



Quality Management Series: Small Firm Implementation

INSTALLMENT ONE: It is time to get ready for the new quality management standards



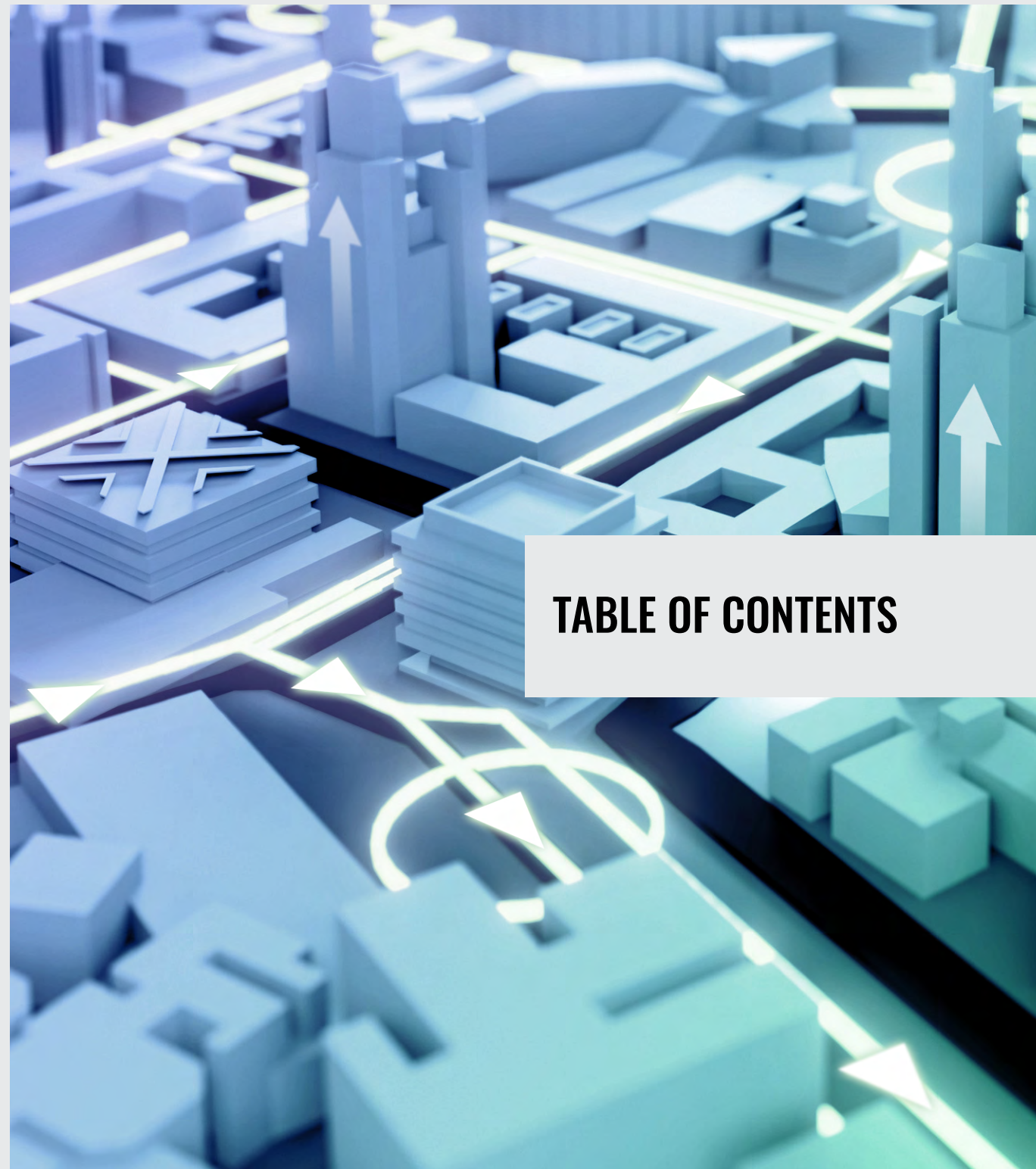


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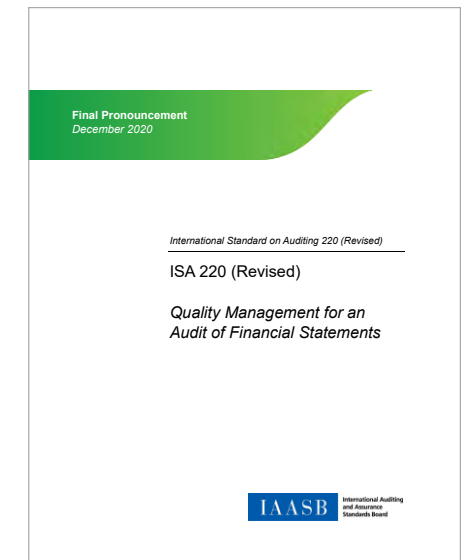
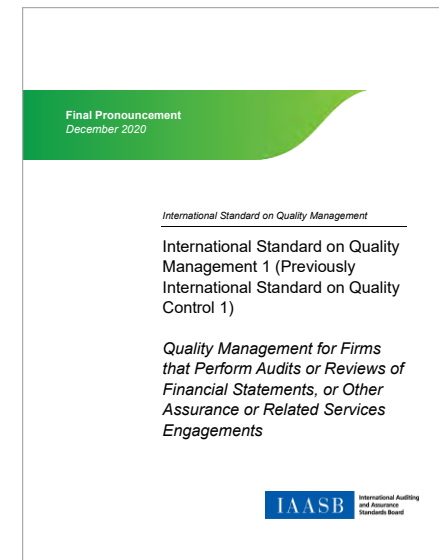
GETTING STARTED

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 1),
- ISQM 2, *Engagement Quality Reviews*, and
- ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

The customized system of quality management (SOQM) for your firm is to be in place by December 15, 2022 and will be 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 people outside your firm, such as service providers. There is work to be done so it is time to get started.



OVERVIEW OF THE SERIES

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 first in a series of three instalments designed to provide tips and guidance for a practical implementation.

The Series will include discussions and illustrative examples in 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.

Additionally, in Installment #2 and #3, the Series will follow-up on the Case Study of Marcel Mooney from the IFAC [Guide to Quality Control for Small- and Medium-Sized Practices](#) (Third Edition) to illustrate a transition from ISQC 1 to a SOQM.

In all discussion and illustrations in this Series, it is presumed that the small firms will complete audits, reviews and related services. Of course, if your firm does not do audits, for example, you will be able to streamline the quality objectives and risks related to audit engagements included in ISQM 1 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, to allow the Series to focus on stand-alone firms that serve private entities. ISQM 1 includes 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 are directed to ISQM 1 for additional requirements and guidance.

As this installment is the first one, it focuses on getting started. However, to allow you to anticipate future releases and to give direction and context to your implementation plan, a summary of the next two installments is included in [Appendix A](#).

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.

QUALITY MANAGEMENT SERIES: IMPLEMENTATION FOR SMALLER FIRMS

Installment #1	Getting Started	It is time to get ready for the new Quality Management Standards
Installment #2	Developing Responses	The second installment will expand on the: <ul style="list-style-type: none"> • identification of your quality objectives, • completion of your quality risk assessment process, • identification of existing, (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.
Installment #3	Monitoring and Remediation	The third installment will address the monitoring and remediation of your SOQM.

This series supports implementing 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.

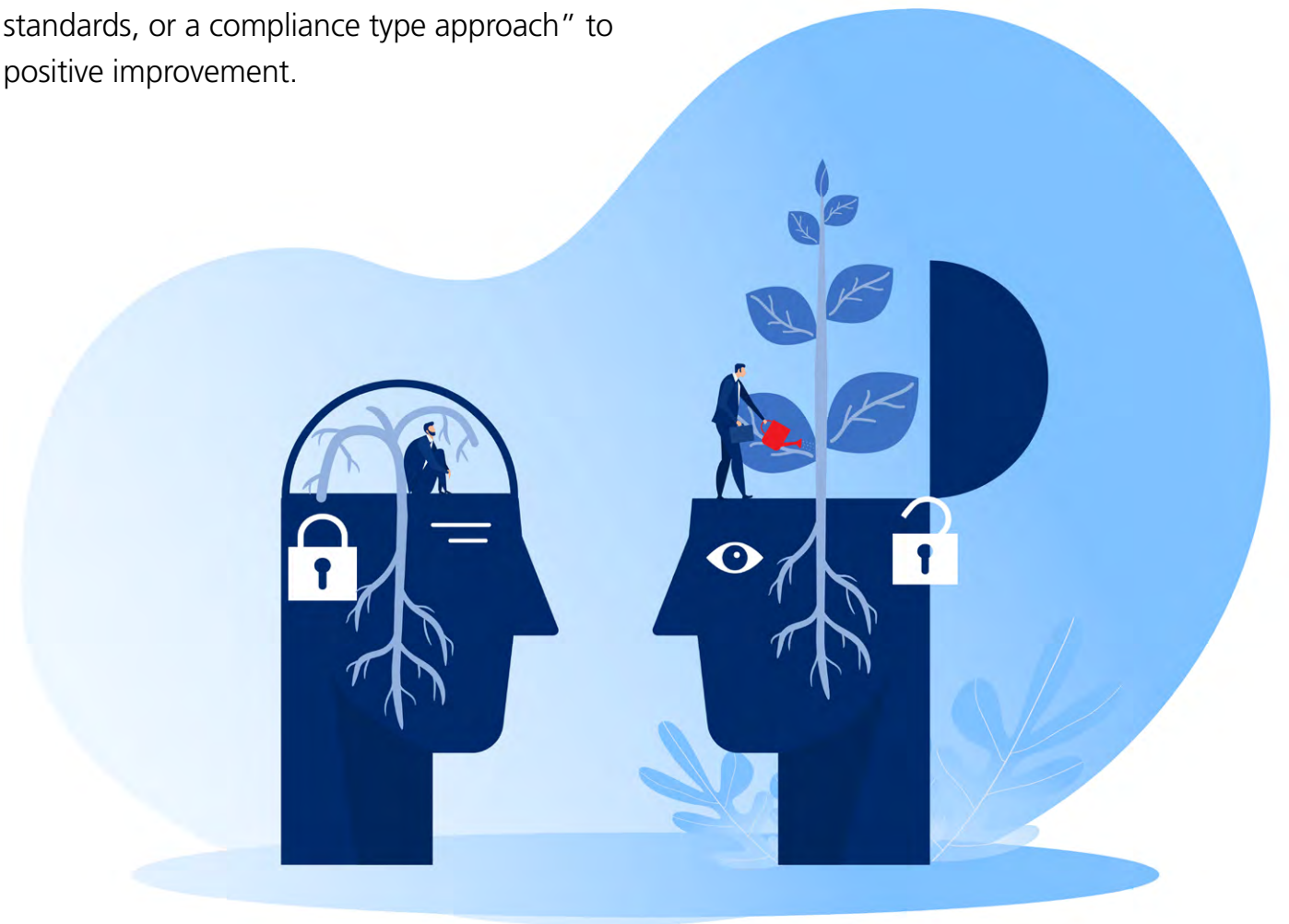


MINDSET CHANGE

As you undertake this journey to the implementation of your SOQM, one of the key elements is to understand where your firm is coming from and how it can take advantage of what already exists with regards to quality management. This will require reflection and a recognition that a shift in your mindset may be needed. In the past, your focus on the quality control standards may have led your firm through the development and documentation of policies and procedures (outcomes) using a manual. With the revised standards, the focus moves from a more static set of documents to the process of managing quality which is an ongoing process.

No one would disagree that quality in professional services is needed, or that quality in your firm does not currently exist! The profession has always been a leader protecting the public interest with an ongoing pursuit of quality. In addition, many firms already employ a “risk-based” approach to quality management. However, what may be new is that, to meet the requirements of ISQM 1, a risk-based approach to achieving quality objectives is now required, and the documentation of the process or “system” is now required.

It is expected that the risk-based approach will improve the operation of your firm and the performance of the firm’s engagements! A proactive focus will be beneficial for the firm’s management of and response to quality risks. Recognizing the benefits will move the effort to design and implement your SOQM from “just meeting the requirements of the revised standards, or a compliance type approach” to positive improvement.



An example of the change in mindset that you may find helpful, is a comparison of the implementation of ISQC 1 in the past, with the current implementation of ISQM 1.



Implementation of ISQC 1	Implementation of ISQM 1
Quality Control – Focus on Outcome, i.e., creation of a manual.	Quality Management System – Focus on Process, i.e., a system, which may include one or more manuals.
The visualization of the linear steps represents the focus on the outcome of the policies and procedures.	The visualization of the circle represents the iterative nature of the process on implementation but also in the future.
<div data-bbox="888 540 1849 626">Obtained an understanding of the requirements of ISQC 1</div> <div data-bbox="888 651 1849 848">Used professional judgment based on the particular circumstance of the firm and its engagements to implement the requirements of quality control</div> <div data-bbox="888 872 1849 959">Developed a Quality Control Manual (QC Manual)</div>	
The following points elaborate on this visualization to help facilitate the shift in the mindset:	
<ul style="list-style-type: none"> • Obtained an understanding of the requirements of ISQC 1, and related standards. • Used professional judgment based on the particular circumstance of your firm and its engagements to implement the requirements of quality control on audits and reviews of financial statements, and other assurance and related service engagements. 	<ul style="list-style-type: none"> • Obtain an understanding of the requirements of ISQM 1, and related standards. • Use professional judgment based on the particular nature and circumstance of your firm and its engagements to: <ul style="list-style-type: none"> – Set quality objectives. – Perform quality risk assessments (a “risk-based” approach).
<ul style="list-style-type: none"> • Adopted policies and procedures, essentially from a library or sample manual. 	<ul style="list-style-type: none"> • Develop responses (through policies and/or procedures) to respond to quality risks as part of your SOQM.
<ul style="list-style-type: none"> • Developed a Quality Control Manual (QC Manual) that was customized to your firm, using policies and the practice aids, but often included policies and procedures that were generic and were not linked to quality objectives or quality risks. 	<ul style="list-style-type: none"> • Document judgments and decisions, (i.e., the process of the development, and adherence to, your SOQM). The system or process will be unique to your firm. • Implementation of the SOQM.
<ul style="list-style-type: none"> • Communication occurred but was often informal. 	<ul style="list-style-type: none"> • Communication expectation has increased, both within your firm, and possibly with outside parties, such as service providers.
<ul style="list-style-type: none"> • Monitoring was required as described in the QC Manual and focused on each engagement. 	<ul style="list-style-type: none"> • More robust requirements for guidance on monitoring and remediation as part of the system of continual improvement with a focus on the SOQM, not just engagements.

