



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

Circular No. 02/ 2022

April 30, 2022

ALL MEMBERS OF THE INSTITUTE

Dear Member

Invitation to comment on Quality Management Standards

The International Auditing and Assurance Standards Board (IAASB) has issued Quality Management Standards and has also revised the related International Standard on Auditing (i.e. ISA 220, *Quality Control for an Audit of Financial Statements*). The Quality Management Standards published by IAASB include:

1. ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement*; and
2. ISQM 2, *Engagement Quality Reviews*.

ISQM1 and ISQM2 will replace the International Standard on Quality Control (ISQC) 1. The new Quality Management Standards and related ISA 220 (Revised) will impact the audit firms as well as individual audit and assurance engagements.

- ISQM 1 requires a firm to design, implement and operate a risk-based system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
- ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
- ISA 220 (Revised) specifies the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner.

In accordance with the IAASB published Quality Management Standards, firms are required to have systems of quality management designed and implemented in accordance with these new standards by December 15, 2022.

ISQM 1, ISQM 2, and ISA 220 (Revised) are attached for your study and input. While a Snapshot of the Quality Management Standards and a list of supporting publications and resources developed by the IAASB and the Institute are provided in the Appendix to this Circular.

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

The Auditing Standards & Ethics Committee (the Committee) of the Institute has initiated due process for recommending the adoption of the Quality Management Standards. Consequent to their adoption, ISQM1 and ISQM2 will replace the ISQC 1, the extant standard that deals with the practicing firm's responsibilities for its systems of quality control.

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

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Your input is of foremost importance in the due process for the adoption of the Quality Management Standards and related ISA 220 (Revised). You are requested to send your comments and input to the Technical Services Department at dtscomments@icap.org.pk latest by June 30, 2022.

The Committee has also planned to conduct consultative sessions with the members on the Quality Management Standards. Details of these sessions will be shared in due course.

Yours truly

Sohail Malik
Director Technical

Enls: as above



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Appendix

A Snapshot of Quality Management Standards

The Quality Management Standards have been issued by the IAASB in response to the changing environment, the challenges of the effectiveness of pre-existing quality control standards, and growing market participant needs.

These interrelated standards are designed to move the profession away from quality “control” to quality “management”, marking an evolution from a traditional, more linear approach to a new integrated and risk-based approach to quality management systems within firms.

The Quality Management Standards are designed to improve firm’s and engagement quality by:

- Requiring the firm to design a robust system of quality management (SOQM) to manage the quality of engagements performed by the firm;
- Requiring the firm to customize the design, implementation, and operation of its SOQM based on the nature and circumstances of the firm and the engagements it performs;
- Using a more proactive and tailored approach to managing quality focused on achieving quality objectives through identifying risks to those objectives, and responding to the risks;
- Increasing firm leadership responsibilities and improving firm governance;
- Modernizing the standards for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers;
- More rigorous monitoring of quality management systems and remediating deficiencies;
- Enhancing the engagement partner’s responsibility for improving audit quality; and
- Strengthening requirements for eligibility and appointment of the engagement quality reviewer and engagement selection, documentation, and performance of engagement quality review.

Publications and resources

The IAASB has also published first-time implementation guides on ISQM 1 and ISQM 2 to help the firms in understanding and apply the standards.

You can also download the Quality Management Standards and also various other resources and publications at IAASB and ICAP websites:

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

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

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



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- 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>

- The Institute's Technical Services Department has also developed presentations on each standard to help you understand the requirements of ISQM 1, ISQM 2, and ISA 220 (Revised).

Please visit the page: <https://www.icap.net.pk/quality-management-standards>