

INFORMATION AND COMMUNICATION

1	<p>In terms of paragraph 33(a) of ISQM 1, one of the quality objectives a firm must establish is an information system that identifies, captures, processes and maintains relevant and reliable information that supports the System of Quality Management (SOQM).</p> <p>Practically, what can a firm's information system entail and/or include?</p>	<p>Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and includes the dissemination of information within the firm and externally.</p> <p>Reliable and relevant information includes information that is –</p> <ul style="list-style-type: none">• Accurate• Complete• Timely, and• Valid <p>to enable the proper functioning of the firm's SOQM and support decisions regarding the SOQM.</p> <p>The information system may include the use of manuals, policies or Information Technology (IT) applications which affect the way information is –</p> <ul style="list-style-type: none">• Identified• Captured• Processed• Maintained, and• Communicated <p><i>Example</i> – When engaging with a potential new client, the firm can establish policies to be followed and direct the nature of the information that will be required from all new clients as well as how such information can be captured, processed and verified. All clients may be required to provide their Companies and Intellectual Property Commission (CIPC) registration documents, and the firm can use the CIPC database to verify if any of that information (such as registered name/address/directors) have changed or differ from the information received from the client. The firm can then ensure that it performs its risk assessment using accurate and valid information.</p>
---	--	---



TUMELO MAKGAKGA



EDWIN SELBST



EBEN BAKKER



ANNALIEN CARSTENS



MICHELLE VERMEULEN

<p>2</p> <p>ISQM 1 paragraph 33 requires a firm to establish quality objectives that address communicating information within the firm and to external parties on a timely basis.</p> <p>How will the response to above differ from a large firm to a small firm?</p>	<p>A large audit firm would typically have more formal policies and processes in place that outline the lines of communication within the firm, the network and external parties.</p> <p>For a small firm, communication may be less formal, such as through direct discussions.</p> <p>What is important to note is that ISQM 1 does not require all communication to be formally documented. It is often not practicable to do so.</p> <p>Firms, no matter the size or complexity, would need to document communication to the extent necessary to address the documentation requirements in ISQM 1 paragraphs 57–59.</p> <p>ISQM 1 requires firms to prepare documentation to achieve three principles:</p> <ul style="list-style-type: none"> • Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of engagements • Support the consistent implementation and operation of the responses, and • Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM
<p>3</p> <p>Adding to the question above, when communicating within the firm, should the communication always be centrally initiated and disseminated through the firm?</p>	<p>The standard refers to information that should be ‘exchanged’.</p> <p>So, although the communication would frequently come from a central source, through manuals and policies, the communication from personnel and engagement teams to the firm’s quality champion on possible deficiencies in the existing responses or new risks identified for which an appropriate, response should be formulated is also very important in order to ensure that the quality management process remains relevant.</p> <p>This would require a continuous awareness, amongst the leadership and staff of the firm, of the need to properly identify risks to the overall quality of the work performed by the firm.</p> <p>In a smaller firm, the role-players are fewer and thus more closely engaged with each other and the various functions performed.</p> <p>Therefore, maintaining an awareness may be easier than the case may be in bigger firms.</p>

<p>4 The Quality Management Standards (QMS) state that communication to external parties may be required.</p> <p>When would a firm be required, as a result of legislation, to communicate with parties external to the firm?</p> <p>What would a firm be required to communicate with service providers?</p>	<p>Communication arising from legislation</p> <ul style="list-style-type: none"> The Auditing Profession Act requires reporting of known, or possible reportable irregularities committed by an audit client, to IRBA. The Companies Act and Regulations also require known or possible reportable irregularities identified on independent reviews to be reported to CIPC.⁴ When money laundering is suspected, the matter needs to be reported to the Financial Intelligence Centre (FIC). <p>Service providers</p> <ul style="list-style-type: none"> Deficiencies were identified by the quality and risk department within the area for which the firm uses the service provider. Network inspections identified a new pervasive finding that affects the area for which the firm uses the service provider, and The firm underwent a regulatory firm/engagement review with findings that affect the scope of the service provider's work to prevent such findings from recurring.
--	---

