



Part Two: Risk Assessment and Responses

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Introduction to Part Two

The next step

This document is the companion to, and follows on from, **Part One: Quality Objectives and Risks**. Before starting to work through this document, you should have considered each of the quality objectives set out in ISQM 1 (and any further objectives that you consider relevant to the firm), and identified potential risks to achieving these quality objectives, using Part One of the toolkit.

In this document, you will assess which of these potential risks are 'quality risks' as defined in ISQM 1 and consider what practical responses the firm can adopt to mitigate them. You will need to include the 19 specified responses set out in **para 34** and **para 35**.

What is a 'quality risk'?

ISQM 1 defines a quality risk as:

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.

Applying this definition is similar in principle to considering the likelihood and magnitude of a risk of material misstatement in audit planning. ISQM 1 aims to focus the firm onto the risks that have the greatest impact on achieving the quality objectives.

Risk assessment

Review your comments in Part One and the potential risks that you've identified for each of the components of the SOQM.

You should now assess which of these constitute 'quality risks' based on their impact and likelihood of occurrence.

TIP: Where possible, we recommend you present the risks in order (the most significant first) for each component. You should describe the risk in a level of detail appropriate to its significance. We'd encourage you not simply to copy and paste text from Part One unless there is sufficient detail in your original comments. Add or delete rows as needed for each component.

Governance and leadership

Nature of quality risk and basis of assessment

1.

2.

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Relevant ethical requirements

Nature of quality risk and basis of assessment

3.

4.

Objectives and risks: stand-back

Before moving on to consider responses in more detail, take some time to consider the following questions:

Are there any additional audit quality objectives that the firm needs or wants to set?

Most firms are unlikely to need further objectives, but you should consider whether any are required (for example, those imposed by a network or other affiliation, or relating to specific engagements).

⚠ Are there any additional quality risks that were not previously identified in Part One?

For example, have there been significant audit failings (such as poor file review) in the firm's recent past, or any compliance issues relating to audit quality or independence & objectivity?

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Specified responses

Engagement-specific responses: Acceptance of (re)appointment and changes in appointment

Para	Summary of policies & procedures	Risk no.	Firm's proposed response(s)	Assigned to
34-1(c)	(Re)appointment – assess: <ul style="list-style-type: none"> • Ethical Standard compliance; • Threats and safeguards; • Competent staff, time and resources to complete audit; • Key audit partner eligible. 			
34-1(d) PIEs and OEPIs only	(Re)appointment – assess: <ul style="list-style-type: none"> • Ethical Standard compliance on fees and NAS; • Duration of engagement is compliant; • Integrity of entity's statutory, admin and management body members. 			
34(d)	Dealing with: <ul style="list-style-type: none"> • Info received after (re)appointment that would have led firm to decline engagement; and • Situations where firm is required to accept the client relationship or engagement. 			
34-1(e)	Provide successor statutory auditors with all relevant info inc. on most recent audit.			

Other responses

Risk no.	Firm's proposed response(s)	Assigned to

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