Your firm already has existing policies and procedures, often included in manuals, and you WILL be able to utilize some of these. The policies and procedures may be documented in multiple locations, i.e., manuals, files, etc. In some cases, the policies and procedures may exist informally, and may not be documented. You will likely find that policies and procedures do exist, particularly in areas related to engagement performance related quality risks. It will be useful to review your current policies and procedures and complete a “gap analysis”, an activity that will be discussed in more depth in Installment #2.

However, it is recommended that you do not start with “what exists” because that may narrow your scope of reflection and contemplation of the quality risks you may face in your firm. Instead, you should build your firm’s SOQM based on the new standards (“a risk-based approach”), then utilize or repurpose the existing policies and procedures as appropriate AFTER you have set the quality objectives and identified the quality risks to be managed.

The quality risk assessment process, and the whole SOQM will change over time as circumstances change. The enhanced monitoring and remediation process is designed to drive a proactive and iterative approach which will result in possible improvements to your SOQM over time.

Remember, your SOQM is as the name implies a “system”, you will not be able to implement an “off-the-shelf manual”.

HOW TO ACHIEVE THIS MINDSET CHANGE

The first step is to become familiar with the standards. The second step is to have an open mind to let the quality objectives and quality risks drive the development of your SOQM through reflection, discussion and brainstorming of the nature and circumstances of your firm.

ILLUSTRATED DISCUSSION

SOLE-PRACTITIONER:

“It is just me, and I already have high quality objectives. Can I really benefit from developing a SOQM?”

RESPONSE:

Yes, the process of developing, implementing and monitoring a SOQM can benefit your firm. Being on your own can sometimes make it even more difficult to manage quality risks. As a sole practitioner and with a multitude of responsibilities and competing priorities, you may not always take the time for reflection or risk assessment. This typically results in either accepting the quality risks to the firm’s detriment or limiting your opportunities to avoid quality risks that could have been responded to.

The development and maintenance of your SOQM will force you to think about your quality objectives, quality risks and responses, on a regular basis. If you have staff your SOQM will layout a mechanism that you can use to plan the discussions and communications with them on a regular basis and keep everyone on the same path to high quality.

MINDSET SHIFT:

Do not see the SOQM as a bunch of policies and procedures. Instead, see it as the process of identifying quality objectives, quality risks and responses that will help your practice.



BENEFITS OF THE SOQM

The benefits of the SOQM lie in the proper identification and assessment of quality risks and the design, implementation, and operation of appropriate and customized responses. There will be a cost in time in the design, implementation and operating (including monitoring) of your SOQM, but this cost can be balanced with enhanced efficiencies and a sense of security and a peace of mind that quality objectives are met, or the quality risks are “managed”.

It is important to note that a SOQM will not eliminate quality risks. The goal is to achieve reasonable assurance, as absolute assurance is not ultimately attainable, because the associated costs of trying to achieve it would be prohibitive. Therefore, professional judgment is needed to make your SOQM practical and scaled to your firm.

The following table outlines some of the benefits of a SOQM designed to be in accordance with the new standards:

Concious and cohesive awareness of quality objectives will help meet firm’s objectives, which aligns with firm’s vision/mission and strategy.

Your staff, if any, will have a clear understanding of what is expected from them generally, and in the performance of engagements.

Reduced risk of not meeting quality objectives and protecting the public interest and your firm’s interest and reputation, along with reducing negative consequences related to litigation and any regulatory or profession inspections.

A SOQM facilitates a process for continuous improvement in firm operations and performance of engagements.

If the SOQM is developed in accordance with ISQM 1, policies and procedures will be set that are customized to your firm, and more readily understood and applied.

A SOQM supports consistency of performance of firm activities and performance of engagements.

Policies or procedures that encourage and reinforce the importance and benefit of consultation on difficult or contentious issues may help to emphasize the importance of quality.

Implementing a robust system for supporting decisions about the acceptance and continuance of client relationships and specific engagements will contribute to your firm’s overall tone regarding quality, and improve reputation with employees, clients, and others.

DEVELOPMENT OF A PROJECT IMPLEMENTATION PLAN

Effective Date

The SOQM is required to be designed and implemented by December 15, 2022. (ISQM 1, para. 13).

The evaluation of the SOQM is required to be performed within one year following December 15, 2022, i.e., by December 15, 2023. (Addressed in Installment #3 of this Series).

Assigning Responsibilities

Though not necessarily the first step in the Implementation Plan, the assignment of responsibilities will be important if the firm has multiple partners and staff who will take on roles.

Paragraph 19 of ISQM 1 indicates that the firm is required to design, implement and operate a SOQM. As a result, the firm remains ultimately responsible for the SOQM. Nevertheless, the firm is not an individual that can take action; it is an entity. As a result, ISQM 1 requires the firm to assign responsibilities for the SOQM, and other aspects of the SOQM, and to hold the individuals accountable for their assigned roles.

The roles and responsibilities that you must assign to an individual(s) include:

- **Ultimate responsibility and accountability** for the SOQM
- **Operational responsibility** for the SOQM
- Operational responsibility for **specific aspects** of the SOQM
 - Compliance with **independence** requirements
 - The monitoring and remediation process

In a smaller firm, ultimate responsibility and accountability for the SOQM may be assigned to a single person. This individual may also assume responsibility for all aspects of the SOQM including operational responsibility for the SOQM, compliance with independence requirements and the monitoring and remediation process. For example, if you are a sole practitioner the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review, and addressing differences of opinion may not be relevant.



