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NEW PERSPECTIVES FOR IMPROVING THE QUALITY OF AUDIT MANAGEMENT

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Abstract: *The audit mission is, first of all, depending of the quality management standards developed at the level of each audit entity (private or public sector). This is a reality, internationally recognized. In this area, the IAASB addresses an ever-evolving and increasingly complex audit ecosystem, including the growing expectations of any interesting party and the need for proactive and adaptable quality management systems. This article makes an comparative analyze for the actual changes on the international audit quality approaches - the international standard on quality management ISQM 1 “Quality management for firms conducting audits and reviews of financial statements, as well as other assurance and related services missions” that will replace the current international standard on quality control ISQC 1 “Quality control for firms conducting audits and reviews of financial statements, as well as other assurance missions and related services”. The results are a likely image of the necessary steps to be taken in the near future for all the entities involved in audit area, especially for a good understanding and implementation of the regulations.*

Keywords: *audit, risk-based approach, quality management standards, control quality, IAASB*

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Introduction

It is our day’s reality that, beginning with December 2022, the international standard on quality management ISQM 1 “Quality management for firms conducting audits and reviews of financial statements, as well as other assurance

and related services missions” will replace the current international standard on quality control ISQC 1 “Quality control for firms conducting audits and reviews of financial statements, as well as other assurance missions and related services”.

In accordance with the new requirements of ISQM 1, a fundamental change was made by **replacing the concept of quality control with that of quality management**. The concept of quality control has been replaced by that of quality management, which will be conducted **on the risk-based approach**.

The risk-based approach provides a flexible system for the audit entity to adapt to the unique circumstances it faces and to deal with the tasks itself, which in certain situations goes far beyond the linear approach traditionally used so far. This will enable audit entities of all types and sizes to apply the ISQM 1 standard.

Our research is an empirical investigation to establish whether the new harmonization in the field of auditing determine the performance of the audit engagement in the context of the current requirements of professional quality standards. At the same time, the aim of the study is to express the opinion regarding the advantages and disadvantages of these developments at the stage of harmonizing the auditor profession with international practices.

For this purpose, the normative acts in the field, the good international practices in the exercise of the auditor profession were investigated, aiming to highlight the role of reforms in ensuring the quality of services in this field. The scientific investigations carried out in this direction of research aim to identify and propose solutions regarding the facilitation of the implementation process of the new legislative provisions.

The actual stage of knowledge

Three new and revised standards strengthen and modernize the audit entity’s approach to quality management:

- **ISQM 1** “Quality management for firms performing audits and reviews of financial statements, as well as other assurance engagements and related services”;
- **ISQM 2** “Evaluation of the quality of engagement”;
- **ISA 220 (Revised)** “Quality management for an audit of financial statements”.

The standards take effect on December 15, 2022. They will replace the current IAASB standards, namely International Standard on Quality Control ISQC 1 and International Standard on Auditing ISA 220.

ISQM 1, Quality Management for Firms Performing Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements, replaces the current IAASB standard, International Standard on Quality Control (ISQC) 1, which addresses quality control systems within companies.

According to ISQM 1, firms are required to design a quality management system to manage the quality of the assignments they perform. The International Standard on Quality Management ISQM 2 is a new standard and was designed to assess the quality of completed audit engagements. Assessing the quality of audit missions is an indispensable part of the quality management process.

The transition to the new standards will bring significant transformations for audit entities, and the addition of new elements relevant to modern realities will develop important aspects such as IT and human resources.

Methodology of research

We intend to analyze a fundamental research using the comparative method. In this drive, we highlight the most important changes of the quality standards and put them in a logical structure worth to facilitate an efficient implementation in time.

Since 2013, the IAASB has undertaken a very difficult undertaking to review and update the requirements of the standards taking into account the results of a large number of studies, public discussions, forums. The results obtained in all these years have shown that audit practice needs improvement.

The components of the audit quality management system at the level of an audit entity are, in principle, the same in present as in the past:

Table no. 1. The components of the quality assurance system in accordance with the provisions of international professional auditing standards

International Standards	The basics of quality assurance for entities of audit
International Standard on Quality Control - ISOC 1 Quality control for firms conducting audits and reviews of financial statements, as well as other assurance missions and related services	Management responsibilities regarding quality within the company: <ul style="list-style-type: none"> • Human resources • The relevant ethics provisions; • Acceptance and continuation of relations with clients and specific missions; • Carrying out missions; • Monitoring.
International Standard on Management Quality - ISQM 1 , Quality Management for Firms Performing Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements	Governance and management: <ul style="list-style-type: none"> • Risk assessment; • Resources; • Information and communication; • Deficiency monitoring and correction process; • Responsibility of the audit entity when using the networks; • Professional ethics requirements; • Quality of audit missions.