NETWORKS

<p>5 A key concern about firms that are part of a network is the over-reliance on the network resources. What must a firm that is part of a network do to prevent over-reliance on the network?</p>	<p>Each firm is responsible for its own quality management system and accordingly a firm will be required to tailor network requirements to the firm's own circumstances. This would include, but is not limited to:</p> <ul style="list-style-type: none"> Determining, based on the local resources and local legislative requirements, when network resources will need to be utilised (eg training programmes, audit experts or quality and risk departments) Providing training across the firm on methodology developed by the network which the firm utilises, and Developing policies and procedures to determine that network requirements are adhered to when using component auditors (eg minimum duration of industry experience for public interest entities)
<p>6 In the current auditing environment, you often find that smaller firms form a network firm in terms of a brand whilst remaining autonomous in terms of managing individual companies as branches of the network.</p> <p>Does ISQM 1 offer any possible benefit to such firms and if yes, can you provide some examples?</p>	<p>ISQM 1 does provide for benefits in terms of both quality management and business management for firms in such network situations.</p> <p>Some examples would include:</p> <ul style="list-style-type: none"> In situations where common quality objectives and risks exist across the network firms, the network may provide the individual network firms with responses for such risks. These responses, along with any supporting resources required, can be implemented in the individual network firms. This could bring about a reduction in costs for individual network firms and potentially increase conformity across the network assisting in building brand awareness. Where the network becomes aware of a deficiency during the remediation process in terms of common risk responses, it would be possible to provide guidance to other firms within the network on potential responses, thereby learning from others within the network. Smaller networks may decide to set up shared services like a network quality and technical department to perform the risk assessment, monitoring and remediation functions, thereby reducing the cost structures and enjoying the benefits of a functioning quality and technical department. <p>It is however crucial that when such combined services and processes exist, these be properly documented and managed in order to get the maximum benefit.</p>

DOCUMENTATION

7	Is documentation required for the proper implementation of the SOQM available as a checklist with templates?	<p>The documentation of the SOQM will vary according to each firm's risk evaluation and the formulated responses to the risks.</p> <p>There are service providers in the industry that do offer basic frameworks for the building of a SOQM and some template documents that can be commonly used, which would reduce the amount of work that would be required to properly document the SOQM for a firm.</p> <p>One should however be very careful and not blindly accept the risks and responses in these templates as:</p> <ul style="list-style-type: none">• The only risks that could be relevant and/or• The only responses that could address the identified risks. <p>Your documentation should be tailored to ensure that it makes sense in your firm's context and really assists in the management and monitoring of your firm's SOQM and the role-players in the various processes, rather than only being another form that gets completed and filed without any real purpose or consequence.</p>
8	What are some of the benefits of a properly documented SOQM for a firm?	<p>There is a phrase in the auditing space that says, 'if it's not documented then it's not done', so the first benefit would be that documentation provides evidence that the firm complies with ISQM 1.</p> <p>Secondly, the documentation that the firm has produced may also be useful for training personnel and engagement teams.</p> <p>Thirdly, staff will understand their roles and responsibilities within the SOQM and during engagements.</p> <p>Documentation will ensure the retention of organisational knowledge and provide a history of the basis for decisions made by the firm about its SOQM.</p> <p>It will help eliminate any ambiguity and provides a point of reference for staff whenever the need arises.</p> <p>Because firms are not the same in size and complexity, each firm's documentation will be different and will address its own needs. As such, firms will have to use judgement in assessing what will be sufficient documentation of their SOQM.</p> <p>But generally, documentation may –</p> <ul style="list-style-type: none">• Take the form of formal written manuals, checklists and forms• Be informally documented (eg e-mail communication or postings on websites), or• Be held in IT applications or other digital forms (eg in databases).

NOTES

- 1 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*.
- 2 International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*.
- 3 International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*.
- 4 Companies and Intellectual Property Commission.

To watch the recording of this workshop and register for our upcoming workshops, visit our website at **click here**.