



Quality Management Series: Small Firm Implementation



INSTALLMENT TWO: Developing a Detailed Implementation Plan



Introduction	4
Background	4
Overview of the Series and This Installment	5
Scalability	6
A Detailed Plan for Implementation	7
A Suggested Plan: A Step Approach	8
Step 3: Brainstorm on Quality Objectives and Complete the Risk Assessment	9
Quality Objectives	9
Risk Assessment Process	10
Step 4: Assign Responsibilities	12
Step 5: Collect Information	13
Step 6: Create Responses including Modifying Existing Policies	14
Step 7: Assess Documentation of SOQM and Communication	16
Step 8: Monitoring and Remediation	16
Components Revisited	17
Governance and Leadership	17
Relevant Ethical Requirements	18
Acceptance and Continuance of Client Relationships and Specific Engagements	20
Engagement Performance	22



TABLE OF CONTENTS

Considerations for Smaller Firms	23
Engagement Quality Reviews	24
Resources	27
Assignment of Human Resources	28
Technological and Intellectual Resources	29
Information and Communication	29
Quality Objective for Information and Communication	30
Appendix A: Specified Responses	31
Appendix B: Amendments to the International Code of Ethics for Professional Accountants (including International Independence Standards)	33
Appendix C: A Case Study	34
Appendix D: Documentation Aid – Independence Confirmation	47
Appendix E: Documentation Aid – Declaration of Confidentiality	48
Appendix F: Documentation Aid – Acceptance & Continuance of Clients & Engagements	50
Appendix G: Documentation Aid – Resources and Outside Consultation	60
Appendix H: Documentation Aid – Engagement Quality Review	61
Appendix I: Definitions	64
Appendix J: Resources	66
Appendix K: A Peek Ahead in the Series	67



BACKGROUND

In December 2020, the International Auditing and Assurance Standards Board (IAASB) released [three new and revised quality management standards](#) that strengthen and modernize the firm’s approach to quality management:

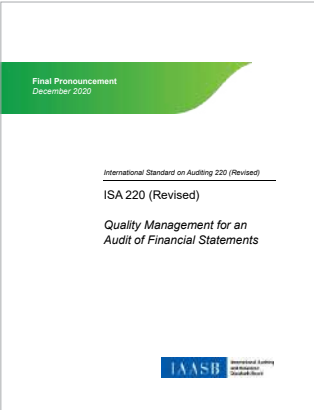
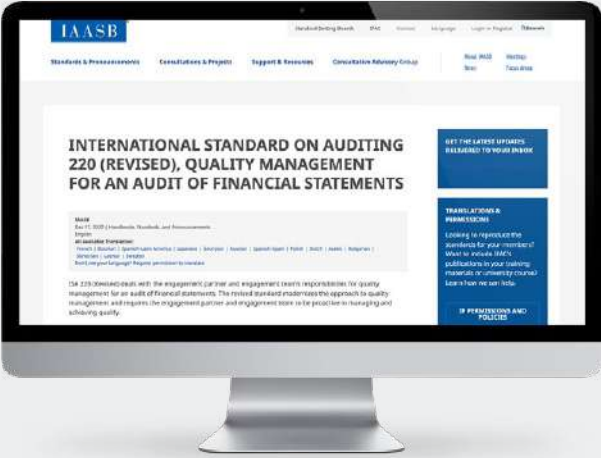
- International Standard on Quality Management (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (previously International Standard on Quality Control 1¹),
- ISQM 2, *Engagement Quality Reviews*, and
- International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*.

To meet the requirements of the new and revised quality management standards, the customized system of quality management (SOQM) for your firm was to be in place by December 15, 2022, and developed based on your firm’s nature and circumstances. The design and implementation of your SOQM cannot be done for you, but rather with you, and possibly others. Your SOQM must be designed and developed from input and discussion within your firm, and in some circumstances, from people outside your firm, such as service providers.

Your SOQM will continue to evolve over time, so regardless of whether you are getting started, or revising and updating your SOQM, this Series can be helpful at various points of implementation and as you commit to continuous improvement.

Use of Professional Judgment

The design, implementation, and operation of your firm’s SOQM will require the use of professional judgement and some aspects are focused on the firm, while others are at the engagement level. For example, some of the policies and procedures may be implemented directly at the engagement level (see [ISA 220 \(Revised\), Quality Management for an Audit of Financial Statements](#)).



¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

OVERVIEW OF THE SERIES AND THIS INSTALLMENT

Recall that ISQM 1 is a standard that deals with a firm’s responsibilities to design, implement and operate a SOQM for the firm and its engagements, including audits or reviews of financial statements, other assurance or related services engagements.

Objective of this Series: The Quality Management Series is designed to provide practical support for small firms on the implementation of ISQM 1, and related standards and amendments.

This publication is the second in a series of three installments designed to provide tips and guidance for a practical implementation and addresses the:

- identification of your **quality objectives**,
- completion of your quality **risk assessment process**,
- identification of existing, (and/or the creation of new), **responses** to those quality risks (also known as policies and/or procedures, or “controls”); and
- implementation, documentation, and communication of your SOQM.

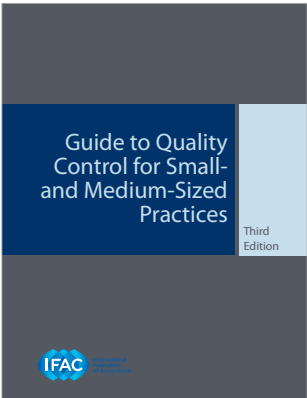
The third installment will address the monitoring and remediation of your SOQM.

The Series will include discussions and illustrative examples for what will be called “small firms”. Recall that the term “firm” is defined to also include a sole practitioner. Small firms come in different sizes and operate under many different structures. It would not be possible to address all of the different possibilities, but the Series will consider the following possible scenarios:

- Sole practitioner with no staff
- Sole practitioner with staff, and
- Firm with 2-5 partners with staff

In all discussions and illustrations in this Series, it is presumed that the firm will complete audits, reviews and related services. If your firm does not perform audits, for example, you will be able to streamline the quality objectives and risks included in ISQM 1 to reflect your firm’s complement of engagement types in your own SOQM.

The Series will not cover matters related to firms who service listed entities or are a member of a network of firms. The Series will focus on stand-alone firms that serve private entities. However, if your firm is, or may be considered, a part of a network, ISQM 1 does include a definition of a network for purposes of the standard, as well as specific requirements when a firm belongs to a network or provides network services. It is important to recognize that not all networks are the same and if your firm is a member of a network, you may find this Series useful, but you are also directed to ISQM 1 for additional requirements and guidance.



This Installment will follow-up on the Case Study of Marcel Mooney from IFAC’s [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition) to illustrate a transition from International Standard on Quality Control 1 to a SOQM.

This Installment will not discuss monitoring and remediation. This will be addressed in Installment #3 of this Series. A summary of Installment #3 is included in [Appendix K](#).

A 2-5 partner firm may wish to consider how the evaluation of the SOQM will impact the performance evaluations for those individuals who are assigned leading roles and responsibilities within the firm’s SOQM. Evaluation of the SOQM is discussed in Installment #3 but thinking ahead may be helpful when deciding to whom roles and responsibilities should be assigned.

This Series is designed to support the implementation of the new quality management standards but is not a substitute for reading the standards. Practitioners should utilize the Series in light of their professional judgment and the facts and circumstances of their firm. The examples provided are not exhaustive and are included for illustrative purposes. IFAC disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Series.



SCALABILITY

ISQM 1 requires your firm to tailor the design, implementation, and operation of its SOQM based on the nature and circumstances of your firm and the engagements it performs. Professional judgment is to be applied in designing, implementing, and operating the SOQM, and these judgments should be documented.

Scalability and tailoring guidance are embedded in the requirements of ISQM 1 in a number of ways:

The quality objectives are outcome-based, and you determine how to achieve the quality objectives.

The quality risks are tailored to your firm. In identifying and assessing quality risks, you focus on understanding conditions, events, circumstances, actions or inactions that relate to the nature and circumstances of your firm and its engagements.

There are only a limited number of required specified responses, and your firm is expected to design and implement its own responses to the quality risks.

The requirements for the monitoring and remediation process set out what your firm is expected to have in place to address monitoring and remediation and how your firm implements that process tailored to your firm's circumstances.

(Source: IAASB's [ISQM 1 First-Time Implementation Guide](#))

The scalability of the standards is demonstrated in this Series through discussion and examples.



A DETAILED PLAN FOR IMPLEMENTATION

The design and implementation of your SOQM will be an iterative process and any plan developed will evolve as it progresses. There are really three big “phases” that can be described as follows:

1. ESTABLISH QUALITY OBJECTIVES

Your firm is required to establish the quality objectives. There are six components with quality objectives, detailed below in “Step 3”, and your firm is required to establish the quality objectives for all of them in your SOQM. For example, ISQM 1 includes specified quality objectives related to governance and leadership and these were introduced in [Installment #1](#) of this Series (See Appendix D in Installment #1).

However, there may be circumstances when a quality objective, or an aspect thereof, is not relevant to your firm, or where an additional quality objective, or an aspect thereof, is needed because of the nature and circumstances of the firm or its engagements. Consideration of additional quality objectives beyond those included in ISQM 1 is important, but actually adding new quality objectives is not expected to be common.

2. COMPLETE RISK ASSESSMENT

Through the risk assessment process, the identification and assessment of the risks to the achievement of the quality objectives (called “quality risks”) are documented.

Here you will use the nature and circumstances of your specific firm to determine which risks are quality risks and therefore need responses.

REMEMBER:

Complete the risk assessment with an open mind, and do not consider the impact of existing policies and procedures in this activity, but rather identify the quality risk without considering the effect of existing responses to risks.

3. DESIGN AND DEVELOP RESPONSES TO ADDRESS QUALITY RISKS

It is only after you have established your quality objectives and have completed your risk assessment that you can design and develop responses to address your firm’s quality risks. ISQM 1 includes some specified responses, which create a starting point.



A SUGGESTED PLAN:
A STEP APPROACH

The phases introduced above need to be divided into smaller steps. [Installment #1](#) of this Series introduced a suggested plan. The steps are a suggestion only and should be revised to align with the nature and size of your firm. For example, a sole practitioner with no staff will not hold “meetings”, and the number of meetings can be compressed for some firms. In summary, the suggested implementation plan was as follows:

Step 1	Assign Project Lead
Step 2	Preparation – Pre-Reading and Preparation
Step 3	Brainstorm on Quality Objectives and Complete Risk Assessment (Suggested as Meeting #1 in Installment #1)
Step 4	Assign Roles and Responsibilities (Suggested as Meeting #2 in Installment #1 and only briefly addressed in this Installment.)
Step 5	Collect Information
Step 6	Develop Responses (Suggested as Meeting #3 in Installment #1)
Step 7	Assess Documentation of SOQM and Communication (Suggested as Meeting #4 in Installment #1)
Step 8	Monitoring and Remediation (Suggested as Meeting #5 in Installment #1) This component will be discussed in more detail in Installment #3 of this Series

The suggested steps were introduced in [Installment #1](#), and this Installment will expand on Steps 3 through 7. That is this Installment will continue based on the assumption the project lead has been assigned, if deemed necessary, and all the pre-reading and preparation has been completed. (See [Appendix J](#) of this Installment, included for convenience, for the links to important resources introduced in Installment #1).



STEP 3: BRAINSTORM ON QUALITY OBJECTIVES AND COMPLETE THE RISK ASSESSMENT



Review the specified quality objectives set out in ISQM 1 and create a workbook that will include the quality objectives. These quality objectives lead to the assessment of the quality risks.

As indicated in [Installment #1](#), this step can be completed by holding a meeting with relevant individuals, or if you are a sole practitioner, setting aside time for reflection.

QUALITY OBJECTIVES

ISQM 1 includes specific *quality objectives* for the various components of your firm’s SOQM, so that it is clear what outcomes need to be achieved by the firm in order to have a SOQM that is effective in managing quality. Your firm is required to establish the quality objectives specified for the following components listed in ISQM 1, in the specific context of your firm:

1. Governance and Leadership
2. Relevant Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Engagement Performance
5. Resources: Human Resources, Intellectual Resources and Technology Resources, including Service Providers
6. Information and Communication

When reading ISQM 1, you would have noticed the quality objectives are included in detail in each of these 6 areas. It is recommended that the number of edits to these quality objectives be minimized. Changes to the quality objectives should only be made if a matter is not relevant to your firm. For example, if you are not a member of a network, all references to networks can be deleted.

When discussing your quality objectives, you want the quality objectives to be understood, and some discussion should take place before identifying “what could go wrong” so that the discussion stays on target. Examples of questions that could be used to facilitate this discussion (and documentation) to help understand the objectives were included in Appendix D of [Installment #1](#) of this Series. In addition, an example of the quality objectives from ISQM 1 related to Engagement Performance, with the possible edits shown for illustration purposes was also included in [Installment #1](#) and can be used to help with the articulation of your quality objectives.

Recommended Approach

A methodical approach to develop your SOQM is important. One approach is to create a workbook that starts with a list of the quality objectives, including the specified quality objectives in ISQM 1, when relevant.

A methodical approach is important as it will:

- Facilitate documentation of the process of the development of your SOQM
- Help you prioritize the risks of not meeting a quality objective
- Provide an overview of the scope of work needed to meet the requirements of ISQM 1
- Facilitate implementation in a way that is manageable by the firm in both the short and long term

Using a workbook, create columns to identify the quality objectives and use the same workbook to make an assessment of the quality risks that exist for your specific firm.

You will quickly see that this will be an iterative process and that there is not always a one-one relationship between quality objectives, risks and responses.

In terms of the approach, some firms may want to address the quality objectives all at once, right through to the responses. Others may feel that they want to tackle certain objectives first, together with the relevant quality risks, i.e., in sequence. Others may want to address the areas that they feel will be more difficult (or easier) first. For example, some firms have addressed the engagement performance objectives first, since they feel that component is currently the most developed.

There is no one right answer on the approach, and a discussion is warranted. Caution is advised – if the work is delegated, it should not become too compartmentalized since there is much overlap, and some responses may cover multiple quality objectives and may require collaboration and cooperation amongst parties.

Once a risk has been identified, the next step is the risk assessment process.

RISK ASSESSMENT PROCESS

In order to identify and assess your quality risks, it is recommended that your firm’s quality objectives be summarized first. This will ensure you cover the quality objectives specified in ISQM 1. However, the design of an SOQM is iterative, and when assessing “risks” based on the nature and circumstances of your firm, additional quality objectives may be identified/revised.

In general terms, the layout could be as simple as the following suggested workbook, labeled as Exhibit 1, Sample Risk Assessment Workbook:

EXHIBIT 1 - SAMPLE RISK ASSESSMENT WORKBOOK						
Quality Objective	Nature and Circumstance of Firm	What could go wrong?	Likelihood of Occurring (H,M,L)	Adverse Affect (H,M,L)	Conclusion: Quality Risk (QR) Y/N (Professional judgment)	Quality Risk
List the quality objectives for ISQM 1, after modifying for the firm, for each of the following components: 1. Governance and Leadership 2. Relevant Ethical Requirements 3. Acceptance and Continuance of Client Relationships and Engagements 4. Engagement Performance 5. Resources - Human, Intellectual, and Technology 6. Information and Communication	Describe the nature and circumstances of your firm.	Describe what/how the nature and circumstance of your firm could have an adverse affect on the firm through a failure to meet the quality objective.	Document your assessment of “likelihood” as either H,M,L to support the conclusion on whether the quality objectives related to client relationships and specific engagements is a quality risk.	Document your assessment of whether the magnitude of the potential adverse affect to the firm as either H,M,L to support the conclusion on whether the quality objectives related to client relationships and specific engagements is a quality risk.	Document your conclusion - Y/N	Number the quality risks to reference to the responses, e.g., QR 1 Cross reference to Exhibit 2

The first column would include the quality objectives included in ISQM 1. Each of the components is discussed in more detail later in this installment, which can assist you in completing Exhibit 1 if it is used in the development of your SOQM.

ISQM 1 requires you to consider the various conditions, events, circumstances, actions or inactions in your firm, and Exhibit 1 included this in the second column. You know your firm well and brainstorming on these matters and documenting them will help you develop your SOQM that is specific to your firm.

For a sole practitioner the nature and circumstances of the firm are clearly understood, so extensive documentation may not be needed. However, documenting the nature of the firm and any significant circumstances or expectations can provide context for the risk assessments made. In addition, in future renditions or updates, creating periodic records can be a useful exercise to support reflection and a reminder of how the firm and its practices have evolved.



The following matters can be considered when filling out the column on the nature and circumstances of the firm:

- The complexity and operating characteristics of the firm
- The strategic and operational decisions and actions, business processes, and business model of the firm
- The characteristics and management style of the firm’s leader(s)
- The resources of the firm, including the resources provided by service providers
- Law, regulation, professional standards and the environment in which the firm operates
- The types of engagements performed by the firm and the reports to be issued
- The types of entities for which engagements are undertaken

The IAASB’s [ISQM 1 First-time Implementation Guide](#) includes a detailed chart that summarizes factors to consider in the risk assessment process, along with some implementation guidance that you may find useful.

It is not necessary to document the consideration of every condition, event, circumstance, action or inaction that may give rise to a quality risk. The documentation of the quality risks may include the reasons

for the assessment given to the quality risks, i.e., the considered occurrence and effect on achievement of the quality objectives.

Exhibit 1 suggests that you identify “what could go wrong” and an assessment of the likelihood of occurrence, as well as the effect on your firm to support your conclusion on whether a quality risk exists. Remember that a quality risk is defined as follows:

Quality risk – A risk that has a reasonable possibility of:

- (i) *Occurring; and*
- (ii) *Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.*

It is recommended that you document the process and the analyses used for establishing the quality objectives, identifying and assessing quality risks, and designing responses to such risks. This would provide a history of the basis for the decisions made by the firm about the development of its SOQM. This documentation could include the agenda and minutes from meetings, etc.

[Appendix C](#) includes an example of the application of this approach to the acceptance and continuance component for the Case Study for illustration purposes.



STEP 4: ASSIGN RESPONSIBILITIES

You must assign roles and responsibilities related to the SOQM. In a sole practitioner firm or small practice one person may undertake all or several roles. The larger and more complex your firm, the more the roles and responsibilities may need to be assigned to different individuals.

After becoming familiar with the quality management standards and any related professional standards, the next task will be to determine how the roles and responsibilities will be assigned as follows:

SOLE PRACTITIONER

The ultimate responsibility lies with you, but you may need to get others involved. If you outsource some aspects of your practice to others (i.e., “Service Providers”) then you may need to consider whether any roles may be assigned to them. For example, if your practice includes engagements that will need an engagement quality review (EQR) you may be able to assign this role to the service provider.

FIRM WITH PARTNERS AND STAFF

The ultimate responsibility may be assigned to one individual (typically the CEO/managing partner), but the SOQM may be best developed with specific and multiple roles being assigned to different individuals. If appropriate, the ultimate responsibility and accountability may be the firm’s managing board of partners (or equivalent).



STEP 5: COLLECT INFORMATION

Collect all documentation of current policies and procedures that address quality risks, including, for example:

- Current Quality Control Manual
- Audit manual and system
- Human Resource Manual
- Information Technology Manual
- Other documented policies and procedures
- Summary of informal/non-documented policies/procedures

The information collected will be used to help complete the “gap” analysis of the quality objectives that must be, but are currently not, addressed.

Exhibit 2 provides an example for documenting this analysis:



EXHIBIT 2 POSSIBLE FORMAT: GAP ANALYSIS

After understanding the nature and circumstances of the firm, and considering the likelihood and implications of the risk(s), document the quality risk(s), organized by relevant component in Exhibit 1, use this work book to identify any observed gaps from any existing policy and/or procedure.

Quality Risk from Exhibit 1	Quality Risk	Response	Response - Policy and/or procedure	Document existing Policy/Procedure and Location	Observed “GAP” Analysis
QR 1	Describe Quality Risk.	R1	Populate from existing policies/procedures. Revise as needed, and add new ones based on the GAP analysis.	For example, HR Policy Manual, or current QC Manual.	Document those responses that need to be added/revise. This is most important in year of implementation.
			Note: Some responses will cover multiple risks, and some risks may need multiple responses.		

[Appendix C](#) includes an example to illustrate the application of this approach to the Case Study.

STEP 6: CREATE RESPONSES INCLUDING MODIFYING EXISTING POLICIES

- This part of the process requires you to:
- Adapt or align current policies/procedures to identified quality risks;
 - Create new polices/procedures to respond to identified quality risks, as needed; and
 - Eliminate any policies/procedures that are no longer effective or duplicative.

It is not possible in these installments to provide policies that would fit all firms. That is the point of the SOQM: you must develop policies that align with the quality objectives based on your firm. For illustration purposes, a few sample policies have been included here:



Sample Policies for Smaller Firm – Relevant Ethical Requirements

In the sample policies illustrated below, it is assumed that the risk assessment process has been completed, considering the nature and circumstances of the firm, and that the responses were designed to meet the quality risks identified. The quality objectives and related specified responses in relation to relevant ethical requirements are included here:

Quality Objective	Specified Response
The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (a) The firm and its personnel: (i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject. (b) Others including service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject: (i) Understand the relevant ethical requirements that apply to them; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (See ISQM 1, Paras. .29, A22, A24, and A62-A65)	The firm establishes policies or procedures for: (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent. (See ISQM 1, Paras. .34, and A117-A121)



Sample Policies for a Smaller Firm

(Note: The policies below are provided as examples only, and do not represent all possible responses related to relevant ethical requirements, for example they do not address the specified response to identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements policies related to a breach of a particular firm.)

Partners, staff, and other relevant service providers must, when applicable:

Read all regulations specific to the engagements being performed

Understand the legal environment of the firm and clients

Read and abide by the relevant Code of Ethics including, for example adherence to the disclosure of prohibited investments

Review the full list of clients of the firm to be aware of the potential investments/relationships/conflicts of interest

Comply with confidentiality requirements of the relevant Code of Ethics using a Declaration of Confidentiality (See [Appendix E](#) for an example)

Adhere to all required professional requirements, professional standards, and provide a summary to the firm

Complete an assessment of competence before undertaking or participating in an engagement

Not accept gifts and hospitality from a client, even if the value is trivial and inconsequential
(This is an example of a policy that is likely more specific than the provisions of relevant ethical requirements.)

STEP 7: ASSESS DOCUMENTATION OF SOQM AND COMMUNICATION

The documentation of your SOQM will be a “mapping” of various activities, judgments, policies and/or procedures.

Remember, your SOQM is as the name implies a “system”, so you will not be able to implement an “off-the-shelf manual”. In addition, the policies and procedures are most useful and meaningful when they are specific to your firm and current circumstances.

There are a number of tools that are available in the marketplace to facilitate the documentation and some have a library of policies and procedures, which can be useful.

It is appropriate, and recommended, to use the terminology of the standards. [Appendix I](#), (originally included as Appendix C in Installment #1) is included in this Installment as a reference tool and can be used along with the definitions section of ISQM 1 as you document your SOQM.

Finalize the documentation of the SOQM, including the process of implementation. This documentation can include workbooks as suggested in this Installment, memos documenting discussions and meetings, etc. Some may find it useful to collect policies and procedures applicable to staff and to facilitate communication to create a “Policies and Procedures Manual”. The decision on how to document and communicate will vary by firm.

Finally, if the firm has staff, communication between staff must take place, and a plan for training must be created and documented, as needed. Communication of the relevant policies and procedures should be planned, when applicable. Communicating the details of the SOQM, and any changes to existing policies and procedures, to firm personnel and other affected parties is necessary to motivate a collective effort to meet quality objectives. An open two-way communication of quality expectations is crucial to successful implementation of an effective SOQM.

STEP 8: MONITORING AND REMEDIATION

The quality risks and the responses related to monitoring and remediation would be identified and agreed upon during the first stage of implementing your SOQM (i.e., in Meeting #4), but additional details can be developed on the design and implementation of the monitoring activities before this evaluation is actually required to be performed. The operation of the responses and monitoring activities is required to commence from December 15, 2022 onwards. The evaluation of the SOQM is required to be performed within one year following December 15, 2022. This component will be discussed in Installment #3 of this Series.



COMPONENTS REVISITED

This section will review each of the components of the SOQM which have quality objectives specified in ISQM 1. Summaries of how the new standards changed from the previous standards are provided for each component as it will help you identify where “gaps” may exist in your current processes.

GOVERNANCE AND LEADERSHIP

What is this component?

Governance and Leadership. This component addresses the governance and leadership of your firm and how it establishes an environment and culture that supports all of the components of the SOQM.

The firm demonstrates a commitment to quality through a culture that exists throughout your firm which recognizes and reinforces:

- the role of your firm in serving the public interest by consistently performing quality engagements
- the importance of professional ethics, values and attitudes
- the responsibilities of all personnel for quality related to the performance of engagements or activities within the SOQM and their expected behavior
- the importance of quality in your firm’s strategic decisions and actions, including your firm’s financial and operations priorities.

The leadership of your firm is responsible and accountable for quality and demonstrates the commitment to quality through all actions and behaviors.

The organizational structure of your firm and the assignment of roles, responsibilities and authority in your firm is to be appropriate to enable the design, implementation and operation of your firm’s SOQM.

The structure and leadership must support the resource needs, including financial resources, and make sure the resources are planned for, obtained, allocated or assigned in a manner that is consistent with your firm’s commitment to quality.

[For the quality objectives of this component see ISQM 1 para. 28.]

For sole practitioners, this component will be more straight forward, as the governance and leadership are in the mindset of the sole-practitioner and the commitment to quality through the practitioner’s actions and behaviors.

Governance and leadership are of paramount importance to quality management at the firm and engagement levels because the framework for how your firm’s decisions are made is embedded into your firm’s culture. Governance and leadership are anchors for the firm’s ethics and self-regulation practices. A firm’s governance also affects the public’s perception of the firm; a firm without effective governance may be viewed as one that does not operate in the public interest.

The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful when determining if new responses will need to be developed and when performing the “gap analysis” for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to governance and leadership:



- New and enhanced requirements regarding the firm’s commitment to quality through its culture. As part of the firm’s culture, the requirements now also address:
 - The firm’s public interest role;
 - The importance of professional ethics, values and attitudes;
 - The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behavior; and
 - Quality in the context of the firm’s strategic decisions and actions, including the firm’s financial and operational priorities.
- New requirements addressing leadership’s behavior and commitment to quality, and their accountability for quality.
- New requirements addressing the organizational structure of the firm and the firm’s assignment of roles, responsibilities and authority.
- New requirements addressing resource needs, and resource planning, allocation and assignment, which also include financial resources.

This component was introduced in [Installment #1](#) of this Series. If you need more guidance on this component, it is recommended you review the above-mentioned IAASB Guide and the standard itself.

RELEVANT ETHICAL REQUIREMENTS

What is this component?

Relevant Ethical Requirements. This component addresses the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. This component addresses the firm, its personnel and others as follows:

FIRM AND PERSONNEL	OTHERS (Including service providers, who are subject to the relevant ethical requirements, and network firms and individuals in the network or network firms, if applicable)
Understand and fulfill their responsibilities in relation to the relevant ethical requirements for the firm and the firm’s engagements	Understand and fulfill their responsibilities in relation to the relevant ethical requirements that apply to them

[For the quality objectives of this component see ISQM 1 para. 29.]



The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful when determining if new responses will need to be developed and when performing the “gap analysis” for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to relevant ethical requirements.

The Relevant Ethical Requirements component was introduced in [Installment #1](#) of this Series. If you need more guidance on this component, it is recommended you review the above-mentioned IAASB Guide and the standard itself.

This component will be revisited in [Appendix C](#) for the Case Study. In addition, [Appendix D](#), *Independence Confirmation*, and [Appendix E](#), *Declaration of Confidentiality*, are documentation aids or tools included in this Installment, which can be used to document the adherence to the policies related to the ethical requirements of independence and confidentiality.

Quality Management Related Amendments to the International Ethics Standards Board for Accountants® (IESBA) IESBA Code

When the quality management standards were issued in December 2020, the IESBA identified that certain conforming amendments to the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (IESBA Code) were necessary.

When you are reviewing and updating references to the IESBA Code details are [available on the IESBA website](#).

The amendments are effective at the same time as the quality management standards – December 15, 2022. An overview of the changes to the IESBA Code are included in [Appendix B](#), and a general link to the IESBA is included in [Appendix J](#).



- Adjusted to principles-based requirements to establish quality objectives addressing the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence.
- Increased focus on all relevant ethical requirements (i.e., not just independence).
- Improved clarity regarding the extent to which the SOQM needs to address the relevant ethical requirements that apply to others outside the firm (i.e., the network, network firms, individuals in the network or network firms, or service providers).
- Improved clarity regarding the scoping of the relevant ethical requirements in the context of the SOQM.

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

- ISQC 1 included specific requirements regarding information and communication related to independence (e.g., requirements to have policies and procedures dealing with communication of independence requirements, engagement partners providing relevant information, or personnel notifying the firm of threats to independence or breaches of independence). The firm’s SOQM would still need to address the information and communication related to independence, but it is dealt with through the information and communication component of ISQM 1.
- ISQC 1 included requirements to have specific policies and procedures related to the long association of personnel. The requirement was not retained in ISQM 1. However, the firm’s SOQM would need to still address the long association of personnel taking into account the provisions of the relevant ethical requirements, since the quality objectives in ISQM 1 deal with the fulfillment of relevant ethical requirements.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

What is this component?

Acceptance and Continuance of Client Relationships and Specific Engagements.

This component addresses judgments by your firm about whether to accept or continue a client relationship or specific engagement.

The judgment of whether to accept or continue a client relationship or specific engagement is based on:

- Sufficient information being obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) to support such judgment; and
- Your firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

This component covers that the financial (e.g., fees and firm profit) and operational (e.g., growth or strategic direction) priorities of your firm do not lead to inappropriate judgments.

[For the quality objectives of this component see ISQM 1 para. 30.]

The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful if determining if new responses will need to be developed and when performing the “gap analysis” for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to acceptance and continuance of client relationships and specific engagements.



- Adjusted to principles-based requirements to establish quality objectives addressing the acceptance continuance of client relationships and specific engagements.
- Focus on the firm’s judgments in determining whether to accept or continue the client relationships and specific engagements.
- Enhanced requirement to drive the firm to obtain information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance).
- New requirement addressing the financial and operational priorities of the firm in the context of making decisions about whether to accept or continue a client relationship or specific engagement.

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

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



The policies and/or procedures of your firm which address acceptance and continuance may:

- Specify the information that needs to be gathered about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance). In some cases, the policies or procedures may also suggest or specify from where the information needs to be sourced.
- Set out factors to be considered in determining whether the firm is able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- Specify (or prohibit) the types of engagements that may be performed by the firm and those factors which may prohibit the firm from performing engagements for certain types of entities. For example:
 - The firm may prohibit the performance of assurance engagements over a certain subject matter when the firm does not have appropriate expertise to perform engagements over that subject matter.
 - The firm may prohibit performing assurance engagements, such as an audit of financial statements, for entities operating in certain industries (e.g., specialized industries with high levels of regulations or complexity) when the firm does not have appropriate resources or expertise to perform engagements for entities operating in those industries.



The firm exercises the decision whether to accept or continue a client relationship or specific engagement. In accordance with ISA 220 (Revised), the engagement partner determines that the firm's policies or procedures have been followed, and that conclusions reached by the firm are appropriate.

Paragraph 34(d) of ISQM 1 includes a specified response regarding matters that need to be addressed in the firm's policies or procedures for acceptance and continuance. (See [Appendix A](#) for a summary of specified responses.) The specified responses are based on requirements in extant ISQC 1 and should not require significant revisions.

To assist firms with the client acceptance and continuance process, guidance is provided at Appendix F which may be used to support

the firm in the development of its policies and procedures. As you review [Appendix F](#), you will see also see the crossover between ethical and engagement performance components with the acceptance/continuance decisions and policies and procedures. There is not always a one-to-one relationship between a quality risk and the response. It will be important to document where the policy and/or procedure is documented as part of your SOQM to meet all quality risks identified.

This component was introduced in [Installment #1](#) of this Series. If you need more guidance on this component, it is recommended you review the above-mentioned IAASB Guide and the standard itself.

This component will be revisited in [Appendix C](#) for the Case Study.

ENGAGEMENT PERFORMANCE

What is this component?

Engagement Performance. This component addresses the performance of quality engagements including that:

- the engagement team(s) or sole practitioner understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.
- when applicable, the nature, timing and extent of direction and supervision of engagement team(s) and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement team(s), and the work performed by less experienced engagement team members, if applicable, is directed, supervised and reviewed by more experienced engagement team members.

- engagement team(s) exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.
- consultation on difficult or contentious matters is undertaken, as needed, and the conclusions agreed are implemented.
- differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within your firm’s SOQM are identified, if any, and resolved.
- engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of your firm and comply with law, regulation, relevant ethical requirements, or professional standards.

[For the quality objectives of this component see ISQM 1 para. 31.]

The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful if determining if new responses will need to be developed and when performing the “gap analysis” for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to engagement performance.



- Adjusted to principles-based requirements to establish quality objectives addressing engagement performance. Principles-based requirements still include consultation, differences of opinion and addressing the assembly, maintenance and retention of engagement documentation.
- New requirement addressing engagement teams’ responsibilities in connection with engagements, including the overall responsibility of an engagement partner for managing and achieving quality on an engagement and being sufficiently and appropriately involved throughout the engagement.
- Enhanced requirement addressing direction and supervision of engagement teams and review of the work performed, which is focused on what is appropriate given the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams.
- New requirement addressing engagement teams exercising appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.
- Requirements dealing with engagement quality reviews have been relocated in ISQM 1 and ISQM 2 (see further details in the specified responses section).

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

- ISQC 1 included more specific requirements for consultation that the firm needs to have resources to enable consultation. The firm’s SOQM would still need to address having resources to support consultation through the resources component.
- ISQC 1 included more specific requirements for consultation and differences of opinion related to the documentation of these matters. Documentation is addressed through the principles-based requirements regarding documentation

CONSIDERATIONS FOR SMALLER FIRMS

The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following insights on the engagement performance for smaller or less complex firms:

- In a smaller or less complex firm:
- There may be no engagement team members other than the engagement partner (e.g., in the case of a sole practitioner). In such cases, the quality objectives addressing direction, supervision and review may not be relevant. Similarly, the firm’s quality risks related to the engagement partner’s responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement may be assessed as fairly low.
 - The firm may not have personnel internally that have the competence and capabilities to provide consultations. The firm may determine it appropriate to make use of a service provider for the purposes of consulting on difficult or contentious matters.
 - It may be challenging to have individuals within the firm who are responsible for dealing with differences of opinion, as it could give rise to conflict in the firm and personnel may avoid raising these differences out of fear of reprisal. The firm may determine it appropriate to make use of a service provider for the purposes of receiving and resolving differences of opinion.

Many of the policies and procedures for the engagement performance may be captured in an engagement manual, or in the technological and intellectual resources used by the firm (i.e., checklists by engagement, etc.). Thus, the task will be to make sure the checklists are updated to reflect the relevant implications of the quality management standards. Consequently, this component will not be discussed in more detail in this Installment and will be revisited in Installment #3 of this Series.

One area that is discussed in ISQM 1 that may be relevant engagement performance for some smaller firms is the use of automated tools and techniques (ATT(s)). The tools themselves are technological resources, but are discussed here, as they are used in the performance of engagements.



The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following discussion on this topic and you may find some of the referenced resources useful:

Engagement teams may use ATT in performing audit procedures for an engagement. In some cases, the ATT may be provided by or approved by the firm, and in other cases, the ATT may be obtained by the engagement team. In both circumstances, the firm’s SOQM needs to address the appropriateness of the ATT, even if obtained by the engagement team. For example, paragraph A101 of ISQM 1 explains that the firm may:

- Specifically prohibit the use of ATT or features of ATT until such time that it has been determined that they operate appropriately and have been approved for use by the firm.
- Establish policies or procedures to address circumstances when the engagement team uses an ATT that is not approved by the firm, such as requiring the engagement team to determine that the ATT is appropriate for use prior to using it on the engagement by considering specific matters (e.g., data inputs, how the ATT operates, whether the outputs of the ATT achieve their intended purpose, etc.).



The IAASB has developed [Non-Authoritative Support Material for Auditors Regarding Documentation When Using ATT](#).

This guidance includes how the engagement documentation may be affected when the firm has approved the ATT, versus when the ATT has not been subject to the firm’s approval process.

The IAASB has also developed [Non-Authoritative Support Material Related to the Risk of Overreliance on Technology when Using ATT and Information Produced by the Entity’s Systems](#).

This guidance includes how firms can help engagement teams address automation bias and the risk of overreliance when using ATT.

Reminder: The use of spreadsheets as an ATT is an area where quality risks can arise. A policy that the format and formulas and integrity be checked with every use can be appropriate. The possible risks are particularly relevant when the spreadsheets are more complex, shared or copied.

ENGAGEMENT QUALITY REVIEWS

One of the areas related to engagement performance that smaller firms often struggle with is the requirement for an engagement quality review (EQR).

ISQM 1, deals with engagements for which an EQR is required. Then [ISQM 2, Engagement Quality Review](#), deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.



EFFECTIVE DATE:

- For audits and reviews of financial statements for **periods beginning** on or after December 15, 2022
- For other assurance and related services **engagements beginning** on or after December 15, 2022

RELEVANT DEFINITIONS

- Engagement quality review (EQR) – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review. [Note: The engagement quality reviewer is not a member of the engagement team.]
- Engagement team – 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.

ENGAGEMENTS SUBJECT TO AN EQR

ISQM 1 includes specified responses in para. 34(f), as follows:

The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:

- (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; and
- (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 risk(s).

ISQM 1, para. A133 indicates:

Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:

- Are public interest entities as defined in a particular jurisdiction;
- Operate in the public sector or which are recipients of government funding, or are entities with public accountability;
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds);
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

As a smaller firm, the most relevant specified response is the requirement to have a policy or procedure to address which engagement you determine that an EQR is the appropriate response.

As a smaller firm, you may choose not to accept clients that would have a legal requirement for an EQR. However, an EQR may be an appropriate response to address one or more quality risks in the following situations:

- Engagements that involve a high level of complexity or judgment, such as:
 - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern.
 - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unresolved significant deficiencies in internal control, or a material restatement of comparative information in the financial statements.
- Engagements for which unusual circumstances have been identified during the firm’s acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.
- Engagements of entities in emerging industries, or for which the firm has no previous experience.
- Entities other than listed entities that may have public interest or public accountability characteristics, for example:
 - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.

- Entities with a high public profile, or whose management or owners have a high public profile.
- Entities with a large number and wide range of stakeholders.

In addition, your ability to perform an engagement in accordance with professional standards may be affected by the availability of resources, such as if an engagement quality review is needed, and whether an individual who meets the eligibility requirements in ISQM 2 is available in your firm or can otherwise be engaged by your firm.

Eligibility of Engagement Quality Reviewers

Your firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and:

- Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review;
- Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and
- Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer.

EQR as a Service Provider

Although your firm may use a service provider for the EQR, the firm remains responsible for its SOQM and the EQR policies and procedures. The use of an external person as an engagement quality reviewer is an *example of resources from a service provider*. An engagement letter should be prepared, and it demonstrates the understanding of the timing, nature and scope of the EQR, and it is to be signed before the engagement planning starts. The EQR process and reviewer are subject to all relevant policies and procedures in the SOQM and confirmation of independence for example, should be obtained.

Relationship with other Components of your SOQM

Any policies and procedures related to the EQR also create a relationship with the engagement performance and communication components of your SOQM.

Engagement Performance Component

Your firm must also establish a quality objective to address differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s SOQM, and how these are brought to the attention of the firm and resolved.

Communication Within the Firm

To recognize and reinforce the responsibility of personnel and engagement teams to exchange information with your firm and with one another, the following policy may be put in place establishing communication channels to facilitate communication across the firm: Engagement teams must, on a timely basis, communicate information to the engagement quality reviewer or individuals providing consultation.

Note: The IESBA Code update related to the objectivity of an engagement quality reviewer is covered in [Appendix B](#).

PLANNING TIP: If your client acceptance policy and procedures permit clients that would require an EQR, then you must start planning for the resources for this activity.

[Appendix H](#) of this Installment includes a sample checklist which includes suggested procedures for an EQR.



EQR v. Monitoring v. Other Reviews

Clarification of the three different types of “reviews” may be useful:

- 1

Engagement Quality Review – as discussed above, engagements may need a formal EQR by regulation or your firm policy. The EQR must be completed pre-release, and the engagement quality reviewer is involved in the planning of the engagement.
- 2

Monitoring – this is a post issuance review on a systematic basis for compliance with your SOQM and will be discussed in Installment #3 of this Series.
- 3

Other reviews – Your firm’s responses to address quality risks may include other forms of engagement reviews that do not fulfill the specific requirement for an EQR. For example, for audits of financial statements, the firm’s responses may include reviews of the engagement team’s procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review. (See ISQM 1 Para. A135).

RESOURCES

Resources. This component addresses the obtaining, developing, using, maintaining, allocating, and assigning of appropriate resources in a timely manner to enable the design, implementation and operation of your SOQM.
This component addresses three types of resources needed to operate the SOQM **and/or** perform engagements:

What is this component?

Human resources*	Appropriate Technological Resources*	Appropriate Intellectual Resources*
The term “human resources” in ISQM 1 covers the variety of individuals the firm may use in the SOQM or in performance of engagements. When the term “personnel” is used in ISQM 1, it refers to individuals in the firm. To meet quality objectives: • Personnel are hired, developed and retained and have the competence and capabilities to: – Consistently perform quality engagements, including having knowledge or experience relevant to the engagements your firm performs; or – Perform activities or carry out responsibilities in relation to the operation of your firm’s SOQM • Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. • Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when your firm does not have sufficient or appropriate personnel to enable the operation of your SOQM or performance of engagements. • When applicable, engagement team members are assigned to each engagement, including an engagement partner, who has appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. • Individuals are assigned to perform activities within your SOQM who have appropriate competence and capabilities, including sufficient time, to perform such activities.	Appropriate intellectual resources can be obtained or developed, implemented, maintained, and used, to enable the operation of your firm’s SOQM and the consistent performance of quality engagements. Specifically, the relevant technological resources include those used: • in designing, implementing or operating the SOQM • by engagement team(s) in the performance of engagements It should be noted that technological resources are essential to enabling the effective operation of IT applications. It should also be noted that not all technological resources used by the firm are in the scope of SOQM. Intellectual resources may be made available through technological resources, for example, the audit methodology is an intellectual resource, embedded in the IT application that facilitates building the working paper file. Automated tools and techniques utilized in the performance of engagements is an example of technological resources. (See previous discussion under engagement performance.)	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of your firm’s SOQM and the consistent performance of quality engagements. The intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. ISQM 1, Para. A102 provides the following examples of intellectual resources: Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

*Your firm may use service providers for your firm’s human, technological and intellectual resources for its SOQM or in the performance of engagements and should be considered when setting your quality objectives.