The SOQM, once in place will be an iterative process, but its initial implementation can be viewed as a project with a timeline. The following chart is an illustration of a SOQM design and implementation plan for a 2-5 partner firm that can be modified to meet the specifics of your firm:



WHEN	WHAT	WHO
<p>WHEN** to complete the activity to meet the implementation deadline</p>	<p>Suggested Activity WHAT TO DO</p>	<p>WHO should do it (i.e., individual, various members of the firm, etc.)</p>
<p>STEP 1: Assign Project Lead</p>	<p>Assign a Project Manager or Lead to facilitate the project and set time line. ("Project Lead") (A project lead/manager is not necessary for a sole practitioner and may not be needed for a smaller firm)</p>	<p>Appropriate individual(s)</p>
<p><i>Comments: The Project Manager/Lead is not necessarily the same individual responsible for the SOQM, but is the individual to manage the project and to keep it on track.</i></p>		
<p>STEP 2: Preparation</p>	<p>Pre-reading and preparation</p>	<p>All appropriate individual(s)</p>
<p><i>Comments: This activity should be done individually before convening the first meeting.</i></p> <p><i>In order to participate in the development and implementation of your firm's SOQM, all individuals involved in the project must become familiar with the new suite of standards and related implementation guidance that is available. There are many documents and videos, etc. so the Project Lead should prioritize the preparation reading for the others in the firm. See Appendix B for listing.</i></p> <p><i>It may be appropriate to make sure the definitions included in the standards are clear to everyone, so Appendix C, and the definitions section of ISQM 1, may be useful in the discussions.</i></p> <p><i>The Project Lead may consider distribution of relevant material to all individuals involved, or designate a shared electronic folder on a internal or file sharing location</i></p>		

** WHEN these matters will be addressed depends on where the firm is coming from. The 3rd quarter of 2022 is where most of the implementation is going to be completed, with the effective date of December 2022.



WHEN

STEP 3: Meeting #1

STEP 4: Meeting #2 – Assign roles and responsibilities

WHAT

1. Brainstorm meeting to discuss quality objectives (with a focus on the specific quality objectives set out in ISQM 1).
 2. Identify risks of not achieving those objectives, then assess the risks to determine which will be quality risks.
- (This is more of a reflection activity for a sole-practitioner.)

Comments: It is important to bring a full understanding of your firm to the discussion.

The original brainstorming activity can be most productive if it starts with quality objectives, but keep the discussion open on what “can go wrong” in meeting these quality objectives.

This meeting is held with everyone, before assigning the roles and responsibilities to encourage the whole leadership group to be involved, and not “assign” it to individuals without understanding what is required.

Assign roles and responsibilities related to the SOQM. The larger and more complex your firm, the more the roles and responsibilities may need to be assigned to different individuals.

(There is no meeting or action required at this point for a sole practitioner, without staff.)

For a 2-5 partner firm where roles will be divided between individuals, being aware that the evaluation of the SOQM will provide some performance evaluation on those who are assigned roles and responsibilities. The recognition that performance evaluation will take place is critical and will be discussed in Installment #3.

Comment: Some firms may want to complete the assignment of roles at the first meeting.

WHO

Appropriate individual(s)

All appropriate individual(s)

Tip: it is recommended you involve all appropriate individuals at the beginning, to get the insight from everyone, and to increase acceptance of the resultant SOQM. Avoid the temptation to delegate the development to one individual.



WHEN	WHAT	WHO
STEP 5: Collect information	Collect all documentation of current policies and procedures that address quality risks (including current QC Manual, HR Manual, IT Manual, etc.), as applicable.	Appropriate individual(s)
STEP 6: Meeting #3	Align current policies/procedures and create responses to identified quality risks. <i>Comment: To be discussed in Installment #2</i>	All appropriate individual(s)
STEP 7: Meeting #4	Finalize the documentation of the SOQM, including the process of implementation, so the SOQM is functioning before the effective date of December 2022. If the firm has staff, communication to all staff, and plan for training as needed. <i>Comment: To be discussed in Installment #2</i>	Appropriate individual(s)
STEP 8: Meeting #5	The quality risks and responses related to monitoring and remediation would be identified and agreed upon in Meeting #4, but further details could be developed on the design and implementation of the monitoring activities before the evaluation is required to be performed. The operation of the responses and monitoring activities is only required to commence from December 15, 2022 onwards. <i>Comment: To be discussed in Installment #3</i>	All appropriate individual(s)

The evaluation of the SOQM is required to be performed within one year following December 15, 2022.
****When** these matters will be addressed depends on where the firm is coming from. The 3rd quarter of 2022 is where most of the implementation is going to be completed, with the effective date of December 2022.

AN INTRODUCTION TO ASSIGNMENT OF ROLES AND RESPONSIBILITIES

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

- **Sole Practitioner** – the responsibility lies with you, but you may need to get others involved if you outsource some aspects of your practice (“Service Providers”) or if your practice will include some EQRs you may need to make arrangements, if not already in place.
- **Firm with Partners and Staff** – the ultimate responsibility is to 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).

Roles and responsibilities that the firm is required to assign to individuals

Individuals assigned these responsibilities are required to have the appropriate experience, knowledge, time, influence and authority.

Paragraphs 28(b)–28(c) include quality objectives that leadership is responsible and accountable for quality and demonstrates a commitment to quality through their actions and behaviors.

Ultimate responsibility and accountability for the SOQM

- Assigned to either the chief executive officer (or equivalent), managing partner (or equivalent) or, if appropriate, the managing board of partners (or equivalent).
- Expected to have an understanding of ISQM 1 (paragraph 18).
- Ultimately responsible and accountable for the firm achieving the objective of ISQM 1.
- Responsible for evaluating and concluding on whether the SOQM is achieving the objectives of the SOQM, which is important to holding them directly responsible and accountable for the SOQM (paragraphs 53–54).

Operational responsibility for the SOQM

- Expected to have an understanding of ISQM 1 (paragraph 18).
- Responsible and accountable for the design, implementation, and operation of the SOQM.

Operational responsibility for specific aspects of the SOQM

- Compliance with independence requirements
 - Responsible for overseeing all matters related to independence (paragraph A36).
- The monitoring and remediation process
 - Responsible for overseeing monitoring and remediation.
 - The individual(s) is required to take actions related to the remediation of deficiencies and communicate matters related to monitoring and remediation (paragraphs 43–44 and 46)
- Other specific aspects, as determined by the firm.

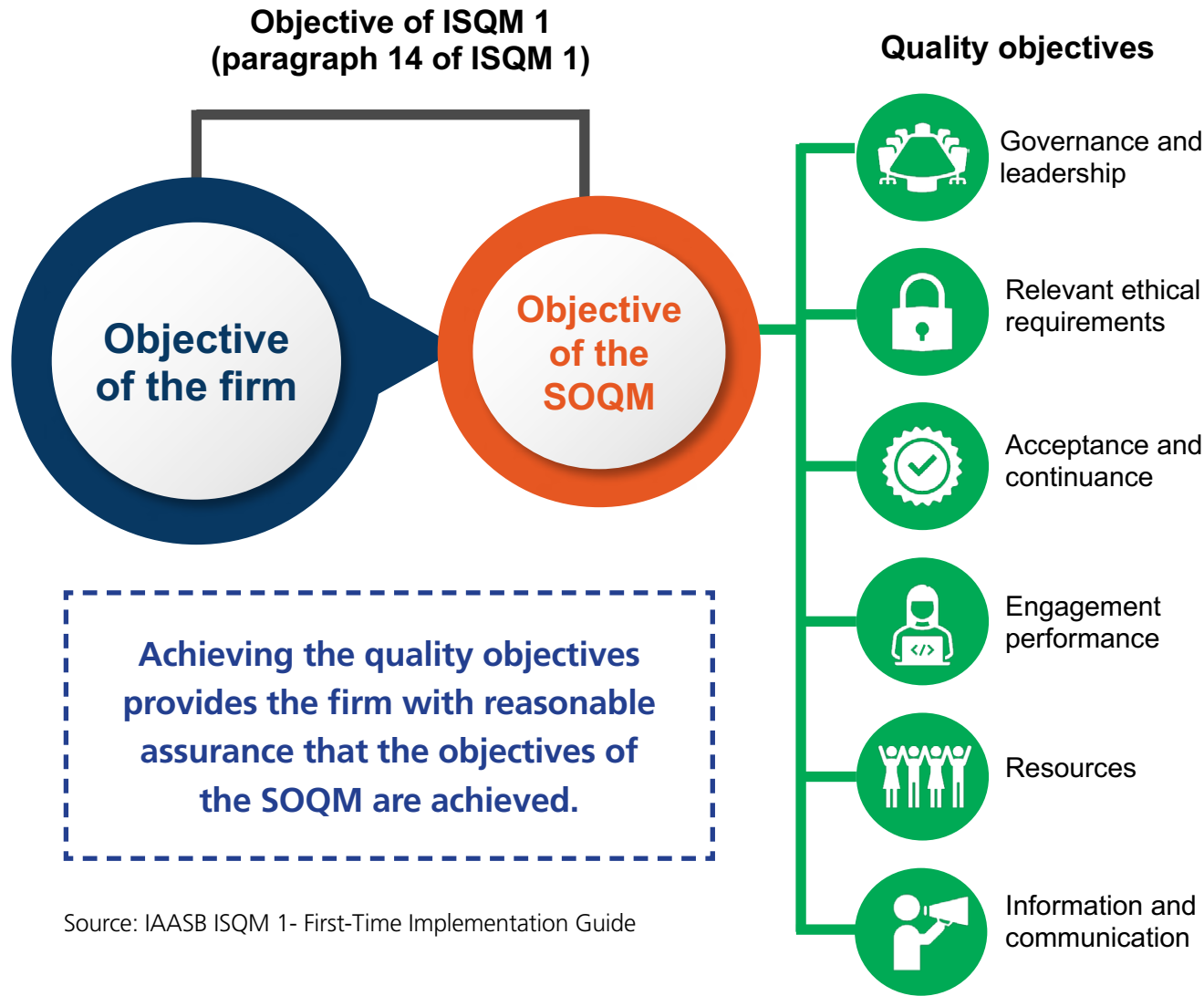


ISQM 1 includes specific quality objectives for the various components of your firm’s SOQM, so that it is clear what outcomes need to be achieved by the firm in order to have a SOQM that is effective in managing quality. Your firm is required to establish the quality objectives specified for the following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

- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources; and
- Information and communication.

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.

Information from your firm’s website, its insurance coverage application, the client lists with nature of engagements and the non-documented knowledge should be collected by all partners and all brought to the table.



The quality objectives are discussed in more detail in [Appendix D](#).

Note: It would be infrequent that additional quality objectives than those in ISQM 1 would be identified by a small firm, nor would the detail of sub objectives be considered necessary.

Note that the risk assessment and monitoring and remediation components do not include quality objectives since they are both processes.



ISQM 1 requires you to consider the various conditions, events, circumstances, actions or inactions in your firm. You know your firm well, and this can be an easy exercise, but brainstorming on these matters and documenting them will help you develop your firm specific SOQM. The following list should be considered to structure the start of your risk assessment process:

- 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 leadership
- 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.

It is recommended that you document the process and analyses 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 decisions made by the firm about the development of its SOQM. This documentation could include the agenda and minutes from meeting, etc.

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 is tailored to your firm's circumstances.

(Source: IAASB ISQM 1 First-Time Implementation Guide - Modified)

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

APPENDIX A: A PEEK AHEAD IN THE SERIES

This appendix provides some insight to the Installments #2 and #3, and as you start your implementation you can gain some insight by being familiar with the next steps.

Installation #2 – Developing a Detailed Implementation Plan

This installment will dive deeper on how small firms can approach developing a detailed implementation plan, including the following:

How to exercise professional judgment in designing, implementing, and operating your firm's SOQM. 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*](#)).



A review of the main components of your SOQM:

Governance and leadership. How to create an environment and culture that supports the SOQM. Responsibilities and accountability of firm leadership for quality. Obtain partner and staff buy-in. Determine who is going to be ultimately responsible (more straightforward for sole practitioners).

Relevant ethical requirements. How to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements.

Acceptance and continuance of client relationships and specific engagements. How to establish quality objectives that address judgments by your firm about whether to accept or continue a client relationship or specific engagement. Covers the financial (e.g., fees and firm profit) or operational (e.g., growth or strategic direction) priorities of your firm.

Engagement performance. How the firm establishes quality objectives that address the performance of quality engagements. This covers engagement teams understanding and fulfilling their responsibilities and the overall responsibility of engagement partners for managing and achieving quality.

Resources. How to establish quality objectives that address appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a timely manner. Covers human resources, technological resources, and intellectual resources needed to operate the SOQM and perform engagements.

Information and communication. How to establish quality objectives that address obtaining, generating or using information regarding the SOQM and communicating information within the firm and to external parties on a timely basis.

APPENDIX A: A PEEK AHEAD IN THE SERIES (Continued)

Installment #3 – The Monitoring and Remediation Process

This installment addresses:

