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You're listening to the In-Brief podcast.

In this episode, Jacqui Kuypers and Allison King, principals with the Auditing and Assurance Standards Board, explain the components of the system of quality management, and how the new risk-based approach in ISQM 1 can benefit you.

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AK: Jacqui, can you tell me a bit more about this new risk-based approach to quality management in proposed ISQM 1?

JK: The new approach to quality management focuses a firm's attention on risks that may have an impact on engagement quality. This new approach is scalable, as it requires a firm to customize the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs. Extant ISQC 1 requires firms to establish policies and procedures, no matter the size.

AK: Many practitioners in Canada are sole practitioners or a part of a small or medium-sized firm. Could you elaborate further on how the proposals are scalable?

JK: Scalability of proposed ISQM 1 has been at the forefront of the IAASB's deliberations since the beginning of the project.

The IAASB has emphasized scalability by including:

- a specific discussion about scalability of the standard in the introduction of proposed ISQM 1;
- an explicit requirement to exercise professional judgment;
- references throughout the standard to consider the nature and circumstances of the firm and the engagements it performs;
- explicit statements that there may be circumstances when a requirement is not relevant to the firm because of its nature and circumstances; and
- application material that provides examples for small to medium-sized practitioners.

AK: How is this new approach going to benefit sole practitioners and practitioners who are part of a small or medium-sized firm?

JK: The new approach is going to generate multiple benefits for firms' systems of quality management, as it is going to drive the consistent performance of quality engagements. The benefits include:

- emphasizing **proactive** responses to changing circumstances and proactive managing or mitigating of risks to promote continuous improvement and responsiveness;
 - focusing on monitoring the system as a whole, with timely and effective remediation;
 - allowing for a firm to tailor the system to the nature and circumstances of the firm and the engagements it performs, improving the robustness and effectiveness of activities undertaken by the firm to address engagement quality; and
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- integration of components of the system of quality management, promoting continuous improvement.

AK: You mentioned that the elements are integrated. Are the components of the new system of quality management the same as the extant or new?

JK: Some components have remained the same as extant ISQC 1. The IAASB retained certain components, as it believes they reflect topics that continue to be relevant to a firm’s system of quality management. The system of quality management now has eight components, which include:

1. governance and leadership, which is adapted from “leadership responsibilities for quality within the firm”;
2. the firm’s risk assessment process, a new component;
3. relevant ethical requirements;
4. acceptance and continuance of client relationships and specific engagements;
5. engagement performance;
6. resources, which is adapted from “human resources”;
7. information and communication, a new component; and
8. monitoring and remediation, which is adapted from “monitoring”.

AK: Can you elaborate on how one of these components has been revised to be more scalable to smaller practices?

JK: Let me provide you with an example using the monitoring and remediation component. The IAASB has partially retained the requirement from extant ISQC 1 for the firm to inspect at least one completed engagement for each engagement partner on a cyclical basis. To improve the scalability of this requirement, the IAASB has emphasized other types of monitoring activities that may be more effective. For example, the revised requirement:

- explicitly recognizes inspections of in process engagements, often called in-process reviews;
- emphasizes that in determining the nature, timing and extent of the monitoring activities, the firm must consider various factors including the involvement of the network, if applicable, in monitoring activities or the resources the firm intends to use to enable the monitoring activities, like the use of IT applications in addition to human resources; and
- emphasizes that the firm determines the length of the cycle. Application material provides examples of factors that the firm may consider in determining this length including the extent to which the firm performs other monitoring activities like in- process reviews. The application material also notes that the cycle of inspection may be based on time, such as every three years, or another factor, such as the number of engagements performed.

AK: Thanks Jacqui, you provided some great insights into the new proposals. Are there other resources available at this time?

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JK: We have a variety of resources available as well as multiple opportunities for practitioners to provide input on the proposals.

The IAASB is planning a series of webcasts to explain its proposals in more detail. The webcasts will run from 7:00 am to 9:00 am Eastern time on March 28th, April 25th and May 7th.

If you wish to provide input to the IAASB on any proposals, you can submit your response letter through the IAASB website. The comment deadline is **July 1, 2019**.

The Canadian Auditing and Assurance Standards Board approved its Exposure Draft on quality management in January 2019 and issued in April 5, 2019. The Canadian Exposure Draft will have a comment deadline of **June 7, 2019**.

The AASB is also hosting a webinar on **April 11th** in English and **April 18th** in French. There are multiple ways Canadian practitioners can have their say. The AASB is holding four virtual roundtables in May, as well as an in-person workshop in Toronto on May 15th to pilot test certain of the revised requirements.

To register for the webinars, virtual roundtables or in-person workshop, visit the project page at frascanada.ca/quality-management.

Stay tuned for a summary of the key highlights in the Canadian exposure draft in podcast #3.

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