
INDEPENDENT REGULATORY BOARD FOR AUDITORS
COMMITTEE FOR AUDITING STANDARDS

**IRBA Board Adopts the Suite of Quality Management Standards:
ISQC 1 Replaced by ISQM 1, the New ISQM 2, Significant Revisions to ISA 220, Changes in
Substance, Implications for Practice in South Africa, Effective Dates and Implementation
Guidance**

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In support of the Independent Regulatory Board for Auditors' (IRBA) focus on improving audit quality and restoring confidence in the profession, the Board has adopted the suite of Quality Management (QM) standards. This followed the issue of the standards by the International Auditing and Assurance Standards Board (IAASB) on the 17th of December 2020.

These QM standards aim to promote a proactive, scalable and effective approach to quality management. With an improved focus on the effectiveness of how firms and engagement partners manage quality, these standards are more robust and mark a significant evolution of the current quality control standards. They also address the management of quality by all firms and on all engagements.

Further, this suite of QM standards will drive greater confidence and trust and have also been modernised to take into account emerging trends and technology.

The three QM standards issued by the IAASB are:

- 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* (ISQM 1);
- International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews* (ISQM 2); and
- International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220 (Revised)).

Subsequently, in March 2021 the IRBA approved the three QM standards for adoption, issue and prescription for use by registered auditors in South Africa.

Scope of the QM Standards

ISQM 1 deals with the firm's responsibilities:

- To design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements; and
- To establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.

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) deals with:

- 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.

Changes in Substance

These QM standards have raised the bar for quality management. They will also strengthen and modernise the audit firm's approach to quality management. Through the standards, the IAASB is addressing an evolving and increasingly complex audit ecosystem, including growing stakeholder expectations and a need for quality management systems that are proactive and adaptable.

The standards direct audit firms to improve the robustness of their monitoring and remediation; embed quality into their corporate culture and the "tone at the top"; and improve the robustness of engagement quality reviews.

Key changes in the standards are focused at achieving the following:

- Increase firm leadership responsibilities and accountability, and improve firm governance.
- A risk-based approach focused on achieving quality objectives.
- Modernise standards to address technology, networks and the use of external service providers.
- Increase the focus on the continual flow of information and appropriate communication internally and externally.
- Proactive monitoring of quality management systems, as well as timely and effective remediation of deficiencies.
- Enhance the engagement partner's responsibility for audit engagement leadership and audit quality.
- Clarify and strengthen requirements for a more robust engagement quality review.

Implications for Practice in South Africa

- The matters that have to be considered for implementation in South Africa are as follows:
 - The standards provide for some requirements to apply in areas where regulators may have decided to regulate (i.e. each standard is not prescriptive in setting a global standard where some local law and regulation may be better suited and adjusted). The Committee for Auditing Standards, a statutory committee of the IRBA, has identified a project in its work programme to identify the areas in the standards where local regulation is envisaged, and whether there is a need for such regulation in South Africa.
 - The ISQM 1 and ISQM 2 will affect all firms, even those that do not perform audits, and only do reviews. Awareness will need to be raised directly with firms; all accounting institutes, vendors (service providers) and others working in this industry will find new opportunities, as needs arise, to support the implementation of the new standards.

- Updating of the firm's methodology, across audit and non-audit service lines.
- Amendments to the firm's policies and procedures.
- Training for the firm's personnel across all levels.
- Transitional arrangements.

Effective Dates

The effective dates for the QM standards are as follows:

- ISQM 1
 - Systems of quality management in compliance with this ISQM are required to be designed and implemented by 15 December 2022; and
 - The evaluation of the system of quality management required by paragraphs 53-54 of this ISQM is required to be performed within one year following 15 December 2022.
- ISQM 2
 - Audits and reviews of financial statements for periods beginning on or after 15 December 2022; and
 - Other assurance and related services engagements beginning on or after 15 December 2022.
- ISA 220 (Revised)
 - Audits of financial statements for periods beginning on or after 15 December 2022.
- Early adoption is permissible and is encouraged by the IRBA.

These three QM standards may be downloaded from the IRBA website at www.irba.co.za.

Implementation Guidance

The following guidance material for the three QM standards is also available on the IAASB website at www.iaasb.org:

- Basis for Conclusions.
- Introduction to ISQM 1, ISQM 2 and ISA 220 (Revised) - Fact sheets and videos.

Should you have any further queries, please do not hesitate to contact the Standards Department by emailing standards@irba.co.za.

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About the IRBA

The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.

The statutory responsibilities of the Committee for Auditing Standards are to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements; to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and to promote and ensure the relevance of auditing pronouncements.