

ISQM 1 self diagnostic checklist

The purpose of this document is to help you assess for yourself if you are in compliance with the relevant requirements of ISQM 1. It should not be considered an exhaustive list of requirements.

This document has no regulatory status. It is issued for guidance purposes only. Therefore, this document should not be regarded by you as a substitute for familiarising yourself with the appropriate regulations and corresponding updates or, where necessary, obtaining specific advice concerning a specific situation.

SYSTEM OF QUALITY MANAGEMENT (ISQM 1 and ISQM 2)

| SYSTEM OF QUALITY MANAGEMENT | | |
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| Has the firm established and documented a system of quality management (SoQM) in accordance with ISQM 1? (ISQM 1.19) | Yes | No |
| Has the firm put in place procedures to ensure that all principals and staff have confirmed that they have read and understood the firm's system of quality management? (ISQM 1.33(c)(i)) | Yes | No |

| RISK ASSESSMENT PROCESS | | |
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| Has the firm carried out and documented a risk assessment? (ISQM 1.23 and 1.58). | Yes | No |
| Within the firm's documented risk assessment and management system, has the firm: | | |
| 1 Established the quality objectives specified by ISQM 1 and any additional objectives considered necessary (ISQM 1.24). | Yes | No |
| 2 Identified and assessed Quality Risks: <ul style="list-style-type: none"> Obtained an understanding of conditions, events, circumstances, actions or inactions that may adversely affect the achievement of quality objectives with respect to (a) nature and circumstances of the firm, and (b) engagements performed Considered how the above may adversely affect the achievement of the quality objectives (ISQM 1.24) | Yes | No |
| 3 Designed and implemented responses to the quality risks <ul style="list-style-type: none"> responses have been designed to address all quality risks identified that responses are implemented by the firm (ISQM 1.26) | Yes | No |
| Has the risk assessment performed by the firm used relevant information, such as the results of the firm's monitoring process and results of external inspections? (ISQM 1.A41) | Yes | No |
| Does the firm have policies and procedures in place to identify information about changes in the nature and circumstances of the firm and its engagements that may affect the risk assessment? (ISQM 1.27) | Yes | No |

GOVERNANCE AND LEADERSHIP

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| Has the firm assigned an appropriate person with the ultimate responsibility and accountability for the SoQM? This should be the managing partner or chief executive officer or managing BoD (ISQM 1.20) | Yes | No |
| Are the responsibilities and accountability of the compliance partner clearly documented? | Yes | No |
| Does the person who has been assigned with the operational responsibility for the SoQM have the necessary experience, knowledge, time and authority to perform this function? (ISQM1.A32) | Yes | No |
| Is there evidence recorded on how the firm has considered the above and documented it accordingly? | Yes | No |
| Does the firm keep a record of all persons eligible to sign audit reports on behalf of the firm, ensuring that the record includes the person's qualification, position and the date from when eligible to do so | Yes | No |
| Does the firm ensure that the individuals assigned with operational responsibility for the SoQM, comply with independence requirements and the results of monitoring and remediation and have direct communication with those assigned with ultimate responsibility? (ISQM 1.22)? | Yes | No |
| Does the firm ensure sufficient resources are devoted to the development, documentation and support of the SoQM? | Yes | No |