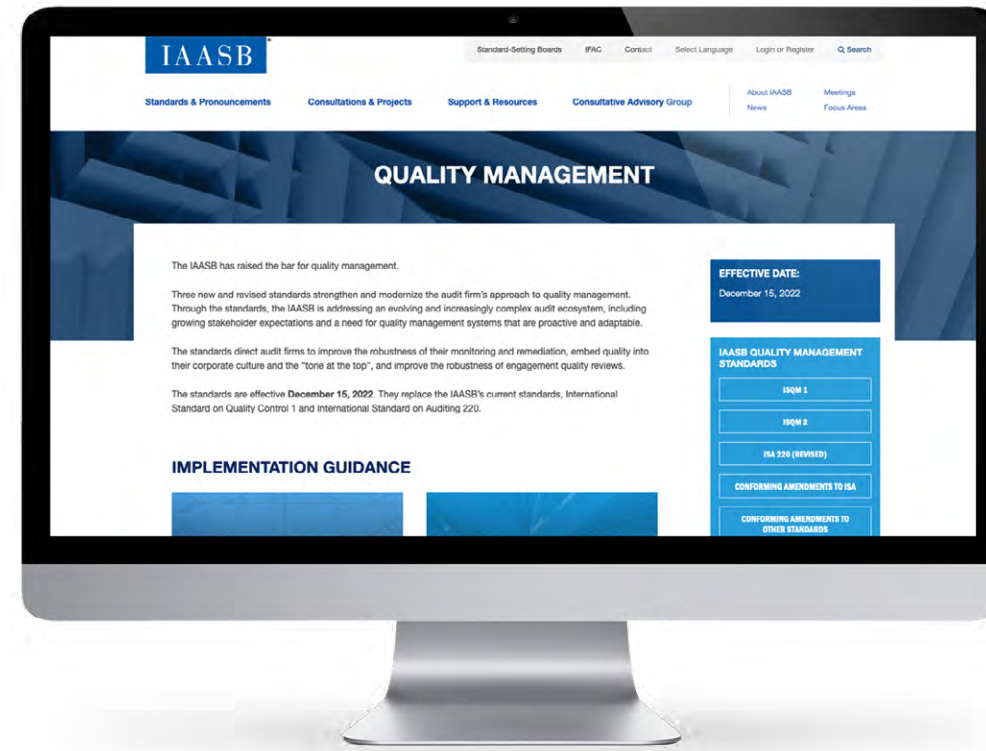
- How to design internal monitoring activities for the SOQM as a whole to provide relevant, reliable and timely information about the design, implementation and operation of the SOQM (a shift in focus from engagement-level monitoring). Highlighting that the key to the enhanced monitoring and remediation activities is a proactive and iterative approach.
- The factors driving the nature, timing and extent of the monitoring activities - approach to inspection of completed engagements. The monitoring activities can start with a regular cyclical basis, but other reasons based on risk assessment as well as in-process engagements, can change this.
- The scope of monitoring activities and technology/ platform to support and how centrally it will be used as part of feedback loop of continuous improvement.
- Review a framework for evaluating findings and identifying deficiencies. In addition, there will be a need to have a framework for evaluating the severity and pervasiveness of deficiencies, which includes investigating the root cause(s) of deficiencies.
- How to respond to identified deficiencies, including:
 - Designing and implementing remedial actions to address identified deficiencies that are responsive to the root cause.
 - 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.



APPENDIX B: PRE-READING AND RESOURCES

1

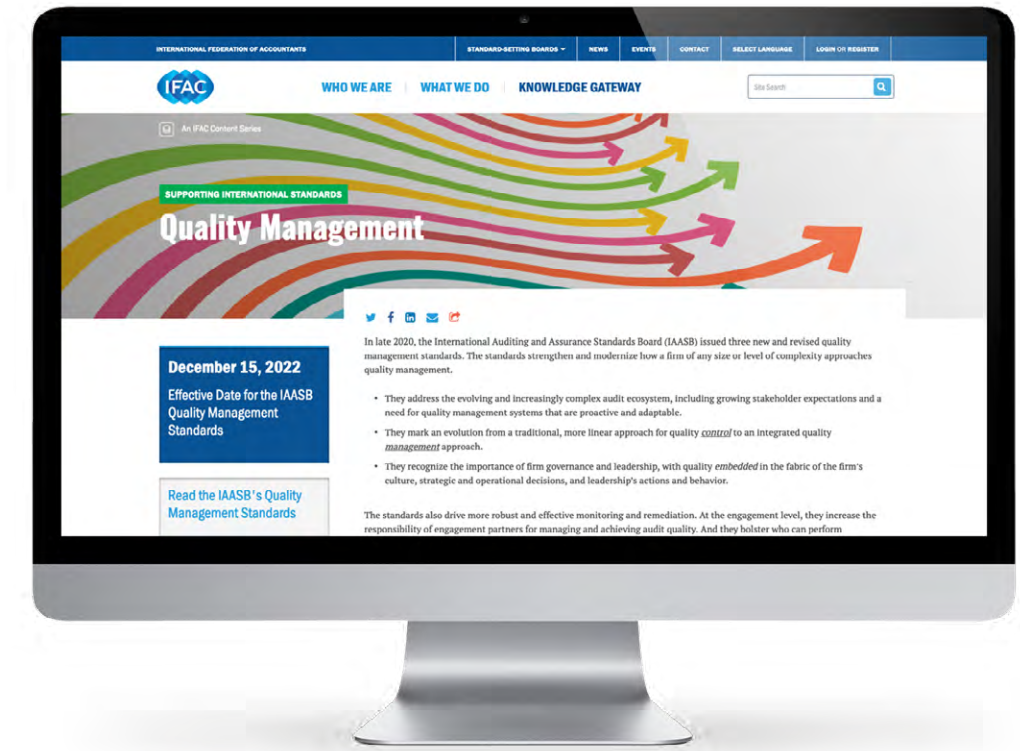
Read the standards, which are available on the IAASB's website: iaasb.org/quality-management.



The dedicated web page includes the three standards as well as first-time implementation guides and other resources.

2

Visit IFAC dedicated web page, ifac.org/qualitymanagement.



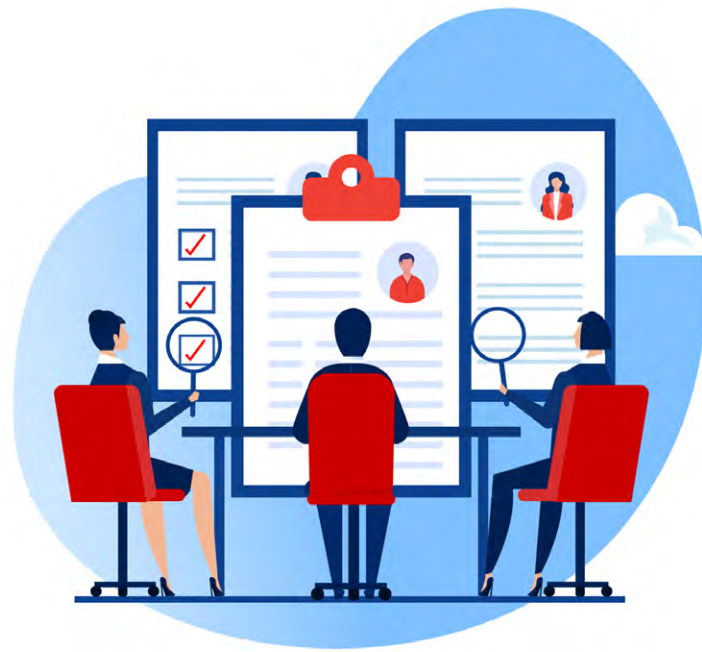
At this web page you will find various resources to assist in your implementation plan.



**APPENDIX C:
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 small 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 small 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.	The SOQM!



In ISQM 1, the quality objectives are organized into 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 Resources, Intellectual Resources and Technology Resources

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 objectives be minimized, and only make changes if it is not relevant to your firm. For example, if you are not a member of a network, all references can be deleted. An example of the possible revision for one area is included in this Appendix.

Governance and Leadership	
(ISQM 1 Paras.28, and A55-A61) Excerpt from Standards	Examples of questions to facilitate discussion (and documentation) to help understand the objectives are presented in the Standard. Modify to make the questions relevant to your firm.
<p>The firm shall establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:</p> <ul style="list-style-type: none"> (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 behavior; and (iv) The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities. 	<p>(a) Commitment to quality</p> <ul style="list-style-type: none"> • What does quality mean for our firm? • What does it mean for our firm to perform a quality engagement? • What are our guiding professional ethics, values and attitudes? • Who is involved in engagements and activities of our firm and how does their work within their role impact quality we aim to deliver? • How can we see that the importance of quality lives in day-to-day operations of our firm and its strategic decisions and actions?



