circumstances, the following responses may be implemented:</u></p> <ul style="list-style-type: none"> a) Training on ISQM 2 b) Formal appointment process for EQRer including evaluation of their competence and capabilities c) Template documentation for EQR (if the EQRers use their own documents, then evaluation of their documents)
--	--	--

3	<p>Does the EQRer need to be registered with a relevant body?</p> <p>For instance, must the reviewer be a registered auditor or a Chartered Accountant (CA)?</p>	<p>ISQM 2 does not require any specific registration or designation, only that the reviewer must have the competence and capabilities, as well as the appropriate authority.</p> <p>Jurisdictional requirements may be more stringent. For example, The Independent Regulatory Board for Auditors (IRBA) has issued draft rules that may require an EQRer to be a registered auditor.</p> <p>Where there are no jurisdictional requirements, you need to evaluate the knowledge, skills, experience and designation of the individual and conclude on whether this is appropriate to satisfy the requirements.</p>
4	<p>Can the EQRer be an internal resource?</p>	<p>Nothing prevents the firm from appointing an internal EQRer, provided the criteria are met, specifically:</p> <ul style="list-style-type: none"> • Criteria for eligibility are satisfied including adequate availability to complete the review; and • Compliance with the ethical requirements of objectivity and independence. <p>Audit managers in an audit firm often lack the necessary independence to be appointed as an EQRer as they would often be under the influence of partners of an audit firm and do not have sufficient authority to fulfil the role without undue influence.</p>
5	<p>At what stage of the engagement should the EQRer be involved?</p>	<p>The standard requires that the EQRer has frequent discussions with the engagement team including the engagement partner throughout the engagement to address matters of significant judgment. Ideally this would mean that the EQRer be involved from the planning stage of the engagement onwards.</p>
6	<p>Can the engagement partner prescribe the sections that the reviewer must focus on?</p>	<p>Although the partner can inform the reviewer of areas that required significant judgement and make him/her aware of sections that may require his/her attention, it is the responsibility of the reviewer to identify the scope of the review based on his/her understanding of the engagement and the client. The EQRer should have full autonomy</p>

		and should not be influenced by the partner, especially in terms of the exclusion of areas to be reviewed.
7	What is the extent of documentation required for a quality review and is there flexibility in how evidence of the EQR may be documented?	<p><u>Documentation for an EQR must include evidence:</u></p> <ul style="list-style-type: none"> • That the EQRer has taken responsibility for the review; and • That the firm’s policies and procedures for an EQR were followed. <p>The extent of documentation must be sufficient to ensure that another experienced auditor could understand the procedures performed, any assistance received, and the conclusions reached by the quality reviewer.</p> <p><u>Documentation of the EQR must also include:</u></p> <ul style="list-style-type: none"> • Name of the EQRer and any assistants; • The documentation inspected as part of the review; • Any concerns the EQRer had relating to significant judgements and a record of notification of members of the Quality Management System where these were not resolved; • Date the EQR was completed; • Notification whether the review is complete and approval for the audit report to be issued. <p><u>Flexibility is allowed in how the completion of the review (from initiation to completion) may be documented, such as:</u></p> <ul style="list-style-type: none"> • Integrated electronically together with the electronic audit file; • Use of a memorandum; or • Minutes of engagement team discussions of meetings at which the EQRer was present.