ETHICAL REQUIREMENTS

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| Is there a written policy stating that the applicable code of ethics for professional accountants or equivalent (national) code will apply? | Yes | No |
| Does the firm and its personnel fulfil their responsibilities in accordance with relevant ethical requirements, including those related to? | Yes | No |
| Does the firm obtain, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent (ISQM 1.34(b)) | Yes | No |
| Has the firm assigned operational responsibility for compliance with independence requirements to an individual(s), ie, an Ethics Partner | Yes | No |
| Are the responsibilities and accountability of the Ethics Partner clearly documented? | Yes | No |
| Are there any potential threats to independence (both of mind and in appearance)? | | |
| • Undue dependence on total fees (section 410.11 and 410.14 to 410.21 of Part 4A) | Yes | No |
| • Significant overdue fees (section 410.12 of Part 4A) | Yes | No |
| • Contingent fees (section 410.8 to 410.10 of Part 4A) | Yes | No |
| • Actual or threatened litigation with an audit client (section 430 of Part 4A) | Yes | No |
| • Direct or material indirect financial interest (section 510 of Part 4A): <ul style="list-style-type: none"> – held in an audit client by the firm, network firm, audit team members and others (section 510.4 and R510.5) – held in an entity controlling an audit client (section R510.6) – held as a trustee in an audit client (section R510.7) – held in an entity where an audit client also has a financial interest (section R510.8) – received unintentionally by the firm, network firm and audit team members in an audit client e.g., inheritance, merger (section R510.9) – held in an audit client by immediate or close family members or other individual with whom the firm has a close personal relationship (section 510.10 A1 to A12) – held in an audit client by a retirement fund of the firm or network firm (section 510.10 A13) | Yes | No |
| • Loans or guarantees (section 511 of Part 4A) <ul style="list-style-type: none"> – Cannot make or guarantee a loan to an audit client unless immaterial to both the audit firm and the client (R511.4) – Where the audit client is a bank, any loan to the firm is made under normal lending procedures (R511.5) | Yes | No |

ETHICAL REQUIREMENTS

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| <ul style="list-style-type: none"> Close business relationships (section 520 of Part 4A), eg: <ul style="list-style-type: none"> material financial interest in a joint venture with an assurance client Combining firm's services with the assurance client's services and services of both parties are marketed as a package Firm acting as a marketer or distributor for the products of an assurance client or vice-versa | Yes | No |
| <ul style="list-style-type: none"> Immediate family relationship with an audit client – Spouse or equivalent, or dependent (section 521.4 and 521.5) | Yes | No |
| <ul style="list-style-type: none"> Close family relationship with an audit client – parent, sibling or child who is not a dependent (section 521.6) | Yes | No |
| <ul style="list-style-type: none"> Close relationships other than as an immediate or close family relationship (e.g., cousins, uncles, friend etc.) with an audit client (section 521.7) | Yes | No |
| <ul style="list-style-type: none"> Close relationship between a partner or an employee who is not a member of the audit team and an audit client (section 521.8) | Yes | No |
| <ul style="list-style-type: none"> Partner or employee of a firm or network firm serving as director, officer or company secretary of an audit client (Section 523) | Yes | No |
| <ul style="list-style-type: none"> Former partner or audit team member has joined the audit client as a director, officer, or an employee in a position to exert significant influence over the preparation of the accounting records and financial statements to be audited (section 524) | Yes | No |
| <ul style="list-style-type: none"> Entering into employment negotiations with an audit client by an audit team member (section R524.5)) | Yes | No |
| <ul style="list-style-type: none"> Long association with audit clients (section 540.3) | Yes | No |
| <p>NB: See b(viii) below in relation to rotation of key audit partners regarding PIE audits</p> | | |
| <ul style="list-style-type: none"> Provision of non-assurance services (NAS) to audit clients (section 600 of Part 4A): <ul style="list-style-type: none"> Accounting, book-keeping or payroll services (sub-section 601) – not allowed for PIEs (R601.6) Administrative services (sub-section 602) Valuation services (sub-section 603) – not allowed if valuation involves a significant degree of subjectivity and has a material effect of the financial statements (R603.4), not allowed for PIE clients if it will create a self-review threat (R603.5) Tax services (sub-section 604) – Tax calculations for current and deferred liabilities not allowed for PIE clients (R604.10) Internal audit services (sub-section 605) – not allowed for PIE clients if this creates a self-review threat (R605.6) IT systems services (sub-section 606) – not allowed for PIE clients if this creates a self-review threat (R606.6) Litigation support services (sub-section 607) – not allowed for PIE clients if this creates a self-review threat (R607.6) Legal services (sub-section 608) – not allowed for PIE clients if this creates a self-review threat (R608.7) Recruiting services (sub-section 609) – not allowed in relation to recruitment of director or officer or senior management (R609.6) Corporate finance services (sub-section 610) – not allowed for PIE clients if this creates a self-review threat (R610.8) | Yes | No |
| <ul style="list-style-type: none"> Communicating with TCWG before provision of NAS (R600.21 – R600.23) | Yes | No |
| <ul style="list-style-type: none"> Provision of personnel to audit clients for temporary assignments (section 525 of Part 4A) | Yes | No |
| <ul style="list-style-type: none"> Promoting, dealing in, or underwriting of shares, debt or other financial instruments issued by an audit client or providing advice on investment in such shares, debt or other financial instruments (prohibited by R610.5 and R610.6 of Part 4A) | Yes | No |
| <ul style="list-style-type: none"> Partner or employee acting as a General Counsel (not allowed for any client under R608.9) or in an Advocacy Role for an audit client – not allowed for PIE clients (R608.11) and when amounts are material (R608.10) (section 608 of Part 4A) | Yes | No |

