

# International Standard on Quality Management (Ireland )1

# ISQM 1

- ISQM 1 replaced ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements
- Effective from the **15th December 2022**
- Applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements. If the firm performs any of these engagements, it applies
- Applies regardless of the number of audit clients or the size of the audit engagement

# ISQM 1-Key Changes

- A more ***proactive and tailored*** approach to managing quality, focused on achieving quality objectives through identifying risks to those objectives, and responding to the risks.
- Enhanced requirements to address firm ***governance*** and leadership, including increased leadership responsibilities.
- Expanded requirements to ***modernize the standard*** and reflect factors affecting the firm's environment, including requirements to address technology, networks, and the use of external service providers.
- New requirements addressing ***information and communication***, including communication with external parties.
- Enhanced requirements for ***monitoring and remediation*** to promote more proactive monitoring of the SOQM (System of Quality Management) as a whole, and effective and timely remediation of deficiencies.

# ISQM 1 vs ISQC1

ISQM 1 consists of eight components

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process

○ ISQC1 consists of the following components

- a) Leadership Responsibilities for quality within the Firm
- b) Relevant Ethical Requirements
- c) Acceptance and Continuance of Client
- d) Relationships and Specific Engagements
- e) Human Resources
- f) Engagement Performance
- g) Monitoring

# ISQM 1-Thematic Review-Results

	Percentage
Firms who engaged in the process	92%
<i><b>Of those;</b></i>	
Firms with a completed procedure manual in use	83%
Firms who undertook some level of training	100%
Firms who responded to firm risks in a generic manner	75%
Firms who are required to consider greater tailoring in their procedure manual	100%

# ISQM 1-Thematic Review-Generic Responses

*The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks (Para 28).*

- Generic responses issued to all risks in a category e.g. governance and leadership
- Responses not specific to firm e.g. comments to dual partner firm by a sole practitioner
- Comments on responses included, "Additional firm specific risks OR The firm considers there to be no further risks."

# ISQM 1-Thematic Review-Ethics

*The auditor or audit firm establishes appropriate and effective organizational and administrative arrangements:*

*(i) For dealing with and recording incidents which have, or may have, serious consequences for the integrity of the auditor or audit firm's audit activities.*

*(ii) To prevent, identify, eliminate or manage and disclose any threats to the auditor or audit firm's independence required by IAASA's Ethical Standard.(Para 34D-1(b)).*

- Long Association- The safeguards detailed are not appropriate for the firm- for example not specific to a sole practitioner
- No detail included regarding potential breaches; Fees, non-audit services etc.

# ISQM 1-Thematic Review- Ethics, continued

- “X is aware that it is required to report any breaches of the Ethical Standards to the Competent Authority (Regulating Institute / Association) for non-Public Interest Entity audits.”- No reference to CPA Ireland
- No reference to IAASA, Ethical Standard for Auditors (Ireland) 2020
- No reference to the CPA Ireland code of ethics





# ISQM 1-Thematic Review-Resources

- No consideration of Para 34D-1 (h)(ii), *“adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality, including provision that the amount of revenue that the auditor or firm derives from providing non-audit services to the audited entity shall not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of, the audit”*
- Likely not applicable for sole practitioner firms
- Not adequately or not considered by multi partner firms

# ISQM 1-Thematic Review-Engagement Performance— External Monitoring of Group Audits

- No consideration of Para 34D-1 (f)(g)
- Minimal reference to ISA 600 with no specific detail provided in regard to;
  - For example ;retain copies of the documentation of the work carried out by the relevant component auditor for the purpose of the group,
  - Obtain the agreement of the relevant component auditor that the group engagement team shall have unrestricted access to same,
  - Retain documentation to show that the group engagement team has undertaken the appropriate procedures in order to gain access to the audit documentation,
  - Take any other appropriate action.

# ISQM 1-Thematic Review-Engagement Quality Reviews

*The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM (Ireland) 2 and require an engagement quality review for:...(Para 34(f)) (ISQM 2-effective for periods commencing on or after 15 December 2022).*

- Policy does not detail who will conduct such reviews
- Sole practitioners noted another partner in firm will complete such reviews, which is not applicable
- Policy notes an external cold file review will be completed once every 3 years-not congruent with CPA Bye Law 13.34.2

# ISQM 1-Thematic Review-Remedial Actions

If

- the evaluation indicates that the remedial actions are not appropriately designed and implemented
- or are not effective

Requirement to , take appropriate action to determine that the remedial actions are appropriately modified such that they are effective (Para 44)

*No evidence of above in policy .*

## ISQM 1-Thematic Review-Time Periods

*“The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm’s system of quality management, or for a longer period if required by law or regulation (Para 60)”.*

### **And**

*“For audits of financial statements, the auditor or firm shall establish policies and procedures that require retention of audit documentation for a period that is not less than any period necessary to satisfy the requirements of any applicable laws or regulation relating to data protection and to meet the requirements for any applicable administrative and judicial proceedings, and that is in any case not less than six years from the date of the auditor’s report (60R-1).”*

**Timelines not defined by firms.**

## ISQM 1-Thematic Review-Other

- Insufficient use of templates in standardised packs, for example;
  - Templates in packs left blank /not dated/ not signed
  - Templates not completed in a timely manner, for example, templates in use to monitor ethical breaches /training etc. on a monthly basis. No evidence of monthly review occurring (58D-1 (b))
  - Templates to list audit engagements not completed, the standard requires a record of; (58D-1 (c))
    - The audited entity's name, address and place of business;
    - The name/s of the key audit partner
    - The fees charged for carrying out the audit and for other services in any financial year