Source: adapted by the author according ISQM 1 and ISOC 1

ISQM 1 replaces ISQC 1, which addresses quality control for firms performing audits and reviews of financial statements and other assurance engagements and related services.

Results of the study

Compared to the previous ISQC 1, the new ISQM 1 standard does not expose only a set of elements, but an integral system that explains their essence and connection. This is a broader and deeper approach that enables the improvement of the quality control system at the level of the audit entity as a whole.

1. Governance and management is one of the most important concepts of the new standard, due to the fact that in many recent corporate scandals, the root cause has been precisely the lack of responsibility at the level of organizational management and its advisors. Now there is a special emphasis on corporate culture, which of course sets the tone for leadership and extends it further to all organizational levels. The corporate culture implies an awareness of the activity of auditors in the public interest and the correlation of quality with the strategic decisions of the audit entity.

2. A risk-based approach as a basis, thanks to which the quality management system has to become more proactive and flexible, taking into account the unique characteristics of each audit entity, individually. Risk assessment, in the vision of the new audit quality management system, covers **three main components**:

- Determining the quality objectives that the audit entity wants to achieve during the audit missions;
- Identifying and assessing quality risks: “what can go wrong?” with the achievement of these established quality objectives;
- Developing and implementing responses, developing control procedures in response to assessed quality risks.

We found that some quality objectives are already defined in ISQM 1, but additional ones may be required if necessary to meet all the requirements of the standard (as circumstances may be different for each audit entity).

ISQM 1 provides a sample of completed assignments for the exercise of quality controls. This selection procedure will take into account how significant the audited entities are in terms of public interest, as well as determining when to conduct a quality audit, taking into account the level of risk.

However, the determination of a suitable person to conduct such checks, as well as the maintenance of relevant documentation, are not covered by ISQM 1, but by another standard, namely ISQM 2.

IAASB first released ISQM 1 “Quality management for firms performing audits and reviews of financial statements and other assurance engagements and related services” implementation guidance, ISQM 2 “Evaluation of engagement quality”, International Standard on Auditing ISA 220 (Revised) “Quality management for an audit of financial statements”, from which the following aspects are resulted:

Table no.2. Problematic aspects addressed by ISQM 2 and how to solve them

Provisions related to quality assessment of audit engagements	Situations and cases of application
Mandatory controls of the quality of audit missions	<ul style="list-style-type: none"> • Companies listed on the stock exchange; • Cases imposed by law; • Missions with quality risks
Selection of the person responsible for assessment of the quality of the audit engagement	<ul style="list-style-type: none"> • Significant issues regarding professional conduct; • Significant judgments; • Responsibility for quality management and assurance.

Source: adapted made by the author according the requirements of ISQM 2 „Engagement Quality Reviews”

Following its revision, ISA 220 (Revised) “Quality Management for an Audit of Financial Statements” more clearly assigns responsibility for managing and ensuring the desired quality of the audit to the engagement partners. This implies, in particular, his active participation in the audit throughout its duration.

ISA 220 (Revised) is certainly not a new standard, but it is revised and addresses the quality of audit engagements, meaning that it is scoped to quality at the level of a separate engagement. This standard will be applied by mission team leaders or their leaders. It should be noted that ISA 200 (Revised) has many connections with the provisions of ISQM 1. The latter provides the necessary framework for audit quality assurance at the engagement level, and ISA 200 (Revised) requires management partners to be appropriately guided by these frameworks. At the same time, taking into account modern trends, it was concluded that in accordance with the new international standards on quality management, **not only human, but also technological and intellectual resources are needed as indispensable elements of a quality management system.** As a result, the key concepts of **mission partner** and **mission team** were redefined in terms of assumed responsibilities. Thus, the mission partner is responsible for ensuring that resources are adequate and sufficient for the mission.

In the current version of the revised standard, the importance of forming an appropriate culture is emphasized not only at the level of the audit entity, but also within the separate audit team mission, which all its members are obliged to follow. This involves, in particular, maintaining an appropriate level of professional

skepticism. Under current conditions, as required by ISA 220 (Revised) the engagement partner must also oversee the conduct of the engagement and determine the direction of the engagement, which includes consideration of the nature of the engagement, its circumstances and available resources.

The following table shows in concrete terms the form of the concordance amendments and the correlative amendments brought to ISRE 2400 (Revised), Engagements to Review Historical Financial Statements, other IAASB standards, as a result of the new and revised quality management standards:

Table no.3 Concordance amendments and the correlative amendments brought to ISRE 2400 (Revised) by ISQM 1 and ISQM 2

See:	Final regulation for other IAASB standards (from October 2021)
ISRE 2400,	International Standard on Review Engagements (ISRE) 2400 (revised October 2021), Engagements to review historical financial statements, should be read in conjunction with the Preface to the international regulations on quality management, auditing, review, other assurance and related services, as following:
ISRE 2400, pint 4	<p>Relation with ISQM 1: Quality management systems, policies or procedures are the responsibility of the firm. ISQM 1 applies to firms from the perspective of a firm’s engagements to review financial statements (see points A3A5). ISQM 1 deals with the firm’s responsibilities to design, implement and operate a quality management system for assurance engagements, including review engagements. ISQM 1 also addresses the firm’s responsibility to establish policies or procedures that deal with engagements that must be subject to an engagement quality review. ISQM 2 deals with the designation and eligibility of the engagement quality reviewer and the conduct and documentation of the engagement quality review.</p> <p>A quality management system deals with the following eight components:</p> <ul style="list-style-type: none"> • The risk assessment process within the company; • Governance and management; • Relevant ethics provisions; • Accepting and continuing customer relationships and specific assignments; • Carrying out missions; • Resources; • Information and communication; and • Monitoring and remediation process. <p>Firms or national provisions may use different terminology or frameworks to describe the components of their quality management system</p>
ISRE 2400, point 24	<p>Mission-level quality management</p> <p>The engagement partner must have competence in assurance skills and techniques, as well as financial reporting and capabilities, including having sufficient time available, appropriate to the circumstances of the engagement. (See paragraph A26)</p>

See:	Final regulation for other IAASB standards (from October 2021)
ISRE 2400, point 25	<p>The engagement partner shall assume overall responsibility for: (Ref: Para. A27A30):</p> <p>(a) Managing and ensuring the quality of each assigned review mission and sufficient and appropriate engagement throughout the mission;</p> <p>(b) Coordinating, supervising, planning and conducting the review engagement in accordance with professional standards and applicable legal and regulatory provisions; (See paragraph A31)</p> <p>(c) The appropriateness of the practitioner’s report in the circumstances; and</p> <p>(d) Carrying out the assignment in accordance with the company’s quality management policies or procedures, including:</p> <p>i) Be satisfied that the firm’s policies or procedures for acceptance and continuation of client relationships and review engagements have been followed and that appropriate conclusions have been drawn, including considering whether there is information that could lead the engagement partner to conclude that there is a lack of integrity at the management level; (See paragraphs A32A33)</p> <p>(iA) Determining that sufficient and appropriate resources are allocated or made available to the engagement team in a timely manner to perform the engagement, taking into account the nature and circumstances of the engagement, the firm’s policies or procedures, and any changes that may occur during the engagement.</p> <p>(ii) Be satisfied that the engagement team collectively has the appropriate skills and capabilities, including sufficient time, assurance skills and techniques, and financial reporting experience, to:</p> <ul style="list-style-type: none"> -Perform the review mission in accordance with professional standards and applicable legal and regulatory provisions; and -To allow the issuance of a report appropriate to the given circumstances; -To assume responsibility for maintaining adequate mission documentation; <p>and, When an engagement quality review is required in accordance with ISQM 1 or firm policies or procedures, do not date the report until the engagement quality review is complete.</p>
ISRE 2400, point A28	<p>The engagement partner’s actions and appropriate messages to other members of the engagement team, in the context that the engagement partner assumes overall responsibility for the management and quality assurance of each review engagement, emphasize the essential nature of quality in the performance of a review engagement and the importance to the quality of the review engagement of:</p> <ul style="list-style-type: none"> - Carrying out an activity that complies with professional standards, as well as legal and regulatory provisions. - Compliance with management policies or procedures of quality within the company, as the case may be. - Issuance of an engagement report that is appropriate to the circumstances. - The ability of the mission team to express their concerns without fear of repercussions.

See:	Final regulation for other IAASB standards (from October 2021)
ISRE 2400, point A31	<p>Assignment of mission teams (See point 25 letter (b))</p> <p>When determining the appropriate competence and skills required for the engagement team as a whole, the engagement partner may consider such matters as: the team's understanding of the company's quality management policies or procedures.</p>
ISRE 2400, point A29	<p>Typically, the engagement team may depend on the firm's quality management system, unless:</p> <ul style="list-style-type: none"> -The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or - Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise. <p>For example, the engagement team may depend on the firm's quality management system for:</p> <ul style="list-style-type: none"> - Competence and capabilities of staff through their recruitment and formal training. -Independence by gathering and communicating relevant information about independence. -Maintaining customer relations through the firm's policies or procedures for accepting and continuing client relationