

# *Identifying and assessing quality risks under ISQM 1*

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This webinar will start shortly.....

# *Today's presenters*



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# *Ask a question*



The screenshot shows a window titled "Q&A". It contains a list of questions and answers. The first entry shows a question asked at 18:03 and an answer by Molly Parker at 18:04. Below this is a large text input area for asking a new question. At the bottom, there is a checkbox labeled "Send Anonymously" and a blue "Send" button. An arrow points from the "NOTE" text to the "Send Anonymously" checkbox.

Question	Time
You asked: What happens when I raise my hand?	18:03
Molly Parker answered: I can take you off of mute.	18:04

Please input your question

☐ Send Anonymously Send

## To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

# ***Contents***

Quality Management Process

Establishing Quality Objectives

Identifying Quality Risks

Assessing Quality Risks

Responding to Quality Risks

Questions

## *Three questions...*



## *Quality management process*



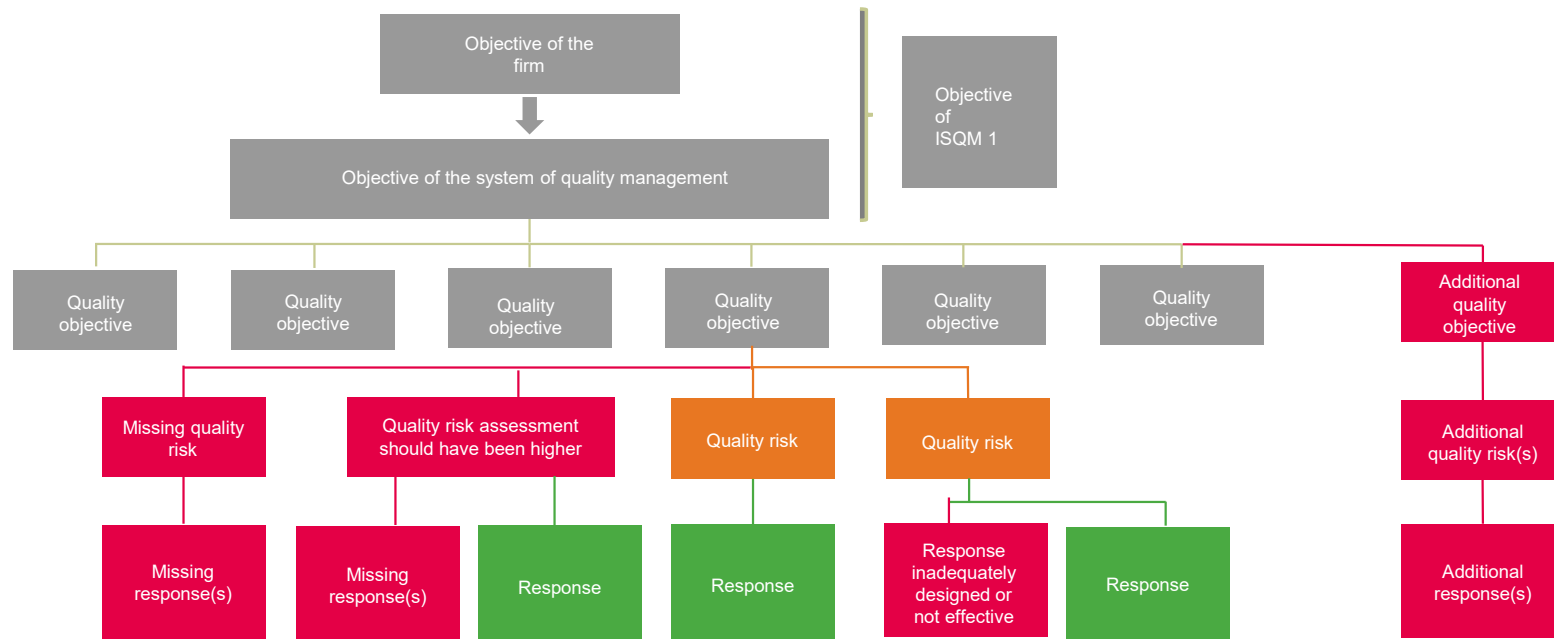
```
graph LR; A[Establish quality objectives] --> B[Identify and assess quality risks]; B --> C[Design and implement responses];
```

Establish  
quality  
objectives

Identify and  
assess quality  
risks

Design and  
implement  
responses

# Quality management process



# *Establishing quality objectives*

Objective of the firm

Design, implement and operate a system of quality management



Objective of the system of  
quality management

Provide the firm with **reasonable assurance** that:  
(a) The firm and personal **fulfil their responsibilities**, and **conduct engagements in accordance with standards** and requirements;  
and  
(b) **Engagement reports** issued **are appropriate** in the circumstances.

Objective of ISQM 1

**Specified quality objectives per component:**

- Governance & Leadership
- Relevant ethical requirements
- Acceptance & continuance
- Engagement Performance
- Resources
- Information and communication

Achieving the quality objectives gives reasonable assurance that the objectives of SoQM are achieved.



## ***Quality objectives – scalability***

Additional objectives (e.g. where required by law and regulation, e.g. appointment of INEs under audit firm governance code)

Objectives which are not relevant (e.g. supervision and review requirements may not apply to a sole practitioner)

Sub-objectives – optional; may create sub-objectives for different service lines (e.g. audit, tax, accounting) or service types (e.g. audit, other assurance)

Events and conditions may trigger the need for additional objectives (e.g. Covid response – may impact several components such as Information & Communication, Resources, Governance and leadership)

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

- Occurring; and
- Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives

# Identifying risks

## Understand quality objectives

- What could threaten my quality objectives?
- Nature and circumstances, conditions and events, actions and inactions, engagement base
- For the avoidance of doubt '*not doing X*' is NOT a risk that threatens the achievement of X, it's the consequence of the risk crystallising

## Macro v Micro

- Micro: Thinking of risks at a granular level from the outset eg identifying a risk that staff don't understand how to audit share based payments
- Macro: Thinking about overarching risks eg identifying that competency risk could be A Thing
- Both approaches bring their own benefits – and problems

## Many to Many NOT one to one

- Even granular risks might threaten more than one quality objective across more than one element of the SOQM
- Overarching risks are quite likely to threaten multiple quality objectives across several elements of the SOQM

## No orphans

- If you identify a quality risk that you can't map to an objective – you need to re-evaluate (both ways)
- If you have an identified quality objective that has no risks mapped to it – you need to re-evaluate (both ways)

# *Assessing risks*

## Many to many relationships

- Quality risks may threaten multiple objectives but they may not threaten them equally
- May be appropriate to assess risks separately for each objective they threaten (or maybe not. Mature and circumstances is the key driver)

## Likelihood and significance

- the likelihood of a risk crystallisation and the significance that could have for the achievement (or not) of a quality objective is what we all need to understand to manage those risks

## Not a one time deal

- Risk assessments are not set in stone
- Events and conditions
- Impact of responses
- SOQM implementation
- Monitoring
- Reactive events

# *Designing and implementing responses*

Are my existing ISQC 1 policies and procedures all worthless now?

- Let's hope not...But (see below)
- Can't assume they are all still fit for purpose
- As a minimum – after identifying risks, review existing policies and procedures to ascertain what works totally, what could work with tweaking, and what is missing
- Nature and circumstances is king

Many to Many – no orphans

- Well designed responses may pick off multiple targets (eg – policies and procedures around appraisal or learning and development or direction supervision and review could mitigate many quality risks) – important to map everything you have so you understand how it all works under the hood
- Some quality risks may be mitigated through a combination of responses – again, mapping is crucial
- If you have an existing policy or procedure that can't be linked to an identified and assessed quality risk...do you really need it?

What will implementation look like?

- Nature and circumstances... it's very much up to you
- Beware – even for the most organised of firms this will take time and effort

I heard that there are new mandatory specified responses is this true?

- Yes

# *Documentation*

## Nature and circumstances are king

- The more complex your firm the more complex your SOQM the more detailed your documentation needs to be
- But everyone will need to evidence their process

## Map Map Map

- Where you are using existing material - document your consideration of its suitability and why you concluded it was fine
- Ensure that all many to many relationships are documented and taken account of – no nasty surprises and no unclaimed merit

## Justify risk assessments

- A single click in a square on a heat map graph is unlikely to be sufficient

## Spreadsheets will struggle

- Your documentation decisions are your own but narrative will probably feature heavily

## Not carved in stone

- For most firms the SOQM documentation will be living documents that will be updated reasonably regularly

# *Examples – Governance & Leadership*

Large firm, multiple offices, each with an office leader

- How does the firm ensure consistency of systems, processes and culture across it's offices?

Small firm, leadership concentrated in a single individual

- Will staff bring issues to the attention of leadership? And if so, will these issues be addressed appropriately?

Planned growth in tax planning services

- Does the growth in non-audit services give rise to potential independence risks?

# *Examples – Resources*

Service providers are used as a key part of the audit process (e.g. methodology, data analytics)

- Reliance on external providers' technical and technological skills and knowledge. How do you know it "does what it says on the tin"?

The firm takes on engagements in a new sector

- Does the firm have the appropriate knowledge and experience of the sector and associated accounting requirements? (Also impacts the Engagement Performance component).

A network requires its member firms to use bespoke independence software

- Does the network take appropriate account of UK ethics/independence requirements? (Also impacts the Relevant Ethical Requirements component)

Assurance engagements (e.g. climate reporting, greenhouse gases etc.)

- Does the firm have the intellectual resources to undertake such work? (Also impacts the Engagement Performance component)



# *Examples – Merger or Acquisition*

One firm (any size really) merges with or acquires another. Adds staff, maybe new locations also

- Potentially could give rise to threats to existing objectives in all elements of the SOQM
- But....hopefully time limited (although the time limited nature of the threats might themselves give rise to a threat - not realising the issue is sorted and re-adjusting)
- May also give rise to new short term objectives – depends on the nature and circumstances of the firm and how it wants to do things

Types of risk that could arise (this is not an exhaustive list of suggestions)

- Culture risk
- Competency risk
- Consistency risk
- Experience risk
- Role allocation risk
- Time budget risk
- Compatibility risk

All of these could give rise to identified specific risks across a range of quality objectives – depending on the nature and circumstances of the firm(s).

**Identified risks need to be assessed for each objective they threaten**

Designing quality responses

- Properly understanding what the responses you already have actually achieve (ie what sorts of risks they mitigate) is key here
- The firm will likely have some existing policies and procedures which are relevant - might need modifying - but basically could do a job eg onboarding procedures that include audit tool familiarisation, direction supervision and review, tone at the top
- New targeted responses might be needed



*Any questions?*



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