



Issue 43 (14 June 2022)

Dear members,

Getting Ready for the Quality Management Standards

The effective date of the quality management standards as set out in the Appendix is **15 December 2022**.

Firms required to comply with HKSQM 1 will need to have their systems of quality management (SOQM) designed and implemented by 15 December 2022. Firms will need to evaluate their SOQM within one year of 15 December 2022.

Since the publication of the suite of quality management standards in December 2020, the Institute and other bodies have published a wide range of guidance, training materials as well as other practice aids to help practitioners implement the standards (see below). Despite the availability of this wealth of resources well ahead of the effective date of the standards, many practitioners may still feel daunted by the impending exercise.

The best way to conquer this challenge is to simply get started. Firms which have not yet started should take immediate action now to meet the new requirements.

In this 5-minute [sound clip](#), Professor Arnold Schilder (Chair of IAASB from 2009 to June 2019) shares how a sole practitioner should identify the quality risks and responses for his firm. After listening to this clip, practitioners will realize that what the standards require is a down-to-earth assessment of your practice with pragmatic solutions provided. You will also realize that the quality management process does not necessarily need to be complicated or highly sophisticated.

This is consistent with the intention of HKSQM 1 to be fully scalable from the smallest firm to the largest. For example, a firm that performs different types of engagements for a wide variety of entities will likely have a more complex SOQM and supporting documentation. The SOQM for a SMP with limited types of engagements will likely be more straight forward.

Below are some recommendations on how to get started:

- Read the standards
- Consider the circumstances of your firm, such as the nature and types of engagements your firm performs

- Design your firm's approach to the risk assessment process following the three steps below. Firms should tailor their SOQM to the firm's circumstances and engagements in order to help the firm effectively manage quality through focusing on what matters the most.
 - Establish quality objectives (circumstances when firms may need to establish additional quality objectives beyond those in HKSQM 1 is not expected to be common)
 - Identify and assess quality risks
 - Design and implement responses
- Design and implement a monitoring and remediation process.

You may refer to the following illustration for the [governance and leadership component](#) of a firm's SOQM which may help you with documenting the quality objectives as well as the identified quality risks and responses. The content of the document is an illustration only and is not exhaustive. You will need to tailor the illustrative content to your firm's specific circumstances.

Members should take note that the fundamental principles of how to approach quality management in HKSQM 1 are not the same as those in the extant HKSQC 1. Depending on the nature and circumstances of the firm, it may not be sufficient for the firm to simply adjust or expand the current procedures under HKSQC 1 to comply with HKSQM 1.

The SOQM, including the risk assessment process under HKSQM 1, is an iterative process. It is not a one-off exercise.

Resources

The Institute is in the process of engaging a service provider to develop a quality management manual (QMM) and endeavours to release the manual in September 2022, subject to any unforeseen circumstances. Members should note that it will not be possible for the QMM to supply a ready-to-use set of objectives, risks and responses because HKSQM 1 requires that these be tailored to a firm's own circumstances. Therefore, it is necessary for a firm to tailor the quality objectives, risks and responses according to its circumstances.

The QMM will only be a tool to assist firms in implementing the quality management standards. Neither the QMM nor any of the resources listed below amends or overrides the quality management standards, the text of which alone is authoritative. Reading this Alert or other non-authoritative guidance, including the proposed QMM, is not a substitute for and does not absolve a practitioner from his responsibility to read and fully understand the requirements of the standards.

Issued by the Institute

- APlus articles
 - [March 2021 Reaching New Standards](#)
 - [December 2021 The Quality Journey](#)
 - [February 2022 New Quality Standards Series – Navigating the commitment to quality](#)

- Video – [sound clip](#) from IAASB outreach in May 2019 in Hong Kong
 - E-learning:
 - New Quality Management Standards Series
 - [Virtual Workshop 1 – Overview and Key requirements](#)
 - [Virtual Workshop 2 – Implementing the Risk-based Approach](#)
 - [Virtual Workshop 3 – Intellectual, Technological and Human Resources Including Those from Service Providers](#)
 - Practice Management Series for SMPs
 - [Preparing for the New Hong Kong Quality Management Standards \(Panel Discussion\)](#)
 - FAQ - [How long should firms keep their engagement documentation?](#)
- Issued by other standard setters and regulators*
- [IAASB](#) resource centre on Quality Management Standards
 - [IAASB resource centre on Quality Management Standards](#)
 - [ISQM 1 First-Time Implementation Guide](#)
 - [ISQM 2 First-Time Implementation Guide](#)
 - [ISA 220 First-Time Implementation Guide](#)
 - IAASB [video](#) on quality management standards: Perspectives on initial implementation efforts
 - Introductory videos with overviews of each standard available in [English](#) and [Mandarin](#)
 - IAASB [quality management webinar series](#) (slides and recordings available)
 - IFAC, IAASB, and ICAC [Discussion Forum on Quality Management Standards](#)
 - One-minute [video introduction](#): IAASB Quality Management Standard
 - IAASB's basis for conclusion and factsheet: [ISQM 1](#), [ISQM 2](#) and [ISA 220 \(Revised\)](#)
 - IFAC Article series: Preparing for the New Quality Management Standards
 - [ISQM 1 Quality Objectives and Quality Risks](#)
 - [ISQM 1 Risk Responses](#)
 - [ISQM 1 System Evaluation and Monitoring](#)
 - [Getting Started on the New IAASB Quality Management Standards: An Overview](#)
 - ICAEW
 - [Resources](#) to help audit firms prepare for new quality management standards
 - [Quality Management Hub](#)
 - [Webinar recording](#): Quality Management in audit firms
 - [Webinar recording](#): What's new in quality management
 - [Article](#): Planning ahead for the new quality management standards
 - [ISQM 1: the benefits for smaller firms](#)
 - [ISQM 1: Scalability for less complex firms](#)

- Institute of Singapore Chartered Accountants
 - [Article](#): A paradigm shift to quality management

There are a number of service providers in the market that can provide products that assist firms in developing and documenting their SOQM, including but not limited to:

- [Info](#) (provision of a digitized quality management manual/platform)
- [Grant Thornton](#) (provision of a digitized quality management manual/platform)
- [Qualitas Consultants Pty Ltd](#)

These links are provided for convenience and informational purposes only; they do not constitute an endorsement or a recommendation by the Institute of any of the products or services of the named corporations. Practitioners should perform their own due diligence before selecting any provider.

Sincere regards,

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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Appendix

The new and revised Quality Management Standards consist of:

- **HKSQM 1**, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
 - *HKSQM 1 deals with the firm's responsibility for quality through having a system of quality management. It replaces HKSQC 1.*
 - *Under HKSQM 1, firms are required to design a system of quality management to manage the quality of engagements performed by the firm. This shift in focus from quality control to quality management is achieved by incorporating a risk-based approach, i.e., managing risks to quality.*
 - *HKSQM 1 applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, including compilations or agreed-upon procedures engagements.*
- **HKSQM 2** *Engagement Quality Review*
 - *HKSQM 2 deals with the eligibility of the engagement quality reviewer (EQR), and the performance and documentation of the EQR. Although HKSQM 2 is a new standard, many of its elements were enhanced and relocated from extant HKSQC 1 and HKSA 220.*
- **HKSA 220 (Revised)** *Quality Management for an Audit of Financial Statements*
 - *HKSA 220 (Revised) applies to audits of financial statements and addresses how quality is managed at the audit engagement level by the engagement partner. It makes clear that the engagement partner is responsible for managing and achieving quality at the engagement level, for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and for determining the nature, timing and extent of direction, supervision and review. It also contains a "stand-back" provision that requires the engagement partner to determine they have done enough to take overall responsibility for managing and achieving quality on the audit and whether their involvement has been sufficient and appropriate.*

Why change

The new and revised standards strengthen and modernize the audit firm's approach to quality management. They address an evolving and increasingly complex audit ecosystem, including growing stakeholder expectations and a need for quality management systems that are proactive and adaptable. The new approach improves the scalability of the standards because it promotes a system tailored to the nature and circumstances of the firm and its engagements.

The new and revised standards are intended to improve engagement quality through:

- Modernizing the standards for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers;
- Increasing firm leadership responsibilities and accountability, and improving firm governance;
- More rigorous monitoring of quality management systems and remediating deficiencies;
- Enhancing the engagement partner's responsibility for audit engagement leadership and audit quality; and
- Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance.