

14 October 2022

AUDIT 04/22

Guidance in relation to the risk based approach embedded in the requirements of 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

The Malta Institute of Accountants (MIA) is issuing this guidance based on work carried out by the MIA New Quality Management Standards Working Group working under the remit of the MIA Audit and Assurance Committee. This working group includes representatives of the MIA Audit and Assurance Committee and the MIA SMP Group. This guidance is intended to be used by practitioners to aid in understanding, preparing for and transitioning from the International Standard on Quality Control (ISQC) 1 to ISQM 1 and which becomes applicable as from 15 December 2022.

With the introduction of a risk-based approach to quality management, ISQM 1 requires practitioners who perform audit or reviews of statutory audits and/or any other assurance or related services engagements to conduct a risk-based assessment process in order to:

- establish quality objectives;
- identify and assess quality risks; and
- design and implement responses to address those quality risks identified.

ISQM 1 narrates several quality objectives and responses that firms must include in their risk assessments, with the firms also mandated to add any other objectives and responses needed to achieve the underlying objectives of the system of quality management.

This guidance and its supporting Annex, lays out an indicative and non-authoritative tool which practitioners can avail themselves or refer to in their transition to ISQM 1. The guidance is meant to be an example-based tool for practitioners to better understand the risk assessment process, giving non-exhaustive and indicative examples of quality objectives and quality risks, as well as the related design and implementation of responses to address the quality risks. It is important to note that practitioners are required to document their own individual assessment of quality risks, particularly the

degree to which a risk, individually, or in combination with other risks, may adversely affect the achievement of a quality objective(s). This risk-assessment process varies based on the conditions, events, circumstances, actions, or inactions giving rise to the risk. The assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them.

Further technical resources on the subject matter can be found [here](#). The MIA invites practitioners to submit any comments and/or queries to the MIA technical mailbox, i.e. technical@miamalta.org.

Disclaimer

This Guidance is only intended to provide practical guidance to Members and is not, and should not, be interpreted as a substitute to any other legislation or standard or parts thereof. In fact, this Guidance does not constitute an auditing, review, other assurance or related service standard, nor does it repeal any provisions contained in any International Standard. This Guidance should be read in conjunction with the relevant legislation and standards.

Specifically, this guidance does not in any way replace the requirement of practitioners to read and understand the contents of ISQM 1, the text of which alone is authoritative. The risk assessment template being annexed to this guidance is only indicative and provides generic examples, which could or could not be applicable to your practice and hence each practitioner needs to customise this risk assessment whilst considering the circumstances and risks of his/her practice. It is the responsibility of every practitioner to exercise due professional consideration accordingly.

While every attempt has been made to ensure that the information contained in this Guidance is obtained from reliable sources and is up to date as at the date of issue, the MIA is not responsible for any errors or omissions, or for the results obtained from the use of this information. Any reliance placed on such information is therefore strictly at the user's own risk. In no event will the MIA, or its agents or employees be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from any loss arising out of, or in connection with, any decision made or action taken in reliance on the information in this Guidance.



Establish Quality Objectives



Identify and Assess quality risks



Design and Implement Responses



Identify information indicating need to add/modify quality objectives, quality risks or responses

Ref

a. Establish Quality

b. Identify and Assess Quality Risks

c. Design and Implement Responses

d. Identify Information

What is the Quality Risk?

What may Cause this

What is the Consequence?

Designing Response

Implement Response

1. Governance and Leadership Responsibilities

1.1 To ensure continuity of the audit and non-audit practice.

Exclusive dependence on sole practitioner to carry out assurance and non-assurance services to clients.

Death or incapacitation of a sole practitioner for a prolonged period of time.

- loss of clients
- loss of reputation

- Approach a number of peers in the profession to initiate discussions and reach an agreement on the 'business continuity' of the practice.

- Set up a number of meetings with other 'peers'
- Crystallise a business continuity agreement.

Ensure that the business continuity agreement is in place.

1.2 To have a technical person within the Firm to provide guidance to Audit Team on technical issues.

Exclusive dependence on one technical person.

In case of accident, illness, retirement or lack of opportunity for progression, technical person may be lost.

- Audit Team may not have technical guidance that may lead to the provision of incorrect advice or loss of clients.

- Develop competent staff to shadow the work of this technical person

- Appoint staff to shadow the work of technical person over a time period and start handling part of the technical work going forward to gain experience.

Include new additional quality objective to set up a small team of technical persons.

1.3 To demonstrate a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the importance of professional ethics, values and attitudes

Some Principals of the Firm may exhibit certain attitudes that are not seen as an aspiration by staff. The overall culture of the Firm is that of 'cutting corners' and viewing the 'Code of Ethics' and 'Professional Standards', as secondary to the Firm.

- Lack of a proper governance set-up at the Firm to ensure oversight over the implementation of a quality management system
- Lack of appetite for change.

- breaches of professional ethics and standards
- breaches in quality standards
- loss of reputation to the Firm
- leadership not conducive in achieving quality and continuous improvement

- Appoint a 'Quality Principal' at the Firm
- Set-up a quality charter and code of conduct applicable to the firm and everyone connected to it which recognizes and reinforces the importance of professional ethics, values and attitudes
- Provide training to Leadership

- 'Quality Principal' to partake in the governance structure of the Firm and design a holistic plan to address deficiencies being noted on the culture of the Firm
- Appoint expert to prepare quality charter/code of conduct for board approval. Once approved disseminate all everyone connected with practice and ensure regular updates/training are undertaken
- Approach a number of reputable training organisations to provide training and advise to leadership of the Firm.

• Revisit ISQM 1 Manual to consolidate the governance structure of the Firm emphasizing the 'values' of the Firm

• Monitor Principals' behaviour and appraise it

• Update any Charters in place

• Inform staff about these changes through internal training.

1.4 To demonstrate a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces 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

The Firm does not propagate quality drivers within its engagements and activities, thus falling short on achieving the necessary quality Key Performance Indicators (KPIs).

-Lack of a consolidated system that captures KPIs to enable Principals of the Firm to take appropriate decisions at the right time.

- Principals of the Firm may be taking decisions on incomplete or inaccurate data

- Identify and set-up the targeted quality drivers required by the Firm based on the (a) the Firm's culture and (b) data that is required by the Regulator in their Annual Return.

- Create KPIs to be achieved in this respect and monitor adherence.
- Appoint a Principal responsible to monitor these KPIs and to report to the other Principals of the Firm on a periodic basis.

• Make a list of KPIs

• Design a monitoring programme

1.5 To demonstrate a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.

Quality is not placed as a central aspect within the firm's strategic and operational decision making, including of investing the necessary resources to ensure an optimum level of quality is maintained

- The 'agenda' of the periodic Principal /Board meetings does not provide sufficient time to focus on quality aspects of the Firm and risk management practices.

- Exposure to risks and quality issues on a strategic, operational and performance level.
- There could be a number of "untapped" opportunities that the Firm may not be addressing.

- Create a governance model which fits the size and needs of the firm. This should ideally include (NEDs) Non Executive Directors or Advisors who are responsible to ensure that quality matters remain at the top of the agenda and are not watered down and sidelined for other personal/ commercial objectives
- Ensure that the Principal/Board meeting agenda allocates sufficient time to focus on quality aspects and to identify areas for continuous improvement.

- Appoint NEDs and create a reporting structure covering governance, quality and leadership matters.
- Appoint experts / service providers to prepare governance model for board approval.
- Allocate sufficient time to discuss quality related matters at Principal / Board meeting
- Identify a Principal responsible to monitor progress.

• Make it a habit that Principal/Board meetings of the Firm focus on quality matters. Involve the NED in these discussions.

• Keep 'minutes' of these Principal/Board meetings.



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What is the Quality Risk?

What may Cause this event?

What is the Consequence?

Designing Response

Implement Response

2. Relevant Ethical Requirements

2.1 To ensure that Principals and Members and staff of the Firm, particularly those involved in audit or other assurance engagements, are aware of the requirements of the Code of Ethics

Audit Principals and audit team members may be involved in audit engagements wherein their independence may be impaired or 'seen' to be impaired.

- inappropriate knowledge of the threats to the auditor's independence and the safeguards that can be implemented to reduce these threats to an acceptable level.
- Audit team members may not know to whom they shall report internally, if they are faced with an ethical dilemma.

- loss of reputation
- loss of credibility on the work of the Firm and of the profession
- loss of clients

- require audit staff to attend CPE events organised on independence and ethics to remind them of their responsibilities in this area
- ensure that on a yearly basis, audit staff members declare their independence from audit clients in writing
- issue periodical emails to staff informing them who is the Independence Principal of the Firm and the process to be followed whenever there is an ethical issue.

- appoint a Principal within the Firm responsible for Independence and Ethics.
- carry out periodic random reviews on audit files to ensure that there is sufficient documentation of the threats and safeguards implemented.
- contact service providers to design a yearly training programme on Independence and Ethics

- Update ISQM Manual with the name of the Independence Principal of the Firm
- Collect and monitor annual Independence declarations
- Ensure that annually audit staff are provided with CPE training on Independence and ethics

2.2 To ensure that external persons to the Firm (such as service providers, subcontractors, our international network) confirm their independence when assisting the audit team in carrying out audit procedures on behalf of the Firm.

External persons involved in the audit process may not be independent from the client.



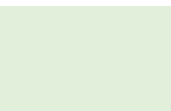
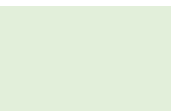
- unawareness by Principals or Leadership of the Firm that these persons are required to be independent from the audit client.
- the practice does not have the habit of requesting an 'independence confirmation' from its international network, subcontractor/s and service provider/s prior to their engagement in the

- loss of reputation
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- Ensure that Audit Principals within the Firm are aware that written independence declarations are required when resorting to the services of others outside the Firm.
- Append an 'Declaration of Independence and Ethics Form' to the proforma 'terms with service providers / subcontractors'

- carry out random reviews of audit files that were subcontracted to others and/or that involved service providers and /or work was being carried out by the Firm's international network to ensure that these independence declarations are obtained prior to the commencement of the audit.

- Update the proforma 'terms with service providers /subcontractors' found on the Firm's network.

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Ref	<u>a. Establish Quality</u>	<u>b. Identify and Assess Quality Risks</u>		<u>c. Design and Implement Responses</u>	<u>d. Identify Information</u>		
		What is the Quality Risk?	What may Cause this event?	What is the Consequence?	Designing Response	Implement Response	
	<u>3. Client Acceptance & Continuance</u>						
3.1	To ensure that the acceptance and continuance of client relationships and specific engagements is based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgment.	A firm takes on or continues to provide its services to a client which is then found to have engaged in unlawful activity or has adverse media or bad reputation.	<ul style="list-style-type: none"> An improper Know Your Client (KYC) assessment carried out by - possibly due to usage of outdated methodologies, checklists or software. unawareness of the audit procedures required when acting as statutory auditors - including considerations of auditor's independence and auditor's competence and a thorough assessment about the client's integrity (which may be linked to the practice AML procedures). 	<ul style="list-style-type: none"> bad reputation to the Firm loss of clients 	<ul style="list-style-type: none"> create (or update) a bespoke checklist to ensure that the firm understands the client business, has the means to assess the client's integrity as well as assessing the client's financial stability. sift the list of clients to identify the risky ones against others. Take action accordingly. ensure that the list of clients is being updated constantly 	<ul style="list-style-type: none"> establish strict criteria, policies, and procedures for client and engagement acceptance clearly identifying onstances whereby the Firm will not act or provide its services (e.g. clients who lack integrity, experiencing billing and collection problems, and experiencing professional liability claims and lawsuits). include discussion on client list on the Principal/Board agenda and take necessary action. 	<ul style="list-style-type: none"> Update ISQM Manual with the updated template on Client Acceptance and Client Continuance Checklist Ongoing monitoring of client risk register. Update and monitor clients list. Discuss this list of clients during Partners/Board meetings. Appoint Principal / service providers to carry out random inspections on client acceptance and continuance procedures.
3.2	To ensure that the firm will only take on board those clients that it can service in adherence with professional standards and applicable legal and regulatory requirements	A firm takes on or continues with an engagement which is either not capable of doing or where the scope of the services required for such a client evolves beyond the firm's expertise or the deliverable is required within a relatively short period of time.	<ul style="list-style-type: none"> An improper client acceptance protocol is not maintained to ensure that the firm is capable to deliver on every engagement it accepts and has the necessary technical and resource capability to deliver. 	<ul style="list-style-type: none"> incorrect audit opinion or inappropriate advise being provided by the Firm due to lack of competence. client may initiate legal proceedings against the Firm suing it for damages, resulting also in increased Professional Indemnity costs. bad reputation to the Firm 	<ul style="list-style-type: none"> when considering to provide a service to a client who comes from an unfamiliar industry or an industry where the Firm has limited experience, the firm should consider whether (a) it can provide the required service with the assistance of a service provider and/or its international network; OR (b) refuse to provide the required service to the client. determine the feasibility of providing this service assess whether this can be carried out internally, or with the assistance of others consider meeting with peers and assess whether one can pool in resources to address 	<ul style="list-style-type: none"> carrying out random appoint service providers who can contribute to areas where the firm has technical gaps. crystallise arrangements with other Firms to provide resources needed for specific engagements. carrying out dedicate the required resources to achieve this objective including personnel, systems, structures, etc. Principals/Board are to regularly monitor performance of this new service and evaluate 	<ul style="list-style-type: none"> Appoint Principal / service providers to carry out specific quality control reviews on those clients wherein the auditor may lack internal expertise and has 'outsourced' this service to others outside the Firm.
3.3	To identify untapped opportunities in the industry and to specialise in that area, by providing added value and unique 'innovative service/deliverable' to clients.	<ul style="list-style-type: none"> albeit the effort and investment by the Firm, this area of specialisation may not grow or be sustained in future. 	<ul style="list-style-type: none"> possible changes in laws, regulations or politics effect the sustainability of this niche market making it less lucrative and attractive. 	<ul style="list-style-type: none"> no return or limited return on the investment made. 	<ul style="list-style-type: none"> determine the feasibility of providing this service assess whether this can be carried out internally, or with the assistance of others consider meeting with peers and assess whether one can pool in resources to address 	<ul style="list-style-type: none"> dedicate the required resources to achieve this objective including personnel, systems, structures, etc. Principals/Board are to regularly monitor performance of this new service and evaluate 	<ul style="list-style-type: none"> Include new additional quality objectives in the Firm's ISQM 1 Manual related to the provision of this 'innovative/deliverable' service.



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4. Engagement Performance

<p>4.1 to instil a culture of professional scepticism when carrying out audit engagements</p>	<ul style="list-style-type: none"> audit team members may be conditioned by unconscious biases (including exclusive reliance on audit programme standard procedures), that may impede the exercise of professional scepticism. This may also lead to the issuance of an inappropriate audit opinion. 	<ul style="list-style-type: none"> the Firm's cultural environment does not encourage engagement team members to question individuals with greater authority there is insufficient direction, supervision and review of the work performed on the engagements (this applies for larger audit firms, not sole practitioners) 	<ul style="list-style-type: none"> inappropriate and insufficient audit procedures carried out. Instead, audit team members tend to exclusively rely on standard procedures designed by the audit programme may lead to the issuance of an incorrect audit report 	<ul style="list-style-type: none"> engage service provider to provide training on ISA 220 (Revised) A34-A36 related to examples of impediments to the exercise of professional scepticism issue frequent communications to audit staff on the importance of professional scepticism 	<ul style="list-style-type: none"> deliver in house training on ISA 220 (Revised), creating further awareness on professional scepticism in first quarter of next year. ensure that the training session are properly documented and presentation is saved in a shared folder for future perusal Audit Principals to reiterate importance of professional scepticism during 'brain storming' meeting held with the audit team in identifying the risks of material misstatements 	<ul style="list-style-type: none"> re-assess whether documentation of the audit team's assessment of risk of material misstatement improved by identifying additional 'non-standard' audit procedures
<p>4.2 to foster a culture of exchange of information and in documenting consultation on difficult or contentious matters</p>	<ul style="list-style-type: none"> individual audit team members may withhold information / expert advice obtained from experts for their own exclusive use. 	<ul style="list-style-type: none"> culture of working in 'silos', with limited if any sharing of information / advice obtained with other members of the Firm. 	<ul style="list-style-type: none"> Firm may provide inappropriate advice in areas wherein it may lack professional expertise. Firm may pay more than once for the same advise being provided by external experts. 	<ul style="list-style-type: none"> create a space/shared folder wherein all advise being obtained by the audit team is stored for future use by others. data protection and confidentiality consideration needs to be addressed by eliminating any reference to specific clients ensure that training sessions are available to all , enhancing this 'sharing' environment. appoint a person to manage this list of consultations and organise it to make it more accessible to audit team carry out 'gap analysis' 	<ul style="list-style-type: none"> shared folder is accessible on the Firm's internal network individual has been appointed to manage this shared folder and update team whenever necessary by issuing periodical emails / internal updates / etc 	<ul style="list-style-type: none"> include name of shared folder in the Firm's ISQM 1 Manual or on the Firm's system of quality management include the identification of the method and frequency of communication used (e.g. monthly email detailing updates)
<p>4.3 to ensure that the Firm's has the required technical competencies to provide high quality services to its clients</p>	<ul style="list-style-type: none"> the provision of incorrect technical advice may lead the client to sue the Firm. 	<ul style="list-style-type: none"> over-reliance on a technical person within the Firm who may not have the required expertise in all areas of the services provided no budget is allocated for the provision of expert advise, as the Firm tend to only rely on its in-house 	<ul style="list-style-type: none"> client may initiate legal proceedings against the Firm suing it for damages bad reputation to the Firm 	<ul style="list-style-type: none"> develop and train specific persons within the Firm in particular specialised areas identify a list of competent and reliable service providers who would be able to assist the Firm in highly specialised areas. 	<ul style="list-style-type: none"> develop a training programme for these persons obtain terms of engagement from various experts so that an agreement may be reached to provide the required technical service expeditiously 	<ul style="list-style-type: none"> include list in the ISQM 1 Manual of in-house technical persons that can be consulted in their respective areas of expertise. include list in the ISQM 1 Manual of external experts that can be appointed by Partners.
<p>4.4 to ensure engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained</p>	<ul style="list-style-type: none"> documentation is not assembled on time and cannot be retrieved in future. 	<ul style="list-style-type: none"> insufficient time allocated to the audit engagement to enable the team to finalise and assemble the file within 60 days issues on the reliability of the Firm's IT environment 	<ul style="list-style-type: none"> failure to support audit opinion with documentation lost information firm may be charged with breaches of data protection rules 	<ul style="list-style-type: none"> inform teams of the requirement to assemble the audit file by not later than 60 days of the audit report ensure that the IT system of the firm is adequately being backed up to ensure future retrievability of documentation 	<ul style="list-style-type: none"> issue a formal communication by email re: this policy related to audit file assembly test the IT environment to ensure that prior audit files are easily retrieved from the system 	<ul style="list-style-type: none"> include a policy on the Firm's Manual that ordinarily not more than the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.
<p>4.5 to ensure that the Firm establishes criteria for audit engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks</p>	<ul style="list-style-type: none"> firm issues improper audit reports on its high-risk clients 	<ul style="list-style-type: none"> the firm may not have established clear criteria in its ISQM 1 manual the firm may not have the resources to carry out this review in adherence with ISQM 2 requirements 	<ul style="list-style-type: none"> the issuance of an incorrect audit opinion on high-right audits breach of ISQM 1 (34)(f) (iii) 	<ul style="list-style-type: none"> develop and train specific person/s within the Firm to carry out these engagement quality reviews ensure that these person/s (auditors) are not involved in carrying out the audit engagement 	<ul style="list-style-type: none"> individual appointed to manage the engagement quality reviews by the first quarter of next year. 	<ul style="list-style-type: none"> include name of individual that has been appointed to carry out the engagement quality control review in the Firm's ISQM 1 Manual.

Ref	 a. Establish Quality	 b. Identify and Assess Quality Risks			 c. Design and Implement	 d. Identify Information	
		What is the Quality Risk?	What may Cause this event?	What is the Consequence?	Designing Response	Implement Response	
5. Resources							
5.1 <i>Human Resources:</i> To ensure that personnel are hired, developed and retained and have the competence and capabilities to: (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management	Personnel are not hired and retained with the right competence and capabilities to perform quality engagements and to perform activities or carry out responsibilities in relation to the firm's system of quality management.	<ul style="list-style-type: none"> limited resources on the market which may make recruiting new personnel difficult. the personnel available in the market could not have the right competences and capabilities to fill the gaps. retention could also be more difficult in view of the competitive labour market, particularly in the finance sector. 	<ul style="list-style-type: none"> the firm would not be in a position to maintain and allocate personnel for the implementation and operation of the system of quality management. limited growth envisaged due to lack of personnel 	<ul style="list-style-type: none"> to ensure that the recruitment processes is carried out ongoingly in line with its client base and risk profile. to ensure that staff is offered a good career path with the Firm to help them grow and realise their potential. to ensure that any new work obtained by the Firm is in tandem with the availability of the resources and with the current capabilities of the personnel engaged within the firm. 	<ul style="list-style-type: none"> to engage in ongoing recruitment efforts through different mediums to ensure that the Firm has the right team of personnel to meet its quality standards. Principals/Board to ensure that the extent of work carried out is aligned with the available resources. to consider the engagement of service providers, when the hiring of personnel proves to be difficult. 	<ul style="list-style-type: none"> ISQM 1 manual to emphasize a culture of growth and career progression at the Firm Principals/Board to establish the right contacts through specialised recruitment agencies which can assist in meeting the recruitment requirements of the firm. 	
5.2 <i>Human Resources:</i> To ensure that personnel are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.	Personnel do not demonstrate a commitment to quality through their actions and behaviors and do not maintain the appropriate competence to perform their roles and that no timely evaluations are carried out to enable them to be promoted or incentivised.	<ul style="list-style-type: none"> Personnel are not sufficiently motivated and recognized through timely evaluations, compensation, promotion and other incentives. This will effect their commitment to quality in their actions and behaviours. Personnel may also not be sufficiently monitored by management to carry out the task at hand. 	<ul style="list-style-type: none"> lack of competence to perform their role may effect negatively the quality of their work and the timeliness to carry out the job within stipulated time. personnel do not keep abreast with developments, and do not perform their work well. lack of competence will increase the overall risk to the Firm. 	<ul style="list-style-type: none"> implement procedures for frequent staff appraisals, to ensure personnel are compensated and motivated to develop in their profession. ensure that the work environment encourages commitment to quality audits, with procedures in place to ensure that sufficient training for technical development is done. invest in a good management team for sound supervision and for the right guidance to be provided throughout the whole process. 	<ul style="list-style-type: none"> firm to carry out frequent and scheduled staff appraisals. CPE training and on-the-job coaching should also be provided by the Firm to ensure personnel maintain appropriate competence to carry out quality work. to implement an appropriate and fair performance evaluation processes to motivate the personnel in addressing engagement issues as they arise. 	<ul style="list-style-type: none"> ISQM 1 manual to emphasize a culture of appraisals throughout the entire levels of the Firm including the Principals of the Firm. implement a fair and balanced performance evaluation to foster growth and career progression within the Firm. 	
5.3 <i>Human Resources:</i> To ensure that the Firm engages reputable and competent individuals from external sources (i.e., the network, another network firm or a service provider) in cases whereby the Firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements.	Individuals are not obtained from external sources when the firm does not have sufficient and appropriate personnel to enable the operation of firm's quality management or performance of engagements. Firm may also engage inappropriate service providers.	<ul style="list-style-type: none"> Partners/Board of the Firm may continue to pursue new work with limited, if any, regard to their limitation of the Firm's internal resources. lack of availability of competent and reliable service providers. 	<ul style="list-style-type: none"> more pressure on existing staff to finish their work promptly. using inexperienced or unfit service providers as a short-term measure, inhibits quality. this leads to a tense culture that stifens growth 	<ul style="list-style-type: none"> consider engaging with a network, if this is not already in place. if the firm is already part of a network, it is important that the necessary gaps are identified and competencies evaluated according to the risk. consider engaging service providers and reliable subcontractors who should follow the policies and procedures established by the Firm. approach other peers, with whom the Firm has already built a rapport and consider amalgamating resources together. 	<ul style="list-style-type: none"> carry out frequent secondment engagements with network firms. There should be constant liaison with the network for provision of resources when needed. ensure that only reputable and competent service providers are engaged by the Firm. establish alliances with other firms (peers), so that resources and expertise may be shared. 	<ul style="list-style-type: none"> Update ISQM 1 Manual with the names of service providers and their respective competencies so that these persons will be ready to assist in instances where the Firm may lack resources (intellectual, personnel and time). Engage in networking sessions to meet other interested service providers, as well as other collaborations with Universities for shared programmes for training and interships. 	

<p>5.4 <i>Human Resources:</i> To ensure that engagement team members (including the engagement partners) have the appropriate competence and capabilities, (including being given sufficient time), when assigning each engagement.</p>	<ul style="list-style-type: none"> not allocating sufficient resources and time when assigning engagements 	<ul style="list-style-type: none"> Partners involvement in the engagement is limited because of time. limited time is allocated to staff in view of the overload of work. lack of commitment by personnel carrying out the job. 	<ul style="list-style-type: none"> Engagement team including the Partner will carry out engagement in sub-standard manner within insufficient timeframes, leading to poorer quality. culture of 'cutting corners' leading to non compliance with professional standards to the detriment of quality. 	<ul style="list-style-type: none"> Segmentation of jobs should be carried out by type of client, evaluating the risk assessment of the industry and the audit risk areas by leadership of the Firm. Engagement Partner has to ensure that the jobs allocated on his portfolio are within the sufficiency of his time, and ensure that the engagement team carry out effective communication as to the strategy being adopted for better efficiency and allocation of time. Sufficient time should also be allowed for the review process by the Partner, which will further enhance the competence and capabilities of the engagement team members. 	<ul style="list-style-type: none"> good planning of job allocation by Partners involving competent staff members to the the job. establish sound onboarding policies and procedures to analyse that sufficient resources and capabilities are available to carry out the tasks at hand. invest in ongoing training and ongoing monitoring on staff members. carry out quality control reviews. 	<ul style="list-style-type: none"> to ensure that the Firm has the right IT tools in order to manage the flow of work, and ensure that sufficient time allocation is allowed for all engagement team members on each job allocation. Partners/Board of the Firm is to sift its client list and determine which ones require resignation Partners/Board of the Firm to accept only those clients that can be serviced.
<p>5.5 Technological resources to ensure that appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements, while maintaining confidentiality</p>	<ul style="list-style-type: none"> Legacy engagement performance systems that are at risk of becoming unsupported due to technology limitations. IT infrastructure is based on servers which are not backed up frequently and for which the control environment has not been tested to ensure it is as per industry best practices, leading to a loss of data, engagement's documentation and other supporting information. 	<ul style="list-style-type: none"> Supplier sets a deadline for IT systems support in the near future. hardware failure, security breaches, social engineered attack. 	<ul style="list-style-type: none"> failure to obtain latest updates relating to security issues and/or other bug issues. failure to update software with latest standards and/or other changes. loss of critical/sensitive data, lengthy recoverable period. 	<ul style="list-style-type: none"> exploring a number of alternative engagement performance and documentation software. ensuring that these are supported over the long term ensuring that appropriate access rights and security framework is in place, which would need to be tested on a regular basis service provider is to be approached to identify the potential gaps emanating from the current IT infrastructure set up. 	<ul style="list-style-type: none"> software migration plan is to be developed by the first quarter of new year with engagements slowly being migrated to the newly chosen software by end of next year. report on identified gaps will be presented to the firm and a mitigation plan is to be set up thereafter. the plan will be followed accordingly by the Principals/Board of the Firm. 	<ul style="list-style-type: none"> to ensure that the technological resource and software used are in line with industry best practice and have been appropriately tailored to suit the Maltese scenario. to prioritise data protection and ensure that quality in terms of it resources.
<p>5.6 <i>Intellectual resources:</i> to ensure that appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.</p>	<ul style="list-style-type: none"> having information / advise being confined to particular Personnel of the Firm without being shared and communicated with others. this will inhibit growth and sharing of information. 	<ul style="list-style-type: none"> unawareness to communicate 'lessons learnt' with others 	<ul style="list-style-type: none"> sticking to an outdated or possibly wrong procedure although others within the Firm are aware of the updated requirements, providing inadequate advise or issuing improper deliverables. 	<ul style="list-style-type: none"> encourage a culture of participation amongst the different sections of the Firm. provide a dedicated 'Shared Folder' wherein one can access the different consultation / advise being provided to the Firm from various service providers. 	<ul style="list-style-type: none"> appoint a person to index and catalogue this 'Shared Folder' to facilitate retrieval. inform staff (by email or in-house training) about this shared folder and how is this organised. leadership is to encourage a culture of sharing of information 	<ul style="list-style-type: none"> to update ISQM 1 Manual by including reference to this 'Shared Folder'
<p>5.7 <i>Service providers:</i> to ensure that human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g).</p>	<ul style="list-style-type: none"> relying on service providers without carrying out the required assessment prior to engagement. This assessment includes a conclusion reached by the Firm on the service providers' competence, independence and availability. 	<ul style="list-style-type: none"> unawareness of the required assessment on service providers service providers may not want to adhere to the policies of the Firm. 	<ul style="list-style-type: none"> delays in engagements. inappropriate deliverables issued by the Firm service providers may not be independent or competent to perform the required task on time. 	<ul style="list-style-type: none"> introduce a checklist to assess service providers prior to acceptance approach a number of peers in the profession to initiate discussions and reach an agreement whereby one may be willing to assist the other consider amalgamating resources or even the practice with peers. 	<ul style="list-style-type: none"> update current checklist on assessment and evaluation of service providers Principals/Board to evaluate the service providers and reach a decision. 	<ul style="list-style-type: none"> include names of service providers on the ISQM 1 Manual

	 Establish Quality Objectives	 Identify and Assess quality risks	 Design and Implement Responses	 Identify information indicating need to add/modify quality objectives, quality risks or responses
Ref	<u>a. Establish Quality</u>	<u>b. Identify and Assess Quality Risks</u>	<u>c. Design and Implement Responses</u>	<u>d. Identify Information</u>
		What is the Quality Risk?	What may Cause this event?	What is the Consequence?
6. Information and Communication				
6.1	to ensure that the information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.	Firm may not process or maintain information that is relevant to support the system of quality management (whether from internal or external sources).	<ul style="list-style-type: none"> information system is not updated as it should be or maintained where necessary failure to update or maintain the system could result in outdated systems being used and accordingly risk the quality of a firm's system and processes. 	<ul style="list-style-type: none"> carry routine checks of systems in place ensure regular scheduled updates and maintenance to the system as necessary appointment of a responsible person to handle such technicalities.
6.2	to recognize and reinforce the responsibility of personnel to exchange information with the firm and with one another.	Firm personnel do not recognize or understand the importance of exchanging information with the firm and with one another. Firm personnel do not communicate important information to one another when required, thus resulting in reduced quality on audits.	<ul style="list-style-type: none"> lack of staff training / manager actions / lack of awareness Principals/Board and leadership do not set the right tone within the company duplication of time, effort and costs to obtain same or similar advise. information is in various widespread 'silos' in the Firm without it being shared. 	<ul style="list-style-type: none"> Principals/Board to reiterate and periodically remind staff about the importance of exchanging information with one another and can communicate crucial points where required, on a timely basis. update ISQM 1 manual with relevant policies and procedures regarding the exchange of information within the firm organise relevant training sessions to foster a culture of sharing and communicating Principals/Board to issue emails to remind staff about the importance of sharing intellectual resources. Organise relevant training to ensure all staff understand the importance of communication within the firm where required, and recognise their responsibility to do so. Principals/Board to issue emails to remind staff about the importance of sharing intellectual resources.
6.3	to ensure that the communication of information is sufficient to enable engagement team understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and	Breakdown in communication channels towards personnel and engagement teams limiting them in understanding and carrying out their responsibilities.	<ul style="list-style-type: none"> communication channels are not effective in disseminating the required communication and/or the methods applied limit the understanding of the objectives being sought. Personnel will not manage and undertake their responsibilities as intended leading in frustration between personnel and engagement teams as well as inefficiencies throughout the process. 	<ul style="list-style-type: none"> Identify instances whereby the Firm noted deficiencies in its communication with others. appoint person responsible for communication activities and ensure he/she carries out such communications in line with practice policy. list down an action plan to resolve these instances and assess whether technology can facilitate this communication. list down instances of communication 'breakdowns' and determine the root-causes of these.
6.4	to ensure that information is adequately communicated externally when required by law, regulation or professional standards to do so.	Firm may be breaching law, regulation or professional standard when it is a requirement to communicate externally and the Firm does not do so.	<ul style="list-style-type: none"> Personnel are not appropriately trained to communicate information to their leadership or directly to external sources when required. Failure of communicating externally when required by law and regulation, may have very serious consequences to the firm from a legal point of view, which may include financial and reputational damages. Information may also not be captured well and in a timely manner, by the systems of quality management adopted by the Firm. 	<ul style="list-style-type: none"> establish clear policies and procedures for when it is appropriate to communicate externally. Such communication should be clearly disseminated to all the staff members. implement a training programme to ensure that all staff members are aware of their responsibilities to report certain actions. ensure that the Firm has the necessary systems in place to ensure that capturing of information is effected in a timely and complete manner. develop templates for regular 'external communications' and vet these professionally and legally. ensure that Partners/Board authorise their approval

 Establish Quality Objectives	 Identify and Assess quality risks			 Design and Implement Responses	 Identify Information indicating need to add/modify quality objectives, quality risks or responses	
a. Establish Quality	b. Identify and Assess Quality Risks			c. Design and Implement Responses		d. Identify Information
7. Risk Assessment PROCESS	What is the Quality Risk?	What may Cause this	What is the Consequence?	Designing Response	Implement Response	
7.1 to conclude on behalf of the Firm whether the objectives of the system of quality management are being achieved, or not in terms of ISQM 1 Section 53 - 56	<ul style="list-style-type: none"> - conclusion is not carried out by 15 December 2023 - conclusion may not be carried out with the required rigour and professionalism - The Firm delegates this task to an individual/s that does not have sufficient knowledge on the matter or does not have the scheduled time to do so. 	<ul style="list-style-type: none"> - Responsible person may not be aware of all the relevant technicalities of ISQM 1 - lack of time of carry out these reviews - access to the firm's system may not be available at all times or will be updated during the year. 	<ul style="list-style-type: none"> - issuance of the incorrect conclusion on the effectiveness of the system of quality management - loss of Firm's reputation 	<ul style="list-style-type: none"> - ensure that the Principals/Board assume their responsibilities in issuing this yearly conclusion - train Responsible Person at the Firm on operational responsibilities required by ISQM 1. - provide access to all the Firm's systems and procedures to facilitate random inspections of systems and procedures. 	<ul style="list-style-type: none"> - contact a number of service providers to provide training on ISQM 1 and in particular on risk assessment process. - Principals/Board to consider appointing service providers to assist in the risk assessment process. 	<ul style="list-style-type: none"> - crystallise who will be signing the Conclusion Report on the system of quality management - identify who the person responsible for operational considerations will be. (This person may be assisted by others and also service providers). - establish a format of the 'Conclusion Report'.
7.2 to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.	The Firm's risk assessment process may not address: <ol style="list-style-type: none"> (1) the quality objectives required by ISQM 1; and (2) additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management 	<ul style="list-style-type: none"> - unawareness of the requirements of the risk assessment process mandated by ISQM 1 - using incomplete or 'silo' structures, systems or staff that do not interact with one another 	<ul style="list-style-type: none"> - non compliance with the requirements of ISQM 1 - insufficient quality in the Firm's process and systems - possible issuance of inappropriate deliverables. 	<ul style="list-style-type: none"> - Partners/Board to dedicate resources to implement the requirements of ISQM 1 - Partners/Board to foster a culture of continuous improvement in their systems - Partners/Board to appoint a person to assume operational responsibility of the Firm's system of quality management. 	<ul style="list-style-type: none"> - Spread awareness amongst the members of the Firm about the requirements of ISQM 1 - Read and attend recognised CPE events - Train involved persons in this process of quality management - Liaise with reputable service providers to assist in the implementation of ISQM 1 	<ul style="list-style-type: none"> - Update the current ISQC 1 Manual with the additional quality objectives required by ISQM 1 - Develop internal systems or appoint service providers to assist in building up a system of quality management - Train Partners/Board and staff involved in this risk assessment process - create awareness amongst members and staff of the Firm about the system of quality management, the ongoing and periodic inspections to be carried out. - revisit current templates and update as necessary
7.3 to list down those types of engagements performed by the firm (and the reports to be issued) that will have to follow ISQM 1 requirements - other than statutory audits	<ul style="list-style-type: none"> - risk of introducing ISQM 1 partially at the Firm 	<ul style="list-style-type: none"> - cost of compliance - availability of resources 	<ul style="list-style-type: none"> - real benefit of introducing a system of quality management will only be partially addressed. 	<ul style="list-style-type: none"> - list down the provision of non-audit services wherein the Firm shall also implement the principles of ISQM 1 -Principal/Board to assume different responsibilities in the different areas 	<ul style="list-style-type: none"> - roll out the requirements of ISQM 1 into the different areas of the Firm to ultimately cover all related service engagements. 	<ul style="list-style-type: none"> - Slowly consolidate the different services provided by the Firm into ISQM 1 Manual



Establish Quality Objectives



Identify and Assess quality risks



Design and Implement Responses



Identify information indicating need to add/modify quality objectives, quality risks or responses

Ref

a. Establish Quality Objectives

b. Identify and Assess Quality Risks

c. Design and Implement Responses

d. Identify Information

What is the Quality Risk?

Cause this event?

What is the Consequence?

Designing Response

Implement Response

8. Monitoring and Remediation PROCESS

8.1 to carry out periodic monitoring required by QAOC Guidance Note (2011)	<ul style="list-style-type: none"> reviews are not carried out with the frequency determined by the QAOC reviews are not carried out with the required rigour and professionalism 	<ul style="list-style-type: none"> reviewer may not be aware of all the relevant technicalities lack of time of carry out these reviews 	<ul style="list-style-type: none"> Audit engagement files not up to the expected standard Regulator may raise deficiencies in this regard 	<ul style="list-style-type: none"> appoint a service provider to carry out the Audit Compliance Review (including a review of a completed audit engagement). 	<ul style="list-style-type: none"> contact a number of service providers to provide us with a quote select a competent and technical service provider to carry out this job 	<ul style="list-style-type: none"> revisit ISQM 1 Manual to identify that the required periodic monitoring will be carried out by a 'service provider'
8.2 to ensure that the Firm's system of quality management captures the identified deficiencies from internal monitoring, QAU findings, the Firm's global network findings report and any complaints and allegations against the Firm.	<ul style="list-style-type: none"> deficiencies not captured by the Firm, may not be actioned and appropriately addressed and remedied by the Firm with the risk of non compliance with professional standards, regulations, direction provided by Regulator. 	<ul style="list-style-type: none"> lack of a proper system to capture the deficiencies arising from various sources 	<ul style="list-style-type: none"> repeated breaches may remain unnoticed by the Firm depending on the identified breaches noted, there could be implications on the deliverables (audit report) being issued and also on the system on quality management, wherein similar deficiencies may continue to exist and remain unnoticed. 	<ul style="list-style-type: none"> appoint a principal within the firm to ensure that deficiencies are being addressed consider appointing a service provider to provide space / program / software to capture all the identified deficiencies of the Firm (in case of Firms having a Global Network, this could be the global methodology required by the network) 	<ul style="list-style-type: none"> contact a number of service providers to provide us with a quote Select a competent and technical service provider to carry out this job compile the list of deficiencies and take remedial action. 	<ul style="list-style-type: none"> revisit ISQM 1 Manual to identify that the system of quality management will be provided by a service provider. compile a list of all deficiencies noted from the firm's monitoring program and ensure that these have been actioned / or are in the process of being addressed.
8.3 to allocate specific responsibility to a Partner of the Firm to ensure that effective monitoring is carried out.	<ul style="list-style-type: none"> Firm may not dedicate resources to address the identified 'deficiencies' in the system of quality management, resulting in 'repeated breaches'. 	<ul style="list-style-type: none"> Failure by the Partners/Board to allocate specific responsibility for monitoring and remediation 	<ul style="list-style-type: none"> if there is no ownership on this responsibility, monitoring and remediation required by ISQM 1 will not take place or will be partly addressed. 	<ul style="list-style-type: none"> evaluate the Partners' competencies (mostly technical) to ensure that the person who fulfil this role has the required technical competence and know-how to ensure that monitoring and remediation processes are working effectively within the Firm. 	<ul style="list-style-type: none"> document a Board of Partner's decision that the monitoring and remediation function will be assumed by a particular Partner who is well versed with ISQM 1 requirements. train the Partner on ISQM 1 requirements by attending CPE events, in house / network training, training provided by the MIA, etc. 	<ul style="list-style-type: none"> include the Partner's name in the Firm's Manual as the person responsible for monitoring and remediation communicate this decision to Personnel of the Firm either through email, formal training event, or any other internal communication channel used by the Firm.
8.4 to ensure that the Firm implements and documents the Root-Causes of the identified deficiencies so that the Firm addresses the 'deficiency' in the most effective and swift manner.	<ul style="list-style-type: none"> identified 'deficiencies' are not supported by the required Root-Cause analysis 	<ul style="list-style-type: none"> lack of resources to determine the root causes of each deficiency lack of Firm standard approach on how to address Root-Cause analysis 	<ul style="list-style-type: none"> repeated breaches will be identified if the actual root cause of the problem remains unidentified 	<ul style="list-style-type: none"> carry out research on the different approaches that ay be implemented to assess Root Causes in the system of quality management appoint a principal within the firm to ensure that deficiencies are being addressed. -if need be ask for guidance from technical service providers 	<ul style="list-style-type: none"> determine and select the Firm's methodology that will be used when assessing Root Causes of identified deficiencies attend training on Root-Cause methodology 	<ul style="list-style-type: none"> document the methodology used by the Firm to address Root-Causes ensure that this methodology is understood and implemented by the Firm.
8.5 to ensure that a mixture of periodic and ongoing monitoring is carried out	<ul style="list-style-type: none"> the absence of monitoring may result in non-improvements in the Firm's system of quality management, perhaps even leading to non compliance with certain professional standards, laws & regulations. 	<ul style="list-style-type: none"> the Firm fails to plan and design a monitoring program for the upcoming year 	<ul style="list-style-type: none"> non compliance with ISQM 1 requirements deficiencies will remain undetected with the possible impact that this may have on the quality of engagements issued. 	<ul style="list-style-type: none"> dedicate time to come up with the different monitoring that can be performed by the firm such as:- A. ONGOING MONITORING <ul style="list-style-type: none"> (i) CPE monitoring, (ii) monitoring of new high risk clients and (iii) monitoring of software / program updates, etc. B. PERIODIC MONITORING <ul style="list-style-type: none"> (i) engagement quality control review, (ii) staff performance appraisals and (iii) audit compliance reviews, etc. 	<ul style="list-style-type: none"> list down a 'monitoring program' for the year and drive the planned monitoring by dedicating sufficient time and resources to reach this objective. 	<ul style="list-style-type: none"> include a 'monitoring program' in the Firm's system of quality management