

November 2024

**IAASA's Inspection
Insight Series 5:
International Standard
on Quality Management
Ireland 1 (ISQM 1)**

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Vision

Public trust and confidence in quality auditing and accounting



Mission

Upholding quality corporate reporting and an accountable profession

Our Values



Excellence

Striving to be the best we can be



Independence

Regulating impartially and objectively



Integrity

Being trustworthy and respectful

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1. Introduction

- In Ireland, the International Standard on Quality Management (Ireland) 1 (ISQM 1) requires audit firms to apply a risk-based approach in designing, implementing and operating the components of the system of quality management.
- This ISQM applies to firms that perform engagements undertaken in compliance with performance standards issued by IAASA, which comprise:
 - (a) Audits of financial statements undertaken in compliance with International Standards on Auditing (Ireland)
 - (b) Reporting accountants acting in connection with an investment circular
 - (c) Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (Ireland) 2410)
- The risk-based approach is embedded in the requirements of this ISQM (Ireland) through:
 - (a) Establishing quality objectives
 - (b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks)
 - (c) Designing and implementing responses to address the quality risks
- This Insight Series 5 sets out:
 - (a) the key requirements for audit firms relating to ISQM 1.
 - (b) the findings arising from the IAASA quality assurance reviews.
 - (c) the areas of good practice noted by IAASA.

2. Key requirements

ISQM 1, a system of quality management addresses the following eight components:

1. **Firm's Risk Assessment Process:** Establish an ongoing risk assessment process that considers your unique circumstances, including technologies used, networks, and external service providers.
2. **Governance and Leadership:** Ensure effective governance and leadership within your firm.
3. **Relevant Ethical Requirements:** Adhere to ethical standards and requirements.
4. **Acceptance and continuance of client relationships and specific engagements:** Evaluate client relationships and specific engagements.
5. **Engagement Performance*:** Focus on thorough audit procedures and quality performance.
6. **Resources:** Allocate resources for recruiting, developing audit teams, and providing appropriate tools.
7. **Information and Communication:** Foster effective communication within the firm.
8. **The monitoring and remediation process:** Embrace scalability, flexibility, and continuous improvement.

* This will be covered as part of our audit file inspection findings included within our annual quality assurance review reports.

3. Findings from IAASA quality assurance reviews

Firm's risk assessment process

- The required ISQM 1 quality objectives were not directly mapped to the firm's system of quality management.
- The responses to the quality risks identified were not tailored to the circumstances of the firm including the description of key documents and personnel requirements.

Governance and leadership

- The quality objective set out in Paragraph 28(d) of ISQM 1: '*The organisational 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*' was not included as a quality objective within the firm's system of quality management as required by the standard or within the firm's supporting ISQM 1 mapping documentation.

Relevant ethical requirements

- Failure of staff to record their financial interests in a timely manner and in line with the firm's own policy.
- High rate of non-compliance in personal independence compliance testing results.

Acceptance and continuance

- Identified a number of instances where continuance assessments were not completed and approved in line with the timeliness requirements of the firm's policy.
- Identified instances where there were errors in the completion of acceptance and/or continuance assessments, including:
 - failure to record non-audit services (NAS) being provided to a client for an audit continuance assessment
 - failure to sufficiently perform an independence check for a new audit engagement

Engagement performance

- This will be covered as part of IAASA's audit file inspections findings included within our annual quality assurance review reports.

Resources

- The controls as recorded were not responsive to the identified quality risks in the case of technological resources obtained or developed, and implemented, at the local firm level.
- Failure of the firm to sufficiently and accurately maintain a Technological Resources Register, for monitoring technological resources that are relevant for the purposes of ISQM 1.

Information and communication

- A complete listing of audit engagements the firm resigned from during the period was not maintained .

The monitoring and remediation process

- There was insufficient evidence to determine how the firm evaluated the procedures performed by the global network to test the operating effectiveness of the network and regional controls relating to the firm's system of quality management, given that results presented were only on controls where findings were identified and not the full suite of network responses (controls) used by the firm. It was therefore unclear how the firm ensured that sufficient appropriate evidence was obtained to assess the effectiveness of the controls for the purpose of the firm's evaluation of their own system of quality management.
- There was no clear plan in place for the firm to monitor the design, implementation and operation of all responses across all processes within a specified timeframe.
- There was insufficient evidence that the firm has performed adequate monitoring activities to provide a basis for identifying deficiencies that are relevant to the firm's system of quality management.

4. Areas of good practice

Firm's risk assessment process

- The firm's system of quality control was very clear. It aligned well with the requirements of ISQM 1.
- The firm presented their findings on their operating effectiveness testing to an independent panel. None of the representatives on the panel were employees of the Irish firm. The panel reviewed the remediation plan(s) for controls which were not operating effectively or had findings in the period.
- The firm had one single platform for ISQM 1 which included the firm's quality objectives, identified quality risks and responses to address the quality risks. The operating effectiveness testing of each response was included within the same platform.

Governance and leadership

- There was clear and frequent communication to employees of the firm of the importance of audit quality to the firms' overall strategy.

Relevant ethical requirements

- A smartphone application was used to allow staff within the firm to update their financial interests on their phones.
- There was a dedicated service centre to assist with maintenance and queries relating to personal independence matters and pre-clearance of investments.

Acceptance and continuance

- Continuance assessments were completed and approved in line with the timeliness requirements of the firm's policy.

Engagement performance

- This will be covered as part of our audit file inspections findings included within our annual quality assurance review reports.

Resources

- There was a clear link between the impact that cold file reviews had on a partner's remuneration.
- The resource register recorded relevant information for each technological resource.

Information and communication

- The firm had a detailed audit quality and communications plan which outlined the information required to be communicated to engagement teams for the relevant period.

The monitoring and remediation process

- In circumstances when the network performed monitoring activities relating to the firm's system of quality management, the firm determined the effect of these monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities.



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