ETHICAL REQUIREMENTS

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| <ul style="list-style-type: none"> Having custody of an assurance client's assets e.g., investment portfolio, acting as cheque signatory on bank accounts belonging to the client or holding significant money on behalf of an audit client (section 350 of Part 3) | Yes | No |
| <ul style="list-style-type: none"> Non-compliance with laws and regulations (section 360 of Part 3) | Yes | No |
| <ul style="list-style-type: none"> Significant gifts or hospitality (section 420 of Part 4A) (Cannot be accepted unless value is trivial and inconsequential R420.3) | Yes | No |
| <ul style="list-style-type: none"> Level of audit fees Commercial rationale Undue pressure to reduce the audit fee (section 330 of Part 3 and 410.5 of Part 4A) | Yes | No |
| Is there a requirement to document on all audits any threats to independence and safeguards employed? | Yes | No |
| Does the firm maintain a register of all independent threats? | Yes | No |

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS (ISA 220.14)

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|---|-----|----|
| When assessing risk before deciding whether to accept or continue appointment, does the firm use a checklist and consider the following: (ISQM 1.30, A67–A72): | Yes | No |
| <ul style="list-style-type: none"> Integrity/reputation of the client | Yes | No |
| <ul style="list-style-type: none"> Conflicts of interest | Yes | No |
| <ul style="list-style-type: none"> Client's key personnel, operations, internal control environment and practices | Yes | No |
| <ul style="list-style-type: none"> Identity and business reputation of related parties | Yes | No |
| <ul style="list-style-type: none"> Availability of human resources with the appropriate competence and capabilities, including sufficient time in the firm | Yes | No |
| <ul style="list-style-type: none"> Availability of experts where needed | Yes | No |
| <ul style="list-style-type: none"> Need for technological resources (eg, IT applications to perform procedures on the entity's data) | Yes | No |
| <ul style="list-style-type: none"> Accounting standards applied by the client and any disagreement in their interpretation. | Yes | No |
| <ul style="list-style-type: none"> Client's attitude to fees | Yes | No |
| <ul style="list-style-type: none"> Possible imposition of limitation of scope by the client | Yes | No |
| <ul style="list-style-type: none"> Client's involvement in money laundering or other criminal activity | Yes | No |
| <ul style="list-style-type: none"> Client's reasons for the proposed change in appointment and non-reappointment of previous firm | Yes | No |
| <ul style="list-style-type: none"> Communication with existing or previous accountant | Yes | No |
| <ul style="list-style-type: none"> Client's regulatory or reporting requirements | Yes | No |
| <ul style="list-style-type: none"> Whether firm will be able to comply with the ethical requirements (ISQM 1.A72) | Yes | No |
| <ul style="list-style-type: none"> Consideration of significant matters during the current or previous engagements that impact on continuing the relationship (Continuance of client relationship) | Yes | No |
| Does the firm carry out checks (ISQM 1.A69) as part of c(ii) above, through: <ul style="list-style-type: none"> Communication with existing or previous providers of professional accountancy services (professional clearance) Discussion with other third parties such as bankers, legal counsel or industry peers Background searches of relevant databases | Yes | No |

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS (ISA 220.14)

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| Is the Compliance Partner / Risk Management Partner involved in deciding whether an audit appointment should be accepted, particularly for high-risk clients? | Yes | No |
| Does the firm ensure that its financial and operational priorities do not lead to inappropriate judgment about whether to accept or continue a client relationship (ISQM 1.30(b), A73 and A74)? (Examples include provision of a low fee quote or client lacks integrity and ethical values) | Yes | No |
| Does the firm issue an engagement letter to all its audit clients? | Yes | No |
| Does the firm have a policy on withdrawal from the engagement and client relationship, including consideration of any legal requirements for the firm to remain in place, or report its withdrawal together with the reasons for the withdrawal to regulatory authorities (ISQM 1.34(d), A122 and A123)? | Yes | No |

RESOURCES**Human Resources**

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| Does the firm ensure that it has sufficient competent and capable personnel to consistently perform quality engagements and perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management (ISQM 1.32(a) – (f), A88 – A90) | Yes | No |
| Does the firm have policies and procedures in place in the following areas and has considered their suitability: <ul style="list-style-type: none"> • Recruitment • The appointment of new Responsible Individuals (RIs) • Performance evaluation • Capabilities and competence • Career development • Compensation • Promotion | Yes | No |
| Does the firm have arrangements in place to ensure that the firm's personnel, including audit principals, maintain continuing competence including the provision of sufficient training on the application of auditing and accounting standards? | Yes | No |
| Does the firm ensure: | | |
| • written references are obtained for new employees | Yes | No |
| • sufficient focus is placed on quality in job description and in promotion criteria | Yes | No |
| • performance appraisals are carried out at regular frequency and in a timely manner and are recorded | Yes | No |
| • sufficient training is provided on the application of current accounting and auditing standards | Yes | No |

Technological Resources

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| Has the firm assessed the appropriateness of IT applications used? | Yes | No |
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Intellectual Resources

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| Has the firm assessed the appropriateness of intellectual resources used? | Yes | No |
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Service Providers

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| Has the firm determined the appropriateness of the resources obtained from service providers, including assessing the service provider's experience in the industry and reputation in the market (ISQM 1.32(h), A105 – 108) | Yes | No |
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INFORMATION AND COMMUNICATION

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| <p>Does the firm have a policy for obtaining, generating or using information regarding the SoQM, and communicating information within the firm and to external parties on a timely basis (ISQM 1.33):</p> <ul style="list-style-type: none"> • Communication within the firm and with engagement teams to enable them to understand their responsibilities relating to performing activities within the SoQM or engagements, and for staff to communicate information to the firm (ISQM 1.33(c)) • Communication to external parties, including the firm’s network or service providers to enable them to carry out their responsibilities, and externally when required by law or regulation to support external parties’ understanding of the SoQM (ISQM 1.33(d)) | <p>Yes No</p> |
| <p>Has the firm established policies and procedures to ensure the following:</p> <ul style="list-style-type: none"> • Require communication with TCWG when performing an audit of financial statements of listed entities about how the SoQM supports the consistent performance of quality audit engagements; (ISQM 1.34(e)(i)) • Address when it is otherwise appropriate to communicate with external parties about the firm’s SoQM (ISQM 1.34(e)(ii)) • Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing, extent and appropriate form of communication (Ref: Para. A131 – A132) | <p>Yes No</p> |

ENGAGEMENT PERFORMANCE

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| <p>Where the firm audits accounts that are prepared by another firm of practising accountants does the firm ensure that they are able to control the audits taking into account the points above.</p> | <p>Yes No</p> |
| <p>Does the firm have procedures in place to ensure the engagement partner informs the team of their responsibilities, provide background information and discuss the plan and the audit approach (ISA 220.A13 and ISQM 1.31(a), A75)</p> | <p>Yes No</p> |
| <p>Has the firm considered the procedures on how the audit work is supervised (ISA 220.A15 and ISQM 1.31(a), 31(b), A75, A76). Does it include the following:</p> <ul style="list-style-type: none"> • Tracking progress of the engagement • Review arrangements to ensure the work is carried out in accordance with the plan • Addressing significant matters, considering their significance and modifying the plan, if necessary • Identifying matters for consultation or consideration of more experienced team members during the engagement | <p>Yes No</p> |
| <p>Does the engagement partner review the file and discuss matters with the audit team to ensure that the firm has obtained sufficient appropriate audit evidence (ISA 220.16, 17 and ISQM 1.31(a), 31(b), A75, A76)?</p> | <p>Yes No</p> |
| <p>Does the firm’s procedures require an engagement quality control (second partner) review in accordance with ISQM 2, on the grounds of public interest, audit risk and independence issues (ISA 220.19 and ISQM 1.34(f), A133 and A134). See 7.8.1 and 7.8.2</p> | <p>Yes No</p> |
| <p>Does the firm have procedures in place to ensure that appropriate consultation takes place on difficult or contentious matters. Do the arrangements include consideration of resources, documentation and implementation (ISA 220.14 and ISQM 1.31(d), A79 – A81)?</p> <p>Where necessary, has the firm made appropriate external arrangements?</p> | <p>Yes No</p> |
| <p>Does the firm have a policy and procedures in place on completing the assembly of final engagement files in a timely manner ensuring that this is done within 60 days after the audit report has been issued (ISA 230.14 and ISQM 1.31(f), A83)</p> | <p>Yes No</p> |
| <p>Does the firm ensure the:</p> <ul style="list-style-type: none"> • confidentiality • safe custody • integrity • accessibility • retrievability <p>of engagement documentation (ISQM 1.31(f), A84)</p> | <p>Yes No</p> |

ENGAGEMENT PERFORMANCE

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| Does the firm have procedures in place to ensure that the reporting obligations applicable to audit engagements have been brought to the attention of audit staff, and that staff are aware of their responsibility to report these matters to the engagement partner and the engagement partner stands ready to make the report as necessary. | Yes | No |
| Does the firm have policy and procedures in place on retention of all audit documentation (ISQM 1.31(f), A85) | Yes | No |
| Are there policy and procedures in place on ensuring safe destruction of audit documentation once the retention period has expired? | Yes | No |
| Does the firm have a process in place to report to ACCA annually (and those charged with governance) if there are any ethical breaches which may include breaches of ISQM 1. | Yes | No |

ISQM 2 – ENGAGEMENT QUALITY REVIEWS

ISQM 2 – Engagement Quality Reviews (engagements beginning on or after 15 December 2022)

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| Does the firm’s documented procedures require an Engagement Quality Review (EQR) in respect of listed entities , where required by law or regulation, and where the firm determines that an EQR is an appropriate response to address one or more quality risks (ISQM 1.34(f))? | Yes | No |
| Does the firm’s documented procedures: <ul style="list-style-type: none"> • assign responsibility for the appointment of engagement quality reviewers to someone within the firm who has the competence, capability and authority to do so (ISQM 2.17) or seek an appropriate external reviewer • specify appropriate eligibility criteria to be appointed an engagement quality reviewer (ISQM 2.18) • specify that an engagement partner must “cool-off” for 2 years or longer if required by relevant ethical requirements, before assuming the role of engagement quality reviewer (ISQM 2.19) | Yes | No |

MONITORING AND REMEDIATION

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| Has the firm designed and performed monitoring activities that are tailored for the firm (ISQM 1.36), based on its size and complexity? | Yes | No |
| Does the firm have arrangements for the inspection of selected completed engagements (cold reviews) on a cyclical basis (ISQM 1.38)? If so, does the firm have procedures to: <ul style="list-style-type: none"> • Assess the competence, capabilities, including sufficient time, and objectivity of the individuals performing the monitoring activities (ISQM 1.39) • Ensure that inspections are not performed by engagement team members or the engagement quality reviewer of an engagement (ISQM 1.39) | Yes | No |
| Does the firm have procedures for evaluating the findings from the monitoring activities and determining whether deficiencies exist (ISQM 1.40)? If so, what procedures does the firm have for: <ul style="list-style-type: none"> • Evaluating the severity and pervasiveness of identified deficiencies, including investigating the root cause(s) of identified deficiencies (ISQM 1.41) • Implementing remedial actions to address the identified deficiencies (ISQM 1.42), including findings about a particular engagement (ISQM 1.45) • Evaluating the appropriateness of the remedial actions to address the identified deficiencies (ISQM 1.43) | Yes | No |
| Does the individual assigned operational responsibility for the monitoring and remediation process communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the SoQM? <ul style="list-style-type: none"> • A description of the monitoring activities performed; • The identified deficiencies, including the severity and pervasiveness of such deficiencies; and • The remedial actions to address the identified deficiencies. | Yes | No |
| Does the firm communicate the matters described above to engagement teams and other individuals assigned activities within the SoQM to enable them to take prompt and appropriate action in accordance with their responsibilities (ISQM 1.47)? | Yes | No |