Governance and Leadership	
(b) Leadership is responsible and accountable for quality.	(b) Leadership responsibility and accountability <ul style="list-style-type: none"> • What are the leadership roles individuals in our firm hold? • How do they currently demonstrate their responsibility and accountability for quality within their respective leadership roles?
(c) Leadership demonstrates a commitment to quality through their actions and behaviors.	(c) What actions and behaviors demonstrate our commitment to quality? What could we do better, or in a more formal way, to demonstrate our commitment to quality?
(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm’s system of quality management.	(d) Organizational structure <ul style="list-style-type: none"> • Do we need to prepare an organizational chart, which shows the responsibilities and roles with named individuals? • Should we include a limited term on the assigned roles?
(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm’s commitment to quality.	(e) Resource Needs How do we plan and prioritize our resource needs in the following areas: <ul style="list-style-type: none"> • Financial – budgets, etc. • Human – staffing, etc. • Technological – e.g., applications needed and updated • Intellectual - e.g., do we use relevant and updated tools to complete our engagements? • What service providers do we use?

APPENDIX D:
QUALITY OBJECTIVES
(Continued)

As an example, the following excerpt of the quality objectives from ISQM 1 with the possible edits shown for illustration purposes:

Engagement Performance – revised for a sole practitioner without audits or staff

Engagement Performance (ISQM 1 Paras. .31, and A67-A74) Extract from Standard	Revised
(a) Engagement teams 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.	(a) Engagement teams The practitioner understands and fulfills their full 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.
(b) The nature, timing and extent of direction and supervision of engagement teams 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 teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.	(b) The nature, timing and extent of direction and supervision of engagement teams 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 teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.
(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.	(c) Engagement teams The practitioner exercises appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.
(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.	(d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.
(e) 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 are brought to the attention of the firm and resolved.	(e) Differences of opinion between the practitioner and consultations of difficult and contentious matters, or the engagement quality reviewer, if applicable , or individuals performing activities within the firm’s SOQM are resolved.
(f) 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 the firm and comply with law, regulation, relevant ethical requirements, or professional standards.	(f) 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 the firm and comply with law, regulation, relevant ethical requirements, or professional standards.
(g) Additional quality objectives (describe if any)	(g) Additional quality objectives (describe if any)

APPENDIX E: MEETING #1 AGENDA – DISCUSSION OF QUALITY OBJECTIVES

Though the following is described as a meeting, or an agenda for a meeting, a sole practitioner can adjust the suggestions to facilitate reflections, and discussion with staff, if applicable. Also, it is important to consider who should be in attendance in the meeting discussion on the quality objectives, and that this meeting should not be attended solely by those members involved in the provision of assurance standards, but a broad range of professionals from different service areas, and administrative staff can add to the discussion of quality objectives for the firm as a whole.

Agenda – Meeting #1

INTRODUCTION TO MEETING:

Start the meeting with an introduction of those in attendance and review the responsibility and accountability of the SOQM both strategically and operationally. **REMINDE** the participants of the objective of the meeting (which should be clearly defined to the firm's circumstances), and consider the following activities:

1

ASK if there are any questions related to the pre-readings (See [Appendix B](#)), and review definitions in [Appendix C](#) for consistency in language to be used in the meeting.

2

ASK: How do you define quality? This discussion will trigger an open discussion and will provide some insight into the culture of the firm from different participants. It will also put the quality objectives in context, even though this discussion will be general in nature.

3

REVIEW the **quality objectives** for the following components included in ISQM 1 (see [Appendix D](#)):

- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources; and
- Information and communication.

Determine which quality objective are relevant to the firm. It should be most of the objectives included in ISQM 1, and do not modify the wording unless it is not relevant. The emphasis on not changing or deleting certain words is because any changes could result in you developing a SOQM that does not meet the standard.

4

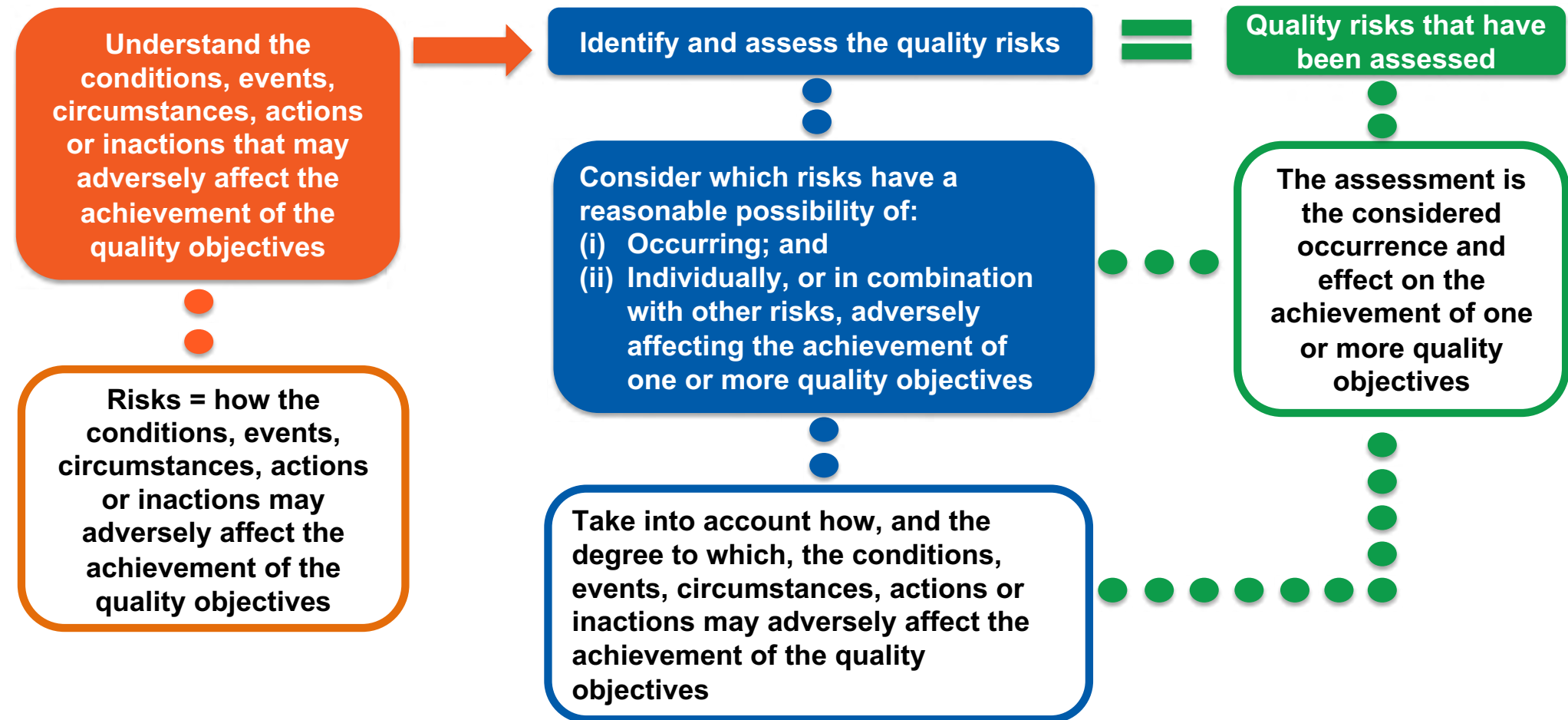
DISCUSS a strategy to approach the next steps or assessing quality risks that is agreeable and considered efficient. Some may want to address the quality objectives all at once, right through to the responses. Others may feel that they want to tackle certain objectives first, together with the relevant quality management risks, i.e., in sequence. Others may want to address the areas that they feel will be more difficult (or easier). For example, some firms have addressed the engagement performance objectives first, since they feel that component currently most developed. There is no one right answer on the approach, and a discussion is warranted. The discussion on the order will also facilitate some delegation if done in "chunks" before the next meeting. However, caution is advised - the work should not become too compartmentalized since there is much overlap, and some responses may cover multiple objectives.

