ISQM TOOLKIT

Part One: Quality Objectives and Risks

Sample & Co

Prepared on: [Publish Date]

SAMPLE

Contents

Introduction to Part One

The first step

This document forms the first part of the risk assessment process set out in **paras 23-27** of ISQM 1. Its purpose is to help the firm consider quality objectives as set out in six key components of the SOQM, and to identify potential risks which will then be assessed in **Part Two: Risk Assessment and Responses**.
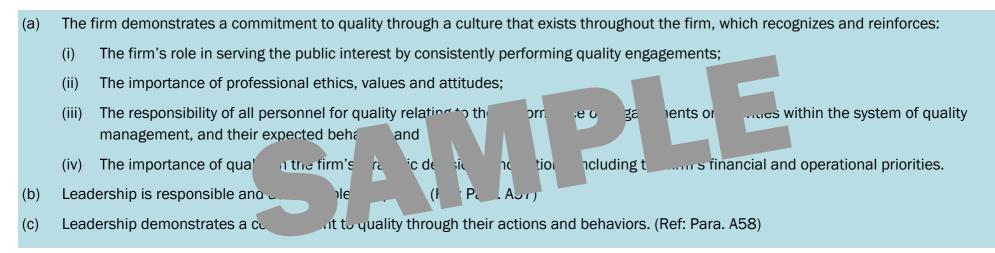
There are eight key components of the SOQM, of which two are processes – this risk assessment process (**paras 23-27**) and the monitoring and remediation process (**paras 35-52**). The other six components are:

1. Governance and leadership
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Engagement performance
5. Resources
6. Information and communication

Governance and leadership

Quality objectives: audit culture

Paras 28(a)-(c) set out the following quality objectives that focuses on **audit culture** and leadership's responsibility and commitment:

(a)   The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:

    (i)   The firm's role in serving the public interest by consistently performing quality engagements;

    (ii)   The importance of professional ethics, values and attitudes;

    (iii)   The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behaviour; and

    (iv)   The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.

(b)   Leadership is responsible and accountable for quality. (Ref: Para. A57)

(c)   Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A58)

The importance of audit culture

Audit culture is a critical place to begin the firm's risk assessment process. Without a culture that is demonstrably committed to prioritising and reinforcing audit quality, it is likely that individual procedures will be consistently undermined and will break down over time.

Audit culture depends on a personal commitment by the firm's senior leadership to quality. This commitment needs to be genuine, consistent and demonstrable. Partners/directors must acknowledge that their expressed values and behaviours will provide the cue for audit teams.

Audit culture is difficult to define and can be elusive to assess. The firm's leadership team need to be prepared to ask themselves challenging questions, which will include their own role in promoting or detracting from this culture. *It's vital not to rush through this stage* or to approach it half-heartedly. You may need to seek honest opinion from the audit team and attempt to consider external perceptions of the firm's commitment to audit quality, to answer all these questions. A team questionnaire in the **Resources Pack** may help you to do this.

Governance and leadership

The firm's recent history

Has the firm gone through significant organisational changes (such as mergers or acquisitions, new leadership) recently?
If so, summarise any key recent events.
If not, write 'None'.

⚠ **Does this recent history give rise to any potential quality risks?**

For example, merger between firms with different culture, leadership styles, audit methodology, client base.

SAMPLE

Governance and leadership

The firm's operating structure

The firm's legal form	☐ Sole trader ☐ Partnership ☐ Company ☐ LLP
Is the firm part of a network or similar? *If so, state the name of the network and briefly describe its organisational structure.* **NB If the firm is part of a network, you will need to complete the 'Network' part of this Toolkit.**	☐ No network
Does the firm have a multi-office or other decentralised structure? *If so, list each office or place of business.*	☐ Single office only
Ownership of the firm *Describe the firm's ownership struc~~identifying all owners with significan~~*	
⚠ **Does this structure give rise to any potential quality risks?** *For example:* • *each office has a different culture* • *management style or policies mean audit work is not consistent across the firm* • *conflicts of interest or business objectives between owners*	

Information and communication

Quality objectives
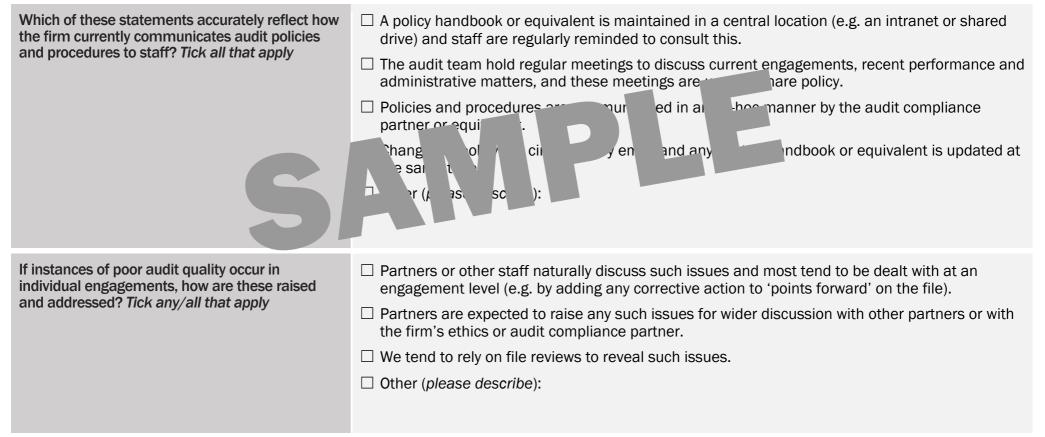
Para 33 sets out the following quality objectives:

(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. (Ref: Para. A110–A111)

(b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)

(c) Relevant and reliable information is exchanged throughout the firm and engagement teams, including: (Ref: Para. A112)

    (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 (Ref: Para. A113)

    (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. (Ref: Para. A114–A115)

Information and communication in smaller firms

Para A111 states that 'Less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.' So, we do not expect most firms to record too much detail on this part of their SOQM.

Communicating audit policies, procedures and results

Which of these statements accurately reflect how the firm currently communicates audit policies and procedures to staff? *Tick all that apply*	☐ A policy handbook or equivalent is maintained in a central location (e.g. an intranet or shared drive) and staff are regularly reminded to consult this. ☐ The audit team hold regular meetings to discuss current engagements, recent performance and administrative matters, and these meetings are ~~used to share~~ policy. ☐ Policies and procedures are ~~communicated~~ in an ~~ad-hoc~~ manner by the audit compliance partner or equi~~valent~~. ☐ ~~Changes to policy~~ ~~are circulated by email~~ and any ~~policy ha~~ndbook or equivalent is updated at ~~th~~e sam~~e time~~. ☐ ~~Other (~~please ~~describe~~):
If instances of poor audit quality occur in individual engagements, how are these raised and addressed? *Tick any/all that apply*	☐ Partners or other staff naturally discuss such issues and most tend to be dealt with at an engagement level (e.g. by adding any corrective action to 'points forward' on the file). ☐ Partners are expected to raise any such issues for wider discussion with other partners or with the firm's ethics or audit compliance partner. ☐ We tend to rely on file reviews to reveal such issues. ☐ Other (*please describe*):

Information and communication

If there are instances of particularly high quality (e.g. a non-standard audit procedure that proved especially helpful), is this shared more widely?	☐ Yes – we're very keen to promote best practice and to praise audit staff who think creatively and find effective approaches. ☐ No – we tend to focus on correcting poor quality rather than reinforcing best practice.
How does the firm share the results of file reviews or other quality evaluation?	☐ We usually only communicate such results to the staff directly involved. ☐ Results are summarised and circularised by email to all audit staff. ☐ We incorporate a summary into regular team meetings. ☐ We incorporate a summary into formal training sessions (internally or externally-provided).
⚠ **Does anything above pose any potential quality risks?**	

Communicating with external parties

State who is responsible for communicating with service providers *If the firm uses multiple providers for audit services, or the process differs from one service to the next, include all relevant channels of communication.*	
Does the firm have clear policies for when to report matters arising on audits to third parties such as regulators? *Firms should have clear policies for internal reporting of actual or suspected bribery or money laundering offences.*	