[For the quality objectives of this component see ISQM 1 para. 32.]

The IAASB’s [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful if determining when determining if new responses will need to be developed and when performing the “gap analysis” for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to resources:



- New requirements that address the need for technological and intellectual resources to enable the operation of the SOQM and performance of engagements.
- Expanded requirements for human resources, in particular:
 - New requirement to have competent and capable human resources to perform activities or carry out responsibilities in relation to the operation of the SOQM, and assign individuals to perform activities within the SOQM;
 - New requirement addressing the need to obtain individuals from external resources (i.e., the network, another network firm or a service provider) when the firm does not have the personnel to operate the SOQM or perform engagements; and
 - New requirement addressing personnel’s commitment to quality and accountability or recognition through timely evaluations, compensation, promotion and other incentives.
- New requirement addressing service providers, i.e., that resources from service providers are appropriate for use in the SOQM and performance of engagements.

ISQC 1 included more specific requirements addressing the engagement partner, which addressed defining and communicating the responsibilities of the engagement partner, and communicating the identity and role of the engagement partner with those charged with governance. These have been captured in ISQM 1 as follows:

- Communication with those charged with governance is addressed in ISQM 1 through:
 - A requirement to communicate with those charged with governance of audits of listed entities about the SOQM; and
 - Principles-based requirements addressing external communication when it is appropriate.
- The engagement performance component addresses the responsibilities of engagement teams, and specifically draws attention to the responsibility of the engagement partner.

ASSIGNMENT OF HUMAN RESOURCES

Your firm must establish a quality objective related to human resources. For example, ISQM 1 Para. 32(d) addresses how to assign engagement team members who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.

In addition, it is important to note that this may include assignment of individuals external to the firm who perform procedures on the engagement. For example, ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*², addresses special considerations for group audits, and includes requirements and application material addressing the group auditor’s responsibilities when involving component auditors. ISQM 1 addresses the appropriateness of component auditors and their competence and capabilities. This is an area that may not be as relevant to smaller firms.

Smaller firms may find a greater need to seek outside consultation regarding complex transactions, complex IT systems, specialized or emerging accounting matters, significant independence or other ethical issues, etc. [Appendix G](#) is included in this Installment as a tool that can be modified and used to document the possible use of outside resources, which may be considered human or intellectual resources, depending on the nature of the consultation.

² Note the IAASB has released [ISA 600 \(Revised\), Special Considerations—Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#), which will be effective for audits of group financial statements beginning on or after December 15, 2023.

TECHNOLOGICAL AND INTELLECTUAL RESOURCES

Your firm must establish a quality objective related to the technology resources. For example, ISQM 1 Para. 32(f) addresses how obtain or develop, implement, maintain, and use technological resources in the operation of the SOQM and the performance of engagements.

In addition, ISQM 1 Para. 32(g) addresses how to obtain or develop, implement, maintain, and use intellectual resources in the operation of the SOQM and the performance of engagements, which are consistent with the professional standards and applicable legal and regulatory requirements, where applicable.

These quality objectives could be included in the workbook suggested as [Exhibit 1](#) in this Installment along with the related quality risks. The next step would be to develop a response, which will be specific to your firm.

An example of a policy for a smaller firm related to the firm's use of technological and intellectual resources could be as follows:

Use of Firm Methodology/ Intellectual Resources

All partners and staff must adhere to the firm's methodology, and ensure the applications are up to date, including but not limited to working paper file generator, checklists, etc.

This component was introduced in [Installment #1](#) of this Series. If you need more guidance, it is recommended to review the above-mentioned IAASB Guide and the standard itself.



INFORMATION AND COMMUNICATION

What is this component?

Information and communication. This component addresses obtaining, generating or using information regarding your SOQM and communicating information within your firm and to external parties, if applicable, on a timely basis.

[For the quality objectives of this component see ISQM 1 para. 33 and the discussion below.]

The IAASB's [ISQM 1 First-time Implementation Guide](#), included the following commentary on the changes which can be useful if determining if new responses will need to be developed and when performing the "gap analysis" for your firm:

The following summarizes how ISQM 1 has changed from the extant standard with respect to information and communication:



- New component in ISQM 1.
- New and enhanced requirements for obtaining, generating or using information and communicating information, to enable the design, implementation and operation of the SOQM. The new requirements address:
 - The firm's information system.
 - The culture of the firm in the context of information and communication (i.e., recognizing and reinforcing the responsibility of personnel to exchange information with the firm and with one another).
 - Exchanging information between the firm and engagement teams (Note: This has been enhanced from ISQC 1 that requires the firm to communicate its policies and procedures to personnel).
 - Communicating information within the firm's network and to service providers.
 - Other communication externally related to the SOQM, i.e., when it is required by law, regulation or professional standards, or to support external parties' understanding of the SOQM.

ISQC 1 included communication-related requirements in some elements of the standard, for example, communication related to independence matters, and communicating the responsibilities of the engagement partner. The information and communication component in ISQM 1 addresses the need for this communication through the principles based requirements introduced in the information and communication component.

QUALITY OBJECTIVE FOR INFORMATION AND COMMUNICATION

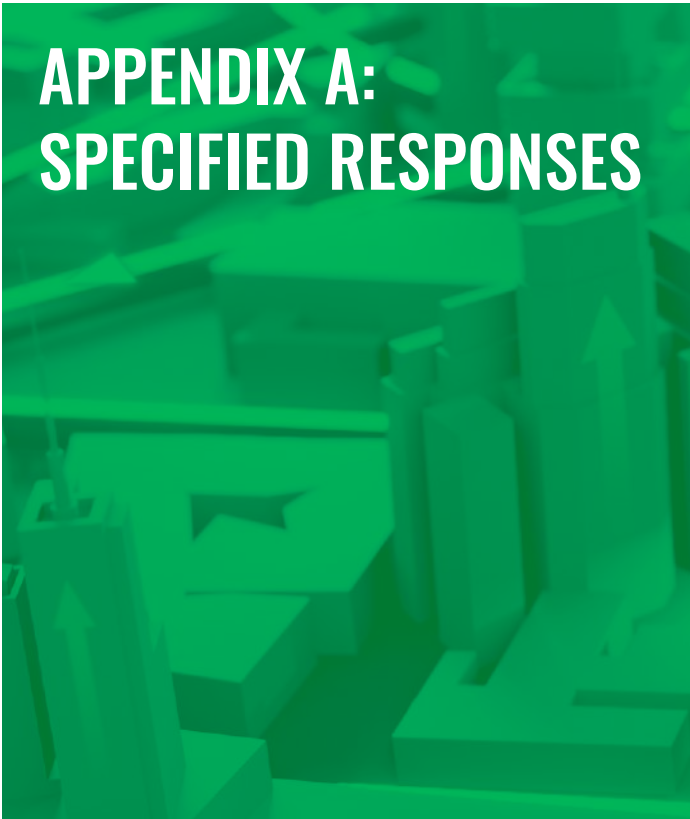
Your firm must establish a quality objective related to the information and communication component that addresses obtaining, generating or using information regarding your SOQM, and communicating information within your firm and to external parties on a timely basis to enable the design, implementation and operation of the SOQM. ISQM 1 Para. 33 includes the following objectives:

- (a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.
- (b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.
- (c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including:
 - (i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and
 - (ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
- (d) Relevant and reliable information is communicated to external parties, including:
 - (i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them; and
 - (ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management.

In the case of a smaller firm, communication may be more informal and achieved through direct discussions with personnel and engagement teams. There is no requirement in ISQM 1 that all communication needs to be formally documented, and this is often not practicable to do. The firm would need to document communication to the extent necessary to address the documentation requirements in paragraphs 57–59 of ISQM 1.

This component was introduced in [Installment #1](#) of this Series. If you need more guidance on this component, it is recommended you review the above-mentioned IAASB Guide and the standard itself.

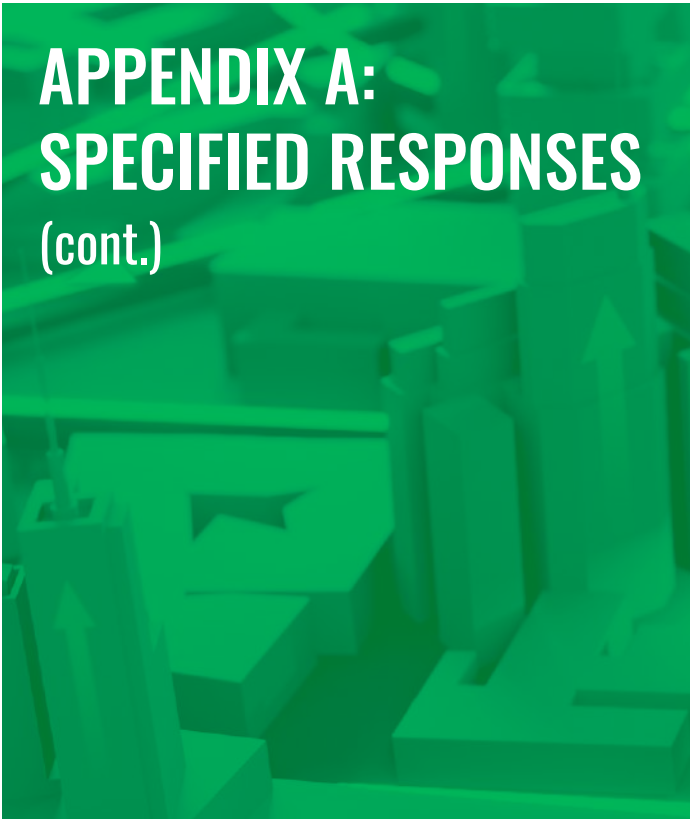




ISQM 1 has specified responses that all firms must include in their SOQM. The following summary can be used as a final check to make sure the specified responses required by ISQM are addressed in the SOQM.

What is clear from this summary is that all of the specified responses apply across firms of different sizes and complexities. The key will be to scale the responses based on the nature and circumstances of the firm.

		Sole practitioner with no staff	Sole practitioner with staff	Firm with 2-5 partners with staff
Relevant Ethical Requirements				
1.	The firm establishes policies or procedures for (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (ISQM.34(a))	Yes	Yes	Yes
2.	The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements. (ISQM.34(b)) (See Appendix D for an example of how to document this confirmation) *A sole practitioner with no staff will not obtain a confirmation but document compliance in a less formal manner.	NA*	Yes	Yes
Engagement Performance – Complaints and Allegations				
3.	The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with: • professional standards and applicable legal and regulatory requirements, or • non-compliance with the firm’s policies or procedures established in their SOQM (ISQM.34(c))	Yes	Yes	Yes



Client and Engagement Acceptance				
4.	The firm establishes policies or procedures that address circumstances when: (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (ISQM.34(d))	Yes	Yes	Yes
Communications				
5.	The firm establishes policies or procedures that: (i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality audit engagements; (ii) Address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management; and (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (ISQM.34(e))	Yes	Yes	Yes
Engagement Quality Reviews				
6.	The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for: (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; and (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 risk(s). (ISQM.34(f))	Yes	Yes	Yes

APPENDIX B:
AMENDMENTS TO
THE INTERNATIONAL
CODE OF ETHICS
FOR PROFESSIONAL
ACCOUNTANTS
(including International
Independence Standards)

When the quality management standards were issued in December 2020, the International Ethics Standards Board for Accountants (IESBA) identified that certain conforming amendments to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) were necessary.

The 2022 Edition of the [IESBA Code](#) was issued in September 2022 and incorporated the following revisions that are effective in December 2022:

- revisions to the non-assurance services and fee related provisions
- revisions to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers
- the quality management-related conforming amendments

In addition, the 2022 edition of the IESBA Code contains the IESBA approved revised definition of a public interest entity that will become effective in December 2024.

The quality management-related conforming amendments included the following:

- the IESBA Code was updated as needed to refer to ISQM 1, rather than ISQC 1
- some concepts and terminology were updated to align with ISQM 1, such as:
 - removing references to “policies and procedures” and referring instead to the requirement of ISQM to “design, implement and operate a SOQM”
 - including references to the SOQM and how it addresses “compliance with independence requirements”, rather than simply referring to policies and procedures related to independence.
 - Replacing the term “engagement quality control review” with “engagement quality review”.

Term	Amendment
Engagement quality control review (amended to Engagement Quality Review)	Extant: A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions reached in formulating the report. New: An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
Engagement quality reviewer	New: A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Objectivity of an Engagement Quality Review

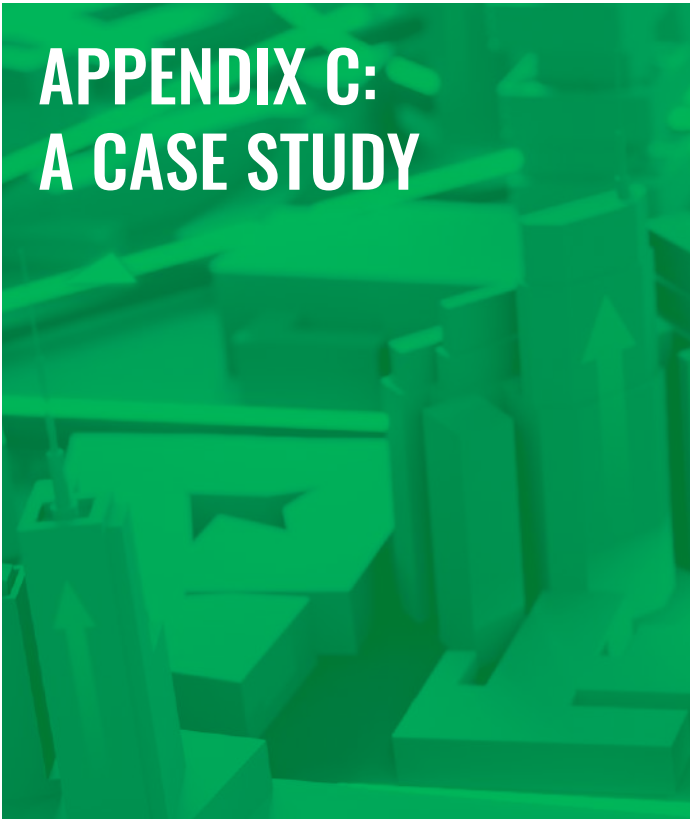
Revisions have also been made to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers. The revisions provide guidance that supports ISQM 2 in addressing the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity. Among other matters, the guidance:

- Elaborates on the need to identify, evaluate and address threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an individual as an EQR for a given engagement;
- Explicitly refers to and supports the requirement in ISQM 2 for a firm to establish, as a condition for eligibility, a cooling-off

period of two years before an engagement partner can assume the EQR role on the same engagement; and

- Emphasizes that this cooling-off requirement in ISQM 2 serves the dual objective of supporting compliance with the fundamental principle of objectivity and the high quality of engagements.

The guidance may also apply in situations where an individual is appointed as an appropriate reviewer to review the work performed as a safeguard to address identified threats to compliance with the fundamental ethics principles or to independence. The enhanced guidance is also effective December 2022.



Readers are cautioned that this case study is purely illustrative. The data, analysis, and commentary do not represent all of the circumstances and considerations that the firm will need to address in a particular circumstance. As always, you must exercise professional judgment in using this case study to help you.

Introduction to the Case Study

A case study was originally introduced in the original *Guide to Quality Control for Small- and Medium-Sized Practices*. This case study has been revisited in this Series to illustrate how the transition from ISQC 1 to ISQM 1 can be addressed. Some facts have been changed and some assumptions have been made as the case study was originally introduced to illustrate the implementation of ISQC 1, so it is not necessary for the reader to refer to the original case, but it can be assumed that the firm did implement ISQC 1 and is now looking to implement ISQM 1.

The following description provides background information about the fictional sole practitioner, Marcel Mooney practicing as M.M. and Associates.

M.M. and Associates

General

Marcel Mooney is a sole practitioner, practicing as M.M. and Associates and employing four staff:

- Deborah D’Alessandro, who has three years of experience with the firm and hopes to qualify as a professional accountant.
- Bob Morton, an accounting technician who has one year of experience and started with the firm four months ago.
- Two students recently enrolled in a program of professional accounting studies, who are new to the firm.

The practice performs a large number of review engagements (some of which are on behalf of family members or close personal friends), several small audits, and three medium-sized audits. The more substantial audit clients include a retirement home, a local government agency, and the largest motorcycle dealership in town.

The local government agency has had a lot of negative publicity lately with allegations of corruption against senior managers. Marcel has known the managers for many years and feels these charges are unfounded. The retirement home is almost a year behind in payment of its fees for last year’s audit, and the firm needs to begin scheduling the field work soon.

Marcel, 48, started his practice 15 years ago with no staff. The firm’s client base, revenue, and staff have grown gradually over the years. Marcel is a dynamic individual and keeps life around the office interesting. He is an excellent marketer and promotes the firm

wherever he goes. Marcel earns a good living and has no plans to retire in the near future. Marcel is committed to quality and thinks the implementation of the SOQM will help him structure and document the informal practice risk assessment he has completed in the past.

Upon the adoption of ISQC 1, a quality control manual was put in place. It was based on the Sample QC Manual: Sole Practitioner (included in IFAC’s [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition)), and had very little modification or updates, or use, and the manual tends to “sit on the shelf”.

Marcel understands that he has a responsibility to promote a quality management culture within the firm. However, he has not documented a formal development plan. For example, Marcel and his staff have not participated in regular professional development activities, other than the updates to taxation matters. There is no indication of whether the staff are familiar with the IESBA

Code, and there is little explicit discussion of ethical matters. Marcel feels he should develop a mission statement for the firm and would like to seek input from the staff, as well as discuss their goals.

Marcel does have some fear that the continuity of the firm would be in jeopardy if something were to happen to him, as there is presently no one in a position to assume responsibility for the management of the firm in his absence.

Marcel often looks for opportunities to improve the efficiency and effectiveness of the firm and believes that the SOQM can improve the reputation of the firm for high-quality services and be a marketing factor for a professional accounting firm.

Firm Planning Process

Marcel usually sets aside one day per year for annual planning but historically has focused on managing operational and financial factors rather than on a strategic plan on where he would like to take the firm. Though Marcel does consider the risks associated with the types of clients the firm is attracting, the risk assessment has not been documented in the past other than by using a standard acceptance/continuance checklist.

As indicated, the planning process consists of a day spent by Marcel reflecting on the past year and the preparation of a simple budget. The budget is usually last year's numbers adjusted for known client gains and losses. It also addresses capital requirements, staffing costs, and office expenses. Since the competitors in town seem to be performing fewer audit and review engagements, Marcel sees this as an opportunity to increase his share of the assurance market. Marcel has begun to discuss his firm's revenue plan with Deborah, as she is getting more experience, and together they plan staffing and other resources, such as identifying equipment, technology, and furniture requirements for the next year.

Human Resources

The hiring process is informal. When one of the staff members announces that he or she is leaving the firm, Marcel may advertise or review the resumes recently received from people looking for positions. When a candidate is found, Marcel interviews this individual and then makes a hiring decision. Marcel tries to check out the references or qualifications of candidates, but sometimes he does not complete the process due to the competing pressures of client meetings and engagements. Deborah assists Marcel with staff scheduling when a time conflict arises and finds work for staff that are not busy.

The firm has a subscription to certain resource library materials, including an audit and review manual which includes examples of standardized templates.

The firm has no history of complaints or allegations, and a majority of the clients would report they are satisfied with the firm's service.

Observations Related to Transition to SOQM

Marcel is open to change and has some insight on the possible benefits of a SOQM. ISQM 1 will require Marcel to complete a more formal risk assessment process as part of the SOQM implementation to ensure continued quality happens confidently and in response to the risks in his firm. This may be a mindset change for Marcel, and this was discussed in [Installment #1](#) of this Series. A review of the benefits of an SOQM may be the best place to start.

The next step would be to assess the firm's strategy, perhaps using a "Strengths/Weaknesses/Opportunities/Threats or "SWOT" analysis. It would be useful to include Deborah, his most experienced staff member, in the implementation plan for the development of the firm's SOQM. The project plan discussed in this document could help Marcel get started. It is also possible to consider the purchase of tools developed in the marketplace to assist in this process, along with consultations with appropriate individuals and peers to help with the implementation.



The QC Manual that Marcel had previously developed would not have been based on the quality objectives provided in ISQM 1. Existing policies and procedures, including those in the previous QC Manual, may address the quality risks identified by Marcel. Marcel might consider the following similarities between ISQC 1 and ISQM 1:

- ISQC 1 has a requirement regarding leadership responsibilities, so some role/responsibilities may be documented in the existing manual, but it would not be as robust as the Governance and Leadership quality objectives in ISQM 1.
- The risk assessment process of ISQM 1 is new!
- The relevant ethical requirements may be similar, but any policies and procedures would have to be assessed in light of the ISQM 1 quality objectives.
- The acceptance and continuance requirements are similar, but any policies and procedures would have to be assessed in light of the ISQM 1 quality objectives.
- ISQC 1 focused on human resources, whereas ISQM 1 includes service providers and technological, intellectual, and human resources, and is more specific about the role of service providers. Therefore, it is likely that new risks will be identified, which will require new policies and/or procedures.
- The engagement performance requirement may be similar, but the policies and procedures would have to be assessed in light of the ISQM 1 quality objectives.
- Some of the monitoring activities may be similar, but the policies and procedures would have to be assessed in light of the ISQM 1 quality objectives, and the remediation guidance would likely need to be much more robust as this contributes to the iterative nature of the new SOQM. This will be discussed in more detail in Installment #3 of this Series.

After Marcel initially learned about the new quality management standards, he asked Deborah to review the requirements and report back to him with recommendations about what the firm should do. Marcel indicated that he wanted to keep the changes to a minimum in this first year of implementation.

Applying the Steps

This Installment will discuss one possible approach Marcel could apply in the design and implementation of the SOQM for the firm, using the steps introduced in this Series:

Step 1: Assign Project Lead

- Assumed to be Marcel, with some help from Deborah.

Step 2: Preparation

- Pre-Reading and Preparation – assumed to have been completed.

Step 3: Brainstorm on Quality Objectives and Complete Risk Assessment

- Set up Meeting #1 as described in [Installment #1](#) of this Series and include Deborah, at a minimum, but the inclusion of other staff may provide additional insight.

Step 4: Assign Roles and Responsibilities

- Set up Meeting #2 as described in [Installment #1](#) of this Series and include Deborah, at a minimum, and any staff involved in Step 3, as applicable. Marcel has ultimate responsibility for quality at the firm and, in this scenario, should take responsibility for all operational aspects of the SOQM. See below for a demonstration of how the existing QC Manual may be useful in the step.

Step 5: Collect Information

- Write down all informal policies and procedures and bring all manuals to the table, including the QC Manual, and compare with the quality objectives identified to see where new policies and procedures are needed based on the specifics of the firm. Consider using the workbook format suggested in this Installment.

Step 6: Develop Responses

- Set up Meeting #3 as described in [Installment #1](#) of this Series and include Deborah, at a minimum. Using the information from Step 5 develop practical policies and procedures by using current policies, modifying them as needed, and developing new ones to fill any identified gaps. See Examples below for examples of how the workbook approach may be useful.

Step 7: Documentation of SOQM and Communication

- Set up Meeting #4 as described in [Installment #1](#) of this Series and include all staff to start training and communicating the firm’s policies. See Example 1 below on how to start this process and see an example of how the existing QC Manual may be useful. This is an area where an outside facilitator who has experience in the implementation of SOQMs may be useful for Marcel.

Manual or No Manual

Documentation of policies and procedures can be in the workbooks created or could be the development of a manual shared with staff. A sole practitioner with no staff may find it efficient to use the workbooks used to design and develop the SOQM as documentation of the firm’s policies, whereas a sole practitioner with staff, like Marcel, may find it useful to formalize the policies and procedures in a manual to be shared with staff.

Case Study – Example 1, Documentation of the Roles and Responsibilities and Policies and Procedures

The following example and suggested wording are based on Sample QC Manual: Sole Practitioner (issued by IFAC *Guide to Quality Control for Small- and Medium-Sized Practices* (Third Edition) and some may find it useful to modify the existing “QC Manual” to be used as a vehicle to document and communicate the firm’s policies and procedures.

SP = Sole Practitioner [*To customize this example, Marcel would substitute the specific details related to himself and the firm (i.e., Marcel Mooney and M.M. and Associates.)*]

General Roles and Responsibilities of the SP and Staff

The SP exercises ultimate authority and bears ultimate responsibility for the SOQM.

The overriding message of the SP is a commitment to quality, and to encourage and recognize staff who are equally committed and demonstrate alignment with the SOQM.

The SP and each staff member are, to varying degrees, responsible for implementing the SP’s SOQM.

The SP and staff are required to conform to the following policies and procedures:

1. Treating ethical behavior and quality of service as the first priority and that commercial considerations may not override the quality of the work performed.

2. Reading, understanding, and following the IESBA Code (*and/or member body code(s) of ethics*).

3. Understanding the SP’s and staff responsibilities to identify, disclose, and document threats to independence and the process to be followed to address and manage identified threats.

4. Avoiding circumstances where independence may be (or appear to be) impaired.

5. Complying with continuing professional development requirements including maintenance of records as evidence thereof.

6. Remaining abreast of current developments in the profession, applicable financial reporting framework and assurance standards (for example, IFRSs, ISAs), disclosure and accounting practices, quality management standards and practices, firm standards, and relevant industry and client-specific developments.

7. Providing the SP and staff with courteous assistance, when needed and requested, to help them learn through shared knowledge and experience to improve the quality of client service.

8. Keeping time records (regularly entered into the SP’s time and billing system) to track and identify time spent on engagement and office activities (both chargeable and non-chargeable).
9. Safeguarding and properly using and maintaining office and computer equipment (including network and communication resources) and other shared assets. This includes using the SP’s technological resources only for appropriate business purposes, taking into consideration ethics, client confidentiality, and privacy.

10. Keeping SP and client data, business and client information, and personal information secure and confidential [See Declaration of Confidentiality – [Appendix E](#)].

11. Ensuring that firm-generated electronic-based information of the client or firm is stored on the SP network according to appropriate information storage procedures.

12. Informing the SP of any observations of significant breaches in SP’s SOQM, including matters related to ethics independence, confidentiality, or inappropriate use of SP resources.

13. Documenting and maintaining appropriate records of all significant client contacts when professional advice is given or requested.

14. Documenting and maintaining appropriate records of all significant consultations, discussions, analyses, resolutions, and conclusions on independence threat management, difficult or contentious issues, differences of opinion, and conflicts of interest.

15. Following the SP’s standard practices for work hours, outputs, attendance, administration, meeting deadlines, and quality management.
- [Insert additional policies and procedures as needed/desired based on risk assessment.]

If the existing QC Manual is to be used it would be useful to tag the policy/procedure to the quality risk(s) as the risk is addressed.

Case Study – Example 2, Risk Assessment

This example looks at the Relevant Ethical Requirements and Acceptance and Continuance components and uses [Exhibit 1](#) as an example to demonstrate the application of the risk assessment process.

This example includes the quality objective for Relevant Ethical Requirements from ISQM 1 and using the facts about the firm, concludes that there is a quality risk (QR #3).



EXHIBIT 3 - CASE STUDY - Relevant Ethical Requirements						
Quality Objective	Nature and Circumstance of Firm	What could go wrong?	Likelihood of Occurring (H,M,L)	Adverse Affect (H,M,L)	Conclusion: Quality Risk (QR) Y/N (Professional judgment)	Quality Risk
EXHIBIT 3. Relevant Ethical Requirements						
The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (a) The firm and its personnel: (i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject. (b) Others, including service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject: (i) Understand the relevant ethical requirements that apply to them; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (ISQM Para. 30)	Marcel, as a sole-practitioner, is always promoting the firm/ practice for growth to increase the share of the assurance market, and has accepted and continued with clients where: • family members/friends are involved • fees have not been paid on a timely basis	Possibly could expose the firm to quality risks related to compliance with relevant ethical requirements where: • the firm may be in breach of independence requirements	H	H	Y	QR3

This example includes the quality objective for acceptance and continuance from ISQM 1 and using the facts about the firm, concludes that there is a quality risk (QR #5).



EXHIBIT 4 - CASE STUDY Acceptance and Continuance						
Quality Objective	Nature and Circumstance of Firm	What could go wrong?	Likelihood of Occurring (H,M,L)	Adverse Affect (H,M,L)	Conclusion: Quality Risk (QR) Y/N (Professional judgment)	Quality Risk
3. Acceptance and Continuance						
The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements: (a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on: (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and (ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (ISQM Para. 30)	Marcel, as a sole-practitioner, is always promoting the firm/ practice for growth to increase the share of the assurance market, and has accepted and continued with clients where: • family members/friends are involved • corruption allegations exist against senior management • fees have not been paid on a timely basis	Possibly could expose the firm to quality risks related to accepting clients/ engagements that is a situation where: • the firm may be in breach of independence requirements • integrity and ethical values of clients are questionable • the firm does not have the ability to perform the engagement as it lacks resources • Marcel’s priority to increase revenue and growth do not lead to appropriate judgments	H	H	Y	QR5

This Installment suggests a “gap” analysis in Exhibit 2 that may be useful for Marcel in determining where existing policies and procedures in the QC Manual can be documented to identify where new responses are needed or exiting ones need to be revised. The following example shows two illustrations of how Exhibit 2 could be used by Marcel.

EXHIBIT 5 ILLUSTRATIVE EXAMPLE: GAP ANALYSIS					
After understanding the nature and circumstances of the firm, and considering the likelihood and implications of the risk(s), document the quality risk(s), organized by relevant component in Exhibit 1, use Exhibit 2 as an approach to identify any observed gaps from any existing policy and/or procedure.					
Quality Risk from Exhibit 1	Quality Risk	Response	Response - Policy and/or procedure	Document existing Policy/ Procedure and Location	Observed “GAP” Analysis
QR 1	Describe quality risk	R1w	Populate from existing policies/procedures. Revise as needed, and add new ones based on the GAP analysis.	For example, HR Policy Manual, or current QC Manual.	Document those responses that need to be added/revise. This is most important in year of implementation
QR 3 (EXHIBIT 3 - CASE STUDY - Relevant Ethical Requirements)	The quality risk is that the firm will not meet the quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Those quality objectives include the following: (a) The firm and its personnel: (i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject. (b) Others, including service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject: (i) Understand the relevant ethical requirements that apply to them; and (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.	R3	The current policies related to relevant ethical requirements are likely based the Sample QC Manual: Sole Practitioner (issued by IFAC Guide to Quality Control for Small- and Medium-Sized Practices (Third Edition), yet customized by Marcel, so the actual polices would be populated here. For example: Section 2 of the QC Manual likely had the following policies which would not result in a significant “gap”: 2. Relevant Ethical Requirements (SP - Sole Practitioner (Marcel)) <i>The SP and their personnel shall comply with relevant ethical requirements including, as a minimum, those set out in the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and any additional local regulatory requirements.</i> <i>The SP recognizes the value of ethical leadership and accepts responsibility to provide it.</i> <i>The SP has an expectation that all staff maintain current knowledge of the provisions contained within the IESBA Code. This will require all staff to assume personal responsibility for the periodic review of the contents of the IESBA Code.</i> One revision that would be suitable is to include a reference to service providers, if applicable.	Current QC Manual	The existing policies/procedures would be useful and would not create a “gap”, but some responses would have to be added and some would have to be reviewed and updated/revise for the SOQM as follows: 1. Adjusted to a principles-based approach with an increased focus on all relevant ethical requirements, (i.e., not just independence). 2. The references to the IESBA would need to be check to the current IESBA Code and updated as necessary. (As discussed in Appendix B of this Installment) 3. Ensure that the policies and procedures address the relevant ethical requirements that apply to others outside the firm, such as service providers.

Quality Risk from Exhibit 1	Quality Risk	Response	Response - Policy and/or procedure	Document existing Policy/ Procedure and Location	Observed “GAP” Analysis
QR 5 (EXHIBIT 4 - CASE STUDY Acceptance and Continuance)	The quality risk that the acceptance and continuance of client relationships and specific engagements will not meet the quality objectives. The quality objectives include the following: (a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on: (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and (ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.		The current policies related to acceptance and continuance requirements are likely based the Sample QC Manual: Sole Practitioner (issued by IFAC Guide to Quality Control for Small- and Medium-Sized Practices (Third Edition), yet customized by Marcel, so the actual polices would be populated here. For example: Section 3 of the QC Manual likely had the following policies which would not result in a significant “gap”: <i>3. Acceptance and Continuance of Client Relationships and Specific Engagements</i> <i>3.1 Acceptance and Continuance</i> <i>The SP shall only accept new engagements or continue existing engagements and client relationships where it has the capabilities, including time and resources, to do so, and can comply with ethical requirements and has considered the integrity of the (prospective) client and has no information to conclude that the (prospective) client lacks integrity.</i> <i>The SP must approve and sign off on the decision to accept or continue an engagement in accordance with the SP policies and procedures.</i>		The existing policies/procedures would be useful and would not create a “gap”, but some responses would have to be added and some would have to be reviewed and updated/revised for the SOQM as follows: 1. Adjusted to a principles-based approach with an increased focus on the judgments made in determining whether to accept or continue the client relationships and specific engagements. Suggested wording was provided in Example 1 of the case study as follows: “1. Treating ethical behavior and quality of service as the first priority and that commercial considerations may not override the quality of the work performed.” 2. The references to the IESBA would need to be checked to the current IESBA Code and updated as necessary. (As discussed in Appendix B of this Installment) 3. A new policy to obtain more information about the nature and circumstances of the engagement and the integrity and ethical values of the client. 4. A new policy to address the financial and operational policies in the context of making decisions about whether to accept a client relationship or specific engagement.
			Note: Some responses will cover multiple risks, and some risks may need multiple responses.		

Wrap up of Case Study for Installment 2

In this Installment an approach has been suggested that Marcel can follow. The final component will be addressed in Installment #3. As a wrap-up to this point the following summary of the process for Marcel is provided:

- Marcel has read the standards and other resources to be familiar with the standards including a review of the IESBA Code, as discussed in Appendix B of this Installment.
 - As the sole practitioner Marcel has assumed full responsibility for the SOQM and has summarized the quality objectives that are relevant to his practice.
 - For the implementation project, Marcel has solicited input from his most senior staff member, Deborah, helping him in such areas as brainstorming on the risk assessment process.
 - Marcel has collected current policies and procedures that may be used in the development of his SOQM. He has started the risk assessment process and the development of policies and procedures.
- Marcel may have utilized the following guidance included in this Installment to get to the process started:
 - *Exhibit 1, Risk Assessment Workbook* was introduced as a possible format for risk assessment process, activity.
 - *Exhibit 2, Possible Format of GAP Analysis* was introduced as a possible format for documenting the analysis of what is needed in the SOQM to what currently exists in Marcel’s practice. (Illustrated in Exhibit 5)
 - *Case Study – Example 1, Documentation of the Roles and Responsibilities and Policies and Procedures*, was included in this Appendix, using a format from Marcel’s existing QC Manual, which demonstrated one way to document the governance and leadership, but also included some sample policies and procedures. This example was to demonstrate how the existing QC manual could be utilized. (Step 5)
 - *Case Study – Example 2, Risk Assessment and Responses*, applies this as an example for Marcel, for the Relevant Ethical Requirements component in Exhibit 3 and for the Acceptance and Continuance component in Exhibit 4.

Summary of Exhibits

[EXHIBIT 1](#) Sample Risk Assessment Workbook

[EXHIBIT 2](#) Possible Format of GAP Analysis

[EXHIBIT 3](#) CASE Study: Relevant Ethical Requirements

[EXHIBIT 4](#) CASE Study: Acceptance and Continuance

[EXHIBIT 5](#) Illustrative Example of GAP Analysis

Summary of Documentation Aids

Marcel may consider using, when appropriate, and with modification, the documentation aids included in this Installment to help develop policies and procedures and documentation of his SOQM, which are summarized as follows:

- Independence Confirmation ([Appendix D](#))
- Acceptance and Continuance of Clients and Engagements ([Appendix F](#))
- Resources and Outside Consultation ([Appendix G](#))
- Engagement Quality Review ([Appendix H](#))

Recap of guidance to Case Study

Marcel Mooney is a sole practitioner, practicing as M.M. and Associates and employing four staff. This Installment introduced a possible approach for Marcel for the design and implementation of the SOQM, and also included some guidance and documentation tools. For example, as Marcel moves to the risk assessment part of the design of the SOQM, [Exhibit 1 – SAMPLE RISK ASSESSMENT WORKBOOK](#) is presented as a possible approach to document this part of the process.

The following table provides a summary of some of the key guidance included in this Installment for each of the components of M.M and Associates’ SOQM, with some quality risks provided to illustrate how this Installment could help Marcel. Of course, Marcel has to design and develop the SOQM specifically for the firm, but this table illustrates some guidance that is included in this Installment for each component.

Component of SOQM	Possible Quality Risk	Guidance and tools provided in this Installment
Governance and Leadership	A quality risk that Marcel will not always demonstrate the commitment to quality as the leader of the Firm	This Installment points out that for Marcel, this component will be more straight forward, as the governance and leadership are in the mindset of Marcel and his commitment to quality through his actions and behaviors. Marcel may also wish to consider assigning certain responsibilities for the SOQM to Deborah, though he would be ultimately responsible for the SOQM. Case Study – Example 1, Documentation of the Roles and Responsibilities and Policies and Procedures introduced examples of policies and procedures that Marcel could use or modify from the existing QC Manual. This was included to illustrate how the Case Study of Marcel Mooney from IFAC’s Guide to Quality Control for Small- and Medium-Sized Practices (Third Edition) could be a source of existing policies and procedures. The examples in Exhibit 1 originated from the existing QC Manual of a Sole Practitioner (SP). The examples also illustrate how one policy may address more than one quality risk. To illustrate, the one suggested policy/procedures from case study – Example 1 that is relevant to this component is the following policy: Treating ethical behavior and quality of service as the first priority and that commercial considerations may not override the quality of the work performed.

Component of SOQM	Possible Quality Risk	Guidance and tools provided in this Installment
Relevant Ethical Requirements*	A quality risk that Marcel and staff will not be as familiar with the IEASBA Code or its application and this could result in non-compliance.	As discussed above, Case Study – Example 1, Documentation of the Roles and Responsibilities and Policies and Procedures introduced examples of policies and procedures that Marcel could use or modify from the existing QC Manual. To illustrate, the one suggested policy/procedures from Case Study – Example 1 that is relevant to this component is the following policy: • Reading, understanding, and following the IESBA Code (<i>and/or member body code(s) of ethics</i>). • Understanding the SP’s and staff responsibilities to identify, disclose, and document threats to independence and the process to be followed to address and manage identified threats. • Avoiding circumstances where independence may be (or appear to be) impaired. Case Study – Example 2, Risk Assessment identified the quality objectives for this component, and then used the nature and circumstances of Marcel’s firm, identified a quality risk related to compliance with relevant ethical requirements where the firm could be in breach of interdependence requirements. ISQM 1 includes a specified response (requirement) that a firm obtain, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements. This Installment provides a tool in Appendix D that provides Marcel an example of how to document this confirmation. In addition, examples of policies and procedures that Marcel could modify were included in this Installment, such as: • Read all regulations specific to the engagements being performed. • Understand the legal environment of the firm and clients. • Read and abide by the relevant Code of Ethics including, for example adherence to the disclosure of prohibited investments. • Review the full list of clients of the firm to be aware of the potential investments/relationships/conflicts of interest. • Comply with confidentiality requirements and using a Declaration of Confidentiality in which Appendix E provides Marcel an example of how to document this declaration. • Adhere to all required professional requirements, professional standards, and provide a summary to the firm. • Complete an assessment of competence before undertaking or participating in an engagement. • Not accept gifts and hospitality from a client, even if the value is trivial and inconsequential. <i>(This is an example of a policy that is likely more specific than the provisions of relevant ethical requirements.)</i>

Component of SOQM	Possible Quality Risk	Guidance and tools provided in this Installment
Acceptance and Continuance of Client Relationships and Specific Engagements	A quality risk that Marcel may accept clients or engagements where intellectual or human resources are not available.	Case Study – Example 2, Risk Assessment identified the quality objectives, and using the nature and circumstances of Marcel’s firm, identified a quality risk related to this component. This Installment assists Marcel with the client acceptance and continuance process. For example, Appendix F is a checklist that can be modified to meet the firm’s facts and circumstances, and document Marcel’s firm’s compliance with ISQM 1 for this component. In addition, this Installment points out that Marcel may develop a policy and/or procedure that specifies (or prohibits) the types of engagements, for example: • The firm may prohibit the performance of assurance engagements over a certain subject matter when the firm does not have appropriate expertise to perform engagements over that subject matter. • The firm may prohibit performing assurance engagements, such as an audit of financial statements, for entities operating in certain industries (e.g., specialized industries with high levels of regulations or complexity) when the firm does not have appropriate resources or expertise to perform engagements for entities operating in those industries.
Engagement Performance	A quality risk that the standardized checklists used by the firm are not updated promptly.	Many of the policies and procedures for the engagement performance are likely captured by the subscription to an audit and review manual or in the technological and intellectual resources used by Marcel’s firm. Thus, the policy and procedure will be to make sure the documentation of the subscription and any related manuals (including the standardized templates) are updated to reflect the relevant implications of the quality management standards. This Installment reminds Marcel that if his client acceptance decision-making would envisage engagements that may need an Engagement Quality Review, then Marcel can develop a checklist for this activity using Appendix H of this Installment.

Component of SOQM	Possible Quality Risk	Guidance and tools provided in this Installment
Resources (Includes human, technological and intellectual resources)	A quality risk that Marcel and staff will not be up to date on engagement standards.	As discussed above, Case Study – Example 1, Documentation of the Roles and Responsibilities and Policies and Procedures introduced examples of policies and procedures that Marcel could use or modify from the existing QC Manual. To illustrate, the one suggested policy/procedures from Case Study- Example 1 that is relevant to this component is the following policy: • Complying with continuing professional development requirements including maintenance of records as evidence thereof. • Remaining abreast of current developments in the profession, applicable financial reporting framework and assurance standards (for example, IFRSs, ISAs), disclosure and accounting practices, quality management standards and practices, firm standards, and relevant industry and client-specific developments. <i>Technological/Intellectual Recourses</i> Marcel may also consider the example included in this Installment related to the firm’s use of technological and intellectual resources: Use of Firm Methodology/Intellectual Resources All partners and staff must adhere to the firm’s methodology, and ensure the applications are up to date, including but not limited to working paper file generator, checklists, etc. Marcel may also use Appendix G of this Installment as a tool that can be modified and used to document the possible use of outside resources, which may be considered human or intellectual resources, depending on the nature of the consultation.
Information and communication*	A quality risk that Marcel will not communicate all relevant matters to the staff on a timely basis.	As discussed in this Installment, communication for Marcel’s firm may be more informal and achieved through direct discussions with personnel and engagement teams. Marcel should be aware that there is no requirement in ISQM 1 that all communication needs to be formally documented. Marcel would need to document communication to the extent necessary to address the documentation requirements in paragraphs 57–59 of ISQM 1.