**APPENDIX F:
MEETING #2 – AGENDA
INTRODUCTION
TO QUALITY RISK
ASSESSMENT**

USE the following diagram to remind the participants on how you can identify and assess quality risks:

HOW THE FIRM IDENTIFIES AND ASSESSES QUALITY RISKS

ISQM 1 sets out the process the firm is required to follow in identifying and assessing quality risks, which is depicted as follows:



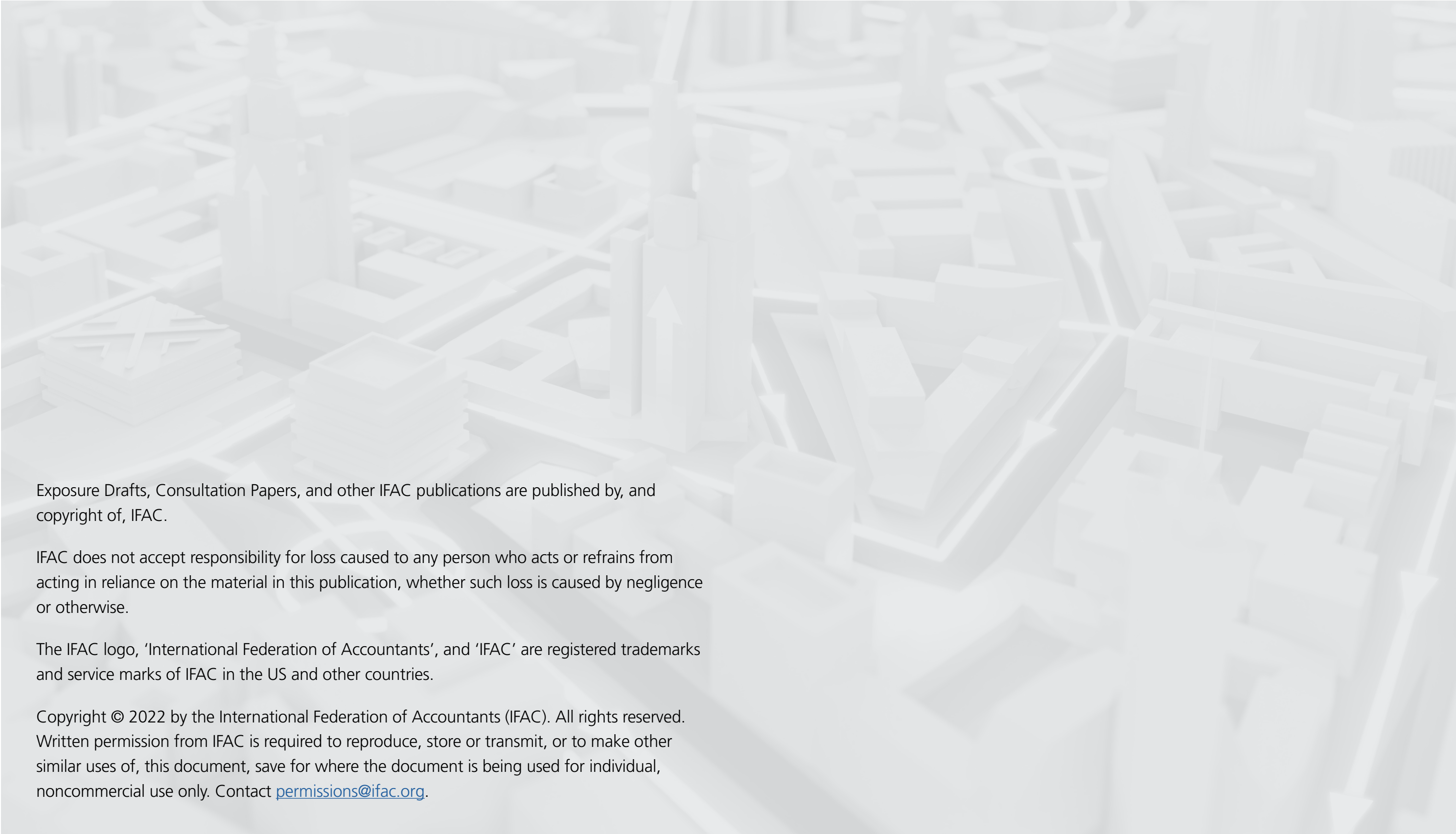
Source: IAASB ISQM 1- First-Time Implementation Guide

APPENDIX F:
MEETING #2 – AGENDA
INTRODUCTION
TO QUALITY RISK
ASSESSMENT
 (Continued)

ASK: What would be indicators that quality objectives are not being met?

If you ask this question in the meeting, the following chart illustrates some possible responses related to two of the components:

Component	Possible indicators	Possible reasons why things go wrong
Engagement performance	<p>It is discovered that financial statements were issued with material misstatements</p> <p>File reviews and monitoring determine deficiencies</p> <p>Litigation</p> <p>Unsatisfied client/complaints, missed deadlines</p> <p>Loss of client</p>	<p>Multiple engagements at same time, spread too thin</p> <p>Insufficient partner involvement in the engagement</p> <p>Staff shortages/turnover</p> <p>Client delayed in deliverables or provide information that contains errors...rushed</p> <p>New accounting/assurance standards not implemented adequately/training rushed</p> <p>Technology or intellectual resources not updated/glitches not resolved</p>
Acceptance	<p>Clients are difficult to deal with or do not always co-operate with providing information</p> <p>Clients are extremely fee sensitive and may be slow to pay</p> <p>A perception that all potential clients are "good clients", without consideration of expertise or industry specific factors</p>	<p>Background check on client not completed thoroughly</p> <p>Pressure to cut corners or create financial strain and potential threat to independence - this can be amplified on continuing engagements</p> <p>Emerging or new industries creates understanding "gap"</p>



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