



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

Circular No. 06 / 2022

November 25, 2022

ALL MEMBERS OF THE INSTITUTE

Dear Member

Adoption of Quality Management Standards issued by the International Auditing and Assurance Standards Board

The Council of the Institute in its 362nd meeting held on October 28-29, 2022, on the recommendation of the Auditing Standards and Ethics Committee (the Committee), has adopted the Quality Management Standards issued by the International Auditing and Assurance Standards Board (IAASB).

The Quality Management Standards include:

- a) 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*;
- b) International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*; and
- c) ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

Effective date of Quality Management Standards

The Council has decided that the Quality Management Standards will be effective as per below dates:

Firms	Effective date
Firms performing the audits of public interest companies	Effective from December 15, 2023
Firms performing the audits of other than public interest companies	Effective from December 15, 2024

* The term 'Firm' as defined in Quality Management Standards includes a sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.

Firms are required to have the system of quality management (SOQM) designed and implemented in accordance with ISQM1 by the above-noted effective dates. The evaluation of the SOQM is required to be performed within one year following the above effective dates. The Institute suggests that the firms begin the implementation process now.

Firms are required to perform the engagement quality reviews (EQRs), under the new Quality Management Standards, of (a) audit and review engagements for financial statements periods commencing on or after above-noted effective dates; and (b) other assurance and related services engagements beginning on or after above-noted effective dates.

Early adoption of Quality Management Standards is permitted; however, firm is required to adopt all three Quality Management Standards (i.e. ISQM 1, ISQM 2, and ISA 220 (Revised)) at the same time.

(Established under the Chartered Accountants Ordinance, 1961 - X of 1961)



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ISQC 1 will be superseded by Quality Management Standards

The Quality Management Standards will replace the extant International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, and ISA 220.

The Auditing Standards & Ethics Committee's due process for adoption of Quality Management Standards

The Auditing Standards & Ethics Committee (the Committee) undertook a comprehensive study and review for the adoption of the Quality Management Standards. The Quality Management Standards were shared with the members and other stakeholders, including the Quality Assurance Board, Practicing Members Committee and SMP Committee for their comments and feedback. The Institute as part of member's outreach and consultation also organized awareness seminars on the Quality Management Standards in Karachi, Lahore and Islamabad which were also virtually attended by members of other cities.

The Committee based on members and stakeholders feedback, decided to recommend to the Council a phased approach for the adoption of Quality Management Standards.

Useful publications and resources

The Quality Management Standards can be accessed and downloaded from <http://www.icap.net.pk/archives/6615>.

A snapshot of the Quality Management Standards is provided in **Appendix A** to this Circular.

For the members and other stakeholders facilitation, various publications and resources developed by the IAASB and the Institute have also been uploaded on the Institute's website. Details of various resources and publications is provided in **Appendix B** to this Circular.

Members are advised to take note of the above.

Yours truly

Sohail Malik
Senior Director Technical

Enclosed: as above



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Appendix A

A Snapshot of Quality Management Standards

IAASB Quality Management Standards

The Quality Management Standards include following three interrelated standards:

- (a) International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1)
- (b) International Standard on Quality Management 2, *Engagement Quality Reviews* (ISQM 2)
- (c) International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220 (Revised))

IAASB has developed the quality management standards by bringing in important changes to the way firms are expected to manage quality for audits, reviews, and other assurance and related services engagements.

The new standards intend to improve quality through:

- Modernizing the standards for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers;
- A risk-based approach focused on achieving quality objectives;
- Increasing firm leadership responsibilities and accountability, and improving firm governance;
- More rigorous monitoring of quality management systems and remediating deficiencies;
- Enhancing the engagement partner's responsibility for audit engagement leadership and audit quality; and
- Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance.

ISQM 1

ISQM 1 deals with the firm's responsibility for having a system of quality management (SOQM) which is tailored to the firm and its client base. This scalability enables firms to design a system which addresses their specific circumstances and risks.

ISQM 1 will replace ISQC1. ISQC1 was based on quality control, while in ISQM 1 there is shift in focus from quality control to quality management. This will be achieved by incorporating a risk-based approach, i.e., managing risks to quality.

ISQM 1 applies to all firms performing engagements under the IAASB's standards. This includes audits or reviews of financial statements, other assurance engagements, compilations or agreed-upon procedures engagements.



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ISQM1 requires the firm to:

- (a) Establish quality objectives;
- (b) Identify and assess quality risks; and
- (c) Design and implement responses to address those risks.

ISQM1 consists of following eight components that operate in an integrated manner:

- The firm's risk assessment process;
- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources;
- Information and communication;
- The monitoring and remediation process.

Firms are required to establish quality objectives specified by the standard for each component. There are no quality risks prescribed by the standard. Firms are required to identify and assess their own quality risks. However, there are specified responses that need to be implemented and additional responses to fully address all quality risks identified.

ISQM 2

One of the specified responses in ISQM 1 is a requirement for the firm to establish policies or procedures for engagements requiring an engagement quality review (EQR). An engagement quality review is a firm level response to identified and assessed quality risks.

ISQM 2 applies to all audit, assurance and related services engagements for which an engagement quality review has been determined as required in accordance with ISQM 1. ISQM 2 is a new standard and replaces the extant provisions relating to engagement quality reviews covered in ISQC 1 and ISA 220.

It deals with the eligibility of the engagement quality reviewer, and the performance and documentation of the EQR. Key enhancements include a 2-year cooling-off period before an engagement partner can assume the role of engagement quality reviewer, performance of the EQR at appropriate points in time during the engagement and a "stand-back" requirement to determine whether the performance requirements in ISQM 2 have been fulfilled.

ISA 220 (Revised)

ISA 220 (Revised) applies to audits of financial statements and addresses how quality is managed at the audit engagement level by the engagement partner.

ISA 220 (Revised) makes clear that the engagement partner is responsible for managing and achieving quality at the engagement level, for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and for determining the nature, timing and extent of



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direction, supervision and review. It contains more explicit requirements and application materials about what the engagement partner needs to review.

It also contains a “stand-back” provision that requires the engagement partner to determine they have done enough to take overall responsibility for managing and achieving quality on the audit and whether their involvement has been sufficient and appropriate.



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Appendix B

Relevant Resources

Detail of various resources and publications on Quality Management Standards issued by IAASB and ICAP are provided below:

- The full text of the Quality Management Standards (ISQM 1, ISQM 2, ISA 220 (Revised)) can be downloaded from the ICAP and IAASB websites at:

<https://www.icap.net.pk/quality-management-standards>

<https://www.iaasb.org/focus-areas/quality-management>

- The First-time Implementation Guides can also be downloaded from:

<https://www.icap.net.pk/quality-management-standards>

<https://www.iaasb.org/focus-areas/quality-management>

- The IAASB issued resources 'Introduction to ISQM 1, ISQM 2, and ISA 220 (Revised)' can also be accessed under the tab 'Available Resources' at:

<https://www.iaasb.org/focus-areas/quality-management>

- The IAASB webinar series on Quality Management Standards can be accessed at:

<https://www.iaasb.org/publications/quality-management-webinar-series>

- Presentations on ISQM 1, ISQM 2, and ISA 220 (Revised) can be downloaded at the link:

<https://www.icap.net.pk/quality-management-standards>

- The recordings and presentations of ICAP seminars and webinar on Quality Management Standards can be accessed at

<http://www.icap.net.pk/archives/6606>