*Reminder for Marcel that these components have specified responses in ISQM 1 and the summary included in [Appendix A](#) of this Installment which can be used as a final check to make sure the specified responses required by ISQM 1 are addressed in the firm’s SOQM.



Specified Response:

The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent. (ISQM 1 para.34(b))

This specified response can be implemented by creating an annual confirmation of compliance using the following suggested format:

Partner and Staff Independence

[Firm’s letterhead]

[Date]

[Addressed to the firm]

Acknowledgement of Independence

I confirm to the best of my knowledge and belief that I am in compliance with the firm’s system of quality management policies and procedures, which include compliance with International Independence Standards Parts 4A and 4B of the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)** [except for matters listed in Schedule A].

If the reference to Schedule A is deleted:

Initial here_____

Name:_____

Position:_____

Date:_____

***International Independence Standards:**

Part 4A – Independence for Audit and Review Engagements

Part 4B – Independence for Assurance Engagements other than Audit and Review Engagements

**Schedule A
Partner and Staff Independence**

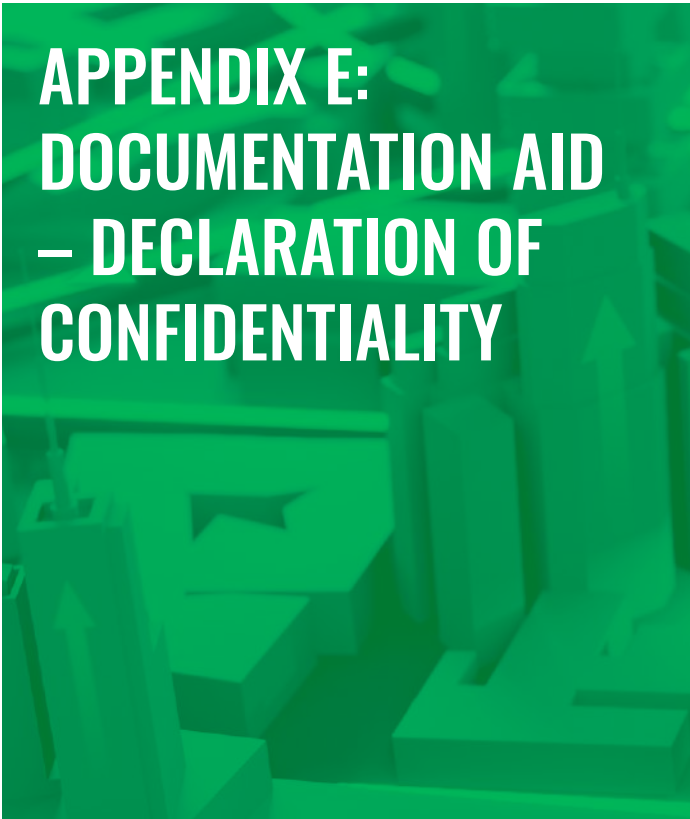
List and briefly explain the nature of all matters that to the best of your knowledge and belief might affect independence.

Refer to Parts 4A and 4B of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* when completing the list.

Each item will be reviewed by the engagement partner. Further information may be necessary to determine what action, if any, is required.

All decisions and the course of action to be followed shall be fully documented.

Description	Detail how Independence Might be Affected	Action Taken or Safeguard Applied (if applicable) to Eliminate or Reduce Threats to an Acceptable Level



The following sample of a declaration of confidentiality can be used as a tool to help document the implementation of a policy in response to the quality risks related to breach of confidentiality. Confidentiality is one of the fundamental principles included in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

[Sample] Declaration of Confidentiality

[Firm’s letterhead]

It is good practice to have a declaration of confidentiality signed at the beginning of a staff member’s employment or simply incorporated within the terms and conditions of the staff member’s employment contract. It is also good practice to have a declaration of confidentiality re-signed annually thereafter, to serve as a reminder of the requirement.

In addition, to meet the firm’s duty of confidentiality under the IESBA Code, reasonable steps should be taken to include the signing of this declaration in contracts with service providers, quality reviewers, or consultants on contentious or difficult issues, or other resources, such as IT consultants. Alternatively, confidentiality could be incorporated into the terms and conditions of the contract/letter of engagement.

[This declaration is related to confidentiality as discussed within the relevant code of conduct and does not address legal requirements related to privacy and confidentiality. It may be advisable to obtain legal advice on any such legal requirements.]

[Date]

Dear [XXX]:

To ensure continued compliance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, pertaining to our professional responsibilities and the protection of our clients, it is essential that the affairs of our clients remain confidential.

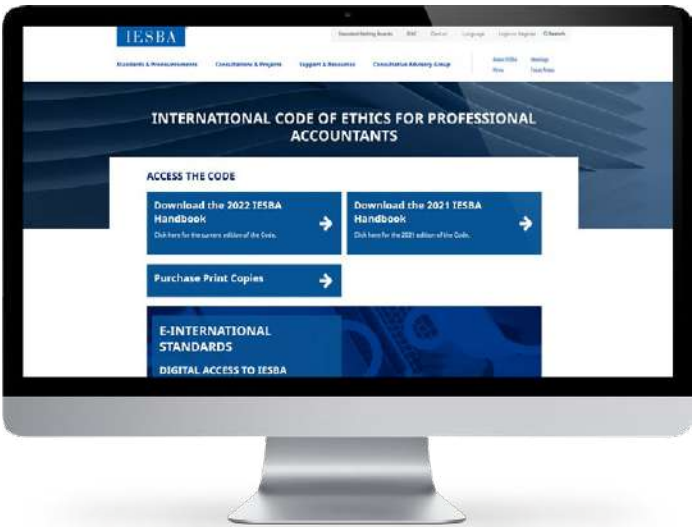
Confidential information refers to any information about our clients which comes to an individual’s attention as a result of their association with the firm, unless such information is publicly available.

I have read, understood, and complied with the firm’s statement of policy on confidentiality regarding the affairs of the firm’s clients.

Name:_____

Signed:_____

Date:_____



Reference to IESBA Code for guidance (Refer to relevant ethical requirement, as applicable)

The [*International Code of Ethics for Professional Accountants \(including International Independence Standards\)*](#) includes Subsection 114 which addresses the duty of confidentiality. Specifically, R114.1 requires that all professional accountants comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. It requires that the professional accountant:

Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member.

Maintain confidentiality of information within the firm or employing organization.

Maintain confidentiality of information disclosed by a prospective client or employing organization.

Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose, including after the relationship has ended.

Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or a third party.

Take reasonable steps to ensure that personnel under the accountant’s control, and individuals from whom advice and assistance are obtained, respect the accountant’s duty of confidentiality.



APPENDIX F:
DOCUMENTATION AID
ACCEPTANCE AND
CONTINUANCE
OF CLIENTS AND
ENGAGEMENTS

Preliminary Assessment

Has a discussion taken place with the client prior to accepting the engagement to ascertain their history, and obtain relevant documents? These should include the organization chart, operating and financial performance results over the past two or three years, changes in management, structure of operations, and anything else likely to have an impact on the engagement.

Nature of the Engagement(s):

- Assurance – Audit, Assurance
- Assurance – Review Engagement
- Related Service – Compilation Engagement
- Related Service – Other, for example, Agreed-Upon Procedures Engagements

Reminder:

The definition of professional standards includes the relevant ethical requirements:

Professional standards – IAASB Engagement Standards, as defined in the IAASB’s *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*, **and** relevant ethical requirements. (ISQM 1, Para. 16(p))

Matters to consider during the process of evaluating whether to accept an engagement for the first time from a new client can be more extensive than if continuing an engagement with an existing client. The results of the consideration may be recorded in a checklist (such as the following), questionnaire format, or summarized in a memorandum.

Sample Checklist Acceptance
and Continuance of Clients
and Engagements

Quality objective

- The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:
- (a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:
 - (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and
 - (ii) The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - (b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

(See ISQM 1 paras. 30 and A67-A74)

	Yes	No	NA	Comments/Documentation
Financial and Operating Priorities				
1. Are the firm’s financial and operational priorities creating potential bias or inappropriate judgments about the acceptance/continuance decision? Considerations: Too much focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm’s financial resources • Fee is attractive/satisfactory but not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values). • Fee quoted for an engagement is too low and is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Also see Questions below related to possible prohibitions/threats related to independence).				
2. Are you satisfied that the prospective client is both willing and able to pay an acceptable fee?				
Prospective Client’s Character and Integrity				
3. Do you, your trusted clients or colleagues, know the client?				
4. Are you satisfied that there have been no events or circumstances that cast doubt on the integrity of the prospective client’s owners, board members, or management? Specifically, are you reasonably satisfied that none of the following exist: a) Convictions and regulatory sanctions, b) Suspicion of illegal acts or fraud, c) Ongoing investigations, d) Memberships in professional organizations that are not in good standing, e) Negative publicity, and f) Close association with people/companies with questionable ethics. [Describe the methods used to obtain evidence, such as an Internet search. (Key words for an Internet search might include the prospective client’s business name, the names of key personnel, and the industry or products/services.). Document any evidence obtained that is relevant in assessing the prospective client’s character and integrity.]				

	Yes	No	NA	Comments/Documentation
5. If other auditors/accountants have declined to serve the prospective client, or if opinion shopping or other similar motivations for change are suspected, have you documented the risks involved and carefully considered why you should accept the engagement?				
Predecessor Auditor/Accountant				
6. Have you contacted the predecessor auditor or accountant (if applicable in your jurisdiction) and inquired about: a) Access to their working papers relating to the prospective client; b) Any outstanding fees; c) Any difference of opinion or disagreements; d) Integrity of management and board; e) Reasons for the change; and f) Any unreasonable demands or lack of cooperation?				
7. Have you obtained permission from the predecessor firm to review prior year working papers (if permitted)? If so, have you reviewed prior-period planning documentation prepared by the previous firm, and determined whether the previous firm: a) Confirmed independence from the client; b) In the instance of an audit, whether it was performed in accordance with ISAs; c) Had adequate resources and proficiency; and d) Had an understanding of the entity and its environment?				
Previous Financial Statements				
8. Have you obtained and reviewed copies of: a) Financial statements for at least the previous two years; b) Tax returns and related assessments for the previous two years; and c) Management letters for the previous two or three years?				

	Yes	No	NA	Comments/Documentation
9. Have you determined the significant accounting policies and methods used in the prior year’s financial statements, and considered whether they are appropriate and consistently applied? For example: a) Significant valuations, such as allowance for doubtful accounts, inventory, and investments; b) Amortization policies and rates; c) Significant estimates; and d) Other (please identify).				
10. In the instance of an audit, are any additional audit procedures required in relation to key prior year transactions and/or balances to reduce the risk of misstatement of the opening account balances? If yes, add WP reference for those procedures.				
Expertise				
11. Have you obtained an overall understanding of the client’s business and operations? (Complete an understanding of client memorandum or use a standardized checklist to provide the information.)				
12. Do partners and staff have sufficient knowledge of the accounting practices of the prospective client’s industry to perform the engagement? If not, can the required knowledge of the industry accounting practices be readily obtained? Identify the sources.				
13. Have any areas been identified that require specialized knowledge? If so, can the required knowledge be readily obtained? Identify the sources.				

	Yes	No	NA	Comments/Documentation
Independence Assessment Additional prohibitions not addressed here may apply to engagements of public interest entities. Parts 4A and 4B of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) should be referred to for all relevant requirements and guidance.				
14. Identify and document any existing prohibitions (those threats to independence for which there are no adequate safeguards, such as): a) Acceptance of significant gifts or hospitality from the client; b) Close business relationships with client; c) Family and personal relationships with the client; d) Fee quote considerably less than market price (unless the documentation will provide evidence that all applicable standards have been met); e) Financial interests in the client; f) Recent employment within the prescribed period (or anticipated future employment) with the client, serving as officer, director or employee with significant influence; g) Loans and guarantees to/from the client; h) Making journal entries or accounting classifications without first obtaining the approval of management; i) Performance of management functions for the client; and j) Provision of non-assurance services such as corporate finance, legal services that involve dispute resolution, or valuation services involving the valuation of matters material to the financial statements.				
Are you satisfied that there are no existing prohibitions that would preclude the firm or any staff member from performing the engagement?				

	Yes	No	NA	Comments/Documentation
15. Refer to Part 4 of the IESBA Code for guidance in identifying threats and safeguards to independence. a) Identify and document any threats to independence which may be eliminated through taking specific actions or for which there may be safeguards. Address each of the following threats in relation to the firm and any member of the engagement team. • Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member, • Self-review threats, which may occur when a previous judgment needs to be reevaluated by the professional accountant responsible for that judgment, • Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised (for example, acting as an advocate on behalf of the client in litigation or in arranging financing), • Familiarity threat, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others, and • Intimidation threat, which may occur when a professional accountant may be deterred from acting objectively by threats, either actual or perceived. b) Evaluate and document whether these threats, considered individually and collectively, are at an acceptable level. c) For each threat that is not at an acceptable level, document the actions taken to eliminate them or the safeguards applied to reduce them to an acceptable level. i.e., actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level. d) Are you satisfied that appropriate actions or safeguards have been taken or applied, and that threats to independence have been eliminated or reduced to an acceptable level?				

	Yes	No	NA	Comments/Documentation
Nature and Circumstances of the Engagement (Aids in Risk Assessment)				
16. Have you determined that the risks associated with this industry and this prospective client are acceptable to the firm? Describe any known or suspected risks and their effect on the proposed engagement, including: • A domineering owner; • Relevant regulatory factors and any breaches of industry laws/regulations that would result in material fines or penalties; • Financing or solvency problems; • High media interest in the entity or its management; • Industry trends and performance; • Overly conservative or optimistic management; • Participation in high-risk business ventures; • Particularly risky nature of business; • Poor accounting systems and records; • Significant number of unusual or related party transactions; • Unusual or complex corporate/operational structures; • Weak controls and management; • Lack of clear revenue recognition policies; • Significant impact on the industry or business from changes in technology; • Significant potential benefits to management that depend on favorable financial or performance results; • Competence or credibility issues with management; • Recent changes in management, key personnel, accountants or lawyers; and • Public entity reporting requirements, if applicable.				
17. Who are the likely users of the financial statements? • Banks • Government taxation agencies • Regulatory bodies • Management • Creditors • Potential investors/purchasers • Shareholders/members • Others				
18. Are there any shareholder disputes or other disputes that will be affected by the results of the engagement?				
19. Does the anticipated reliance of these users on the report issued represent a reasonable risk?				
20. Are there specific areas of the financial statements or specific accounts that deserve extra attention? If so, document the details.				

	Yes	No	NA	Comments/Documentation
21. Did the previous auditor/accountant propose many adjustments and/or identify many unadjusted immaterial corrections? If so, document the likely reason and its effect on the engagement risk.				
22. Are you satisfied that there is no significant reason to doubt the prospective client's ability to continue in existence for the foreseeable future (at least the same period used by management to make its assessment as required by the applicable financial reporting framework)?				
Limitations to Scope				
23. Are you satisfied that there will be no scope limitations imposed on your work by client management?				
24. Are there appropriate criteria (for example, IFRSs) against which the subject matter of the engagement can be evaluated?				
25. Are the time frames for completion of the work reasonable?				
Other				
26. Are there any additional client acceptance issues to consider, such as a more detailed assessment of independence and risk factors? If so, document the issues and your handling of these issues.				
27. Other comments.				

Partner conclusion

Partner comments

Based on my preliminary knowledge of the prospective client and any factors outlined above, this prospective client should be rated as:
☐ High risk ☐ Moderate risk ☐ Low risk

	Yes	No	Comments/ Documentation
Compliance with SOQM Would accepting this engagement violate any aspects of the firm’s SOQM?			

1.

I am satisfied that there are no prohibitions that would prevent the firm or any member of the engagement team from performing this assignment.
2.

Where threats to our independence have been identified actions have been taken or safeguards have been applied to eliminate or reduce such threats to an acceptable level.
3.

I am not aware of any factors that would impair our independence or appearance of independence.
4.

I am satisfied that we have obtained sufficient information to assess whether or not to accept this engagement.

In my opinion, we should **accept** ☐ or **decline** ☐ this engagement.

Engagement partner signature: _____

Second partner approval (if applicable)

Signature: _____

Date:_____

Additional Considerations (regarding opening numbers on a new engagement)

The following questions have been included for additional consideration regarding opening numbers on a new engagement as such matters may influence the acceptance/continuance decision:

	Yes	No	NA	Comments/Documentation
Financial and Operating Priorities				
1. Assuming you can gain access, have you reviewed prior period working papers prepared by the previous auditor or accountant to: a) Assess the reasonableness of closing balances of prior periods, paying particular attention to significant accounts, to determine if any of those balances need to be restated; b) Determine if the previous auditor/accountant identified any material misstatements; c) Determine the effect on the current year of any immaterial misstatements not adjusted in the prior year; and d) Assess the adequacy of management’s accounting system by reviewing prior auditor/accountant’s adjusting journal entries and management letters?				
2. Have you determined whether a disclaimer of opinion will be necessary, due to an inability to obtain sufficient, appropriate audit evidence to obtain reasonable assurance regarding opening balances?				



APPENDIX G:
DOCUMENTATION AID – RESOURCES
AND OUTSIDE CONSULTATION

Smaller firms may find a greater need to seek outside consultation regarding complex transactions, complex IT systems, specialized or emerging accounting matters, significant independence or other ethical issues, etc. [This list may be modified for a firm’s own use as a guide to performing and documenting such consultation.]

	Yes	No	NA	Comments/Documentation
Financial and Operating Priorities				
Compliance with SOQM Would the consultation/consultation process violate any aspects of the firm’s SOQM? Consider if the following procedures are applicable/completed:				
1. Inform personnel of the firm’s outside consultation policies and procedures.				
2. Specify areas or specialized situations requiring consultation because of the nature or complexity of the subject matter, including: (a) Newly issued technical pronouncements; (b) Special accounting, auditing, or reporting requirements of specific industries; (c) Emerging practice problems; and/or (d) Filing requirements of legislative and regulatory bodies, particularly those of a foreign jurisdiction.				
3. Maintain or provide access to adequate technological and intellectual resources and other authoritative sources. (a) Establish responsibility for maintaining subscriptions and access to relevant resources. (b) Maintain consultation arrangements with other firms and professionals to supplement the firm’s resources.				
4. Designate individuals as specialists to serve as authoritative sources and define their authority in consultative situations.				
5. Specify the extent of documentation to be provided following consultation in areas and specialized situations that require consultation. (a) Advise firm members on the extent of documentation to be prepared and the responsibility for its preparation. (b) Indicate where to maintain consultation documentation. (c) Maintain subject files containing the results of consultations for reference and research purposes.				



Sample Checklist for EQR

The following checklist includes examples of suggested procedures for an EQR. This sample checklist is designed to be most appropriate to audit or review engagements of historical financial statements, but may be modified for other engagements.

This sample checklist is suggested procedures only, and should be modified/expanded to include additional procedures as deemed necessary by the standards applicable to the specific engagement.

This checklist presumes that the eligibility of the individual to serve in an EQR role, including objectivity, has been addressed.

Caution: This sample checklist includes suggested procedures only, and should be modified to meet the requirements of a particular situation/engagement.

Entity:_____

Period end:_____

Engagement type: Audit ☐ Review ☐ Related Services ☐

Specify nature of engagement, if a related service:_____

Practitioner/partner: _____

Engagement quality reviewer:_____

(Include name and position)

(See Note 1)

Date of completion: _____

(See Notes 2 and 3)

NOTES: IMPORTANT REQUIREMENTS

- 1. The engagement quality reviewer must be qualified and eligible to complete this role, and any eligible individuals who assist the engagement quality review, if applicable, should also be identified.
- 2. The EQR is not simply an “end of engagement” review, but the engagement quality review is required to perform the review at appropriate points in time during the engagement (See ISQM 2, para. 24(a)).
- 3. The EQR is required to be completed on or before the date of the engagement report.

Engagement Quality Review (EQR) (Suggested Procedures)	Yes	No	NA	Comments/Documentation, including documentation of discussions and matters discussed
1. Establish a clear understanding with the engagement partner regarding the timing, nature and scope of the EQR.				
2. Review documentation for evidence that engagement acceptance (or continuance, if applicable) procedures were performed.				
3. Review the engagement letter.				
4. Review the appropriateness of engagement team composition and the allocation of sufficient time for the engagement. (For audits this is to assess whether members of the engagement team, and any external experts and internal auditors who provide direct assistance, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement).				
5. Read and obtain an understanding of information communicated by: • The engagement team regarding the nature and circumstances of the engagement and the entity. • The firm related to the firm’s monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.				
6. Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement.				
7. Review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: • The basis for making significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team; • Whether the engagement documentation supports the conclusions reached; and • Whether the conclusions reached are appropriate.				
8. Review the assessment procedures completed when reliance is placed on the work of others. For example, for an audit engagement the others may include the work of an auditor’s expert, a management’s expert, or internal audit. Also, consider the implications if a service organization is involved.				
9. Review the procedures relating to compliance with relevant legislation, listing requirements where relevant, and criteria.				
10. Review conclusions regarding going concern considerations, if applicable.				
11. Review the significance and disposition of corrected and uncorrected misstatements. identified during the engagement, as applicable to the engagement.				
12. Review the representation letter signed by management or those charged with governance, as appropriate.				

Engagement Quality Review (EQR) (Suggested Procedures)	Yes	No	NA	Comments/Documentation, including documentation of discussions and matters discussed
13. Review matters communicated, or to be communicated to management and those charged with governance, where applicable.				
14. Review matters communicated, or to be communicated, to appropriate authority/ies outside of the entity.				
15. Review evidence that work performed has been appropriately reviewed and documented, as appropriate for the engagement.				
16. Hold a discussion with the engagement partner during the EQR to address difficult or contentious matters and evaluate whether appropriate consultations have taken place.				
17. Evaluate the documentation and disposition of any differences on opinion on difficult or contentious matters, if any.				
18. For audits of financial statements, evaluate the basis for the engagement partner’s determination that relevant ethical requirements relating to independence have been fulfilled, including the independence of the firm and personnel, including service providers.				
19. For audits of financial statements, evaluate the basis for the engagement partner’s determination that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement.				
20. Where your recommendations are not accepted by the engagement partner and the matter is not resolved to your satisfaction, the report may not be dated until the matter is resolved by following the firm’s procedures for dealing with differences of opinion. Provide details, if applicable.				
21. Review: (i) For audits of financial reports, the financial reports and the auditor’s report thereon, including, if applicable, the description of the key audit matters; (ii) For review engagements, the financial report or financial information and the engagement report thereon; or (iii) For other assurance and related services engagements, the engagement report, and when applicable, the subject matter information.				
22. Notify the engagement partner if you have concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to your satisfaction, notify (an) appropriate individual(s) in the firm that the engagement quality review cannot be completed.				

EQ Reviewer’s conclusion and signature: _____

Is the engagement quality review complete? Yes ☐ No ☐

I conclude that the requirements of ISQM 2 with respect to the performance of this EQR have been fulfilled.

Date engagement partner was notified of completion:_____

APPENDIX I:
DEFINITIONS



The following chart includes some of the definitions included in ISQM 1, with some commentary. It is important to use the language of the standard in your planning and documentation.

Excerpt from ISQM 1 Paragraph 16	Comments
For purposes of ISQM 1, the following terms have the meanings attributed below:	
(i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A18)	Note the inclusive nature of the term firm, and when reading the standards, if you are a sole practitioner with no staff, read the standard recognizing that it applies to you, but the key will be to identify scalable opportunities.
(j) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.	Not discussed in this Series. When reading the standards, you can ignore any discussion related to listed entities, if you specify the policy is to not accept such clients.
(k) Network firm – A firm or entity that belongs to the firm’s network.	Not discussed in this Series.
(l) Network – A larger structure: (Ref: Para. A19) (i) That is aimed at cooperation; and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.	Not discussed in this Series. When reading the standards, you can ignore any discussion related to network and network firms, if you are not a member of a network and document this when reviewing/documenting the nature of the firm.
(o) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.	Professional judgment will be used throughout all parts of the SOQM process. Documentation of such judgments would be included in the general principles of documentation.
(p) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> , and relevant ethical requirements.	When reading the standards, note that includes the engagement standards which are relevant AND the relevant ethical requirements.



Excerpt from ISQM 1 Paragraph 16	Comments
(q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.	
(r) Quality risk – A risk that has a reasonable possibility of: (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.	Note that you will identify many risks, but a quality risk is one that has a reasonable “likelihood” of occurring and will have reasonable “likelihood” of an adverse impact on one or more quality objectives.
(v) Service provider (in the context of ISQM 1) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organizations in the network. (Ref: Para. A28, A105)	Service providers are sometimes used in smaller firms, such as IT providers, technical support, contractors hired on a temporary basis to assist in performing engagements from an entity unrelated to the firm etc. The important point is to notice the reference to service providers in the standard and be aware that components of your SOQM apply to them. When summarizing/documenting the structure of your firm, include service providers and obtain and review the contracts to see how the agreement fits within the quality objectives, quality risks and response and how you may need to interact with the service provider.
(w) Staff – Professionals, other than partners, including any experts the firm employs.	Even though it is unlikely that a smaller firm will employ an expert, it is important to note that the firm’s experts are considered “staff” when applying the standards.
(x) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that: (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.	Commonly referred to as the SOQM.

APPENDIX J:
RESOURCES

1

Read the standards, which are available on the IAASB’s website: iaasb.org/quality-management. The dedicated web page includes the three standards as well as first-time implementation guides and other resources.



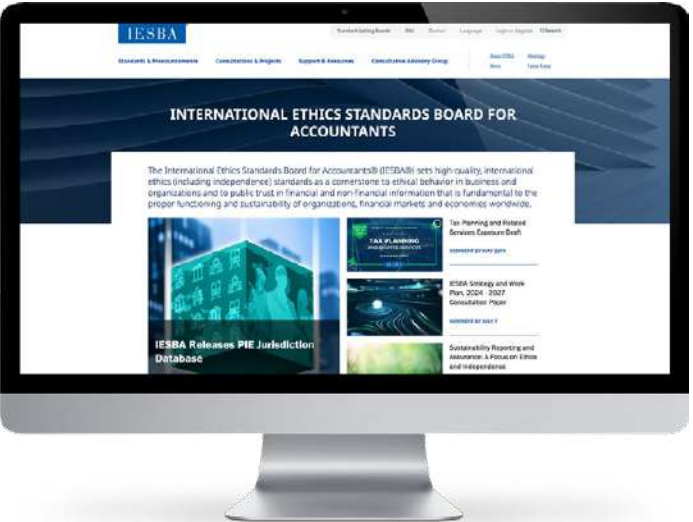
2

Visit IFAC’s dedicated web page, ifac.org/qualitymanagement, where you will find various resources to assist in your implementation plan.



3

Visit the IESBA website for the current Code at: www.ethicsboard.org



APPENDIX K: A PEEK AHEAD IN THE SERIES

Installment #3: The Monitoring and Remediation Process

This installment addresses:

- How to design internal monitoring activities for the SOQM as a whole to provide relevant, reliable and timely information about the design, implementation and operation of the SOQM (a shift in focus from engagement-level monitoring). Highlighting that the key to the enhanced monitoring and remediation activities is a proactive and iterative approach.
- The factors driving the nature, timing and extent of the monitoring activities, i.e., the approach to inspection of completed engagements. The monitoring activities can start with inspecting completed engagements on a regular cyclical basis, but other reasons such as risk assessments as well as in-process engagements, can change this.
- The scope of monitoring activities to be performed, technology/platform used to support these activities and how central monitoring activity outcomes will be to the feedback loop of continuous improvement.
- Establishing a framework for evaluating findings, identifying deficiencies, and evaluating the severity and pervasiveness of deficiencies, which includes investigating the root cause(s) of identified deficiencies.
- How to respond to identified deficiencies, including:
 - Designing and implementing remedial actions to address identified deficiencies that are responsive to the root cause(s).
 - Evaluating whether remedial actions are appropriately designed, and if not, taking appropriate action.
 - Evaluating whether remedial actions that were implemented to address previous deficiencies were effective, and if not, taking appropriate action.
- Communication around the monitoring and remediation process, including with whom communication is required, and what may need to be communicated.
- Evaluation of the SOQM within one year following December 15, 2022.

In addition, Installment #3 will take another look at the engagement performance component as it relates to monitoring and remediation.

The case study will be revisited in Installment #3 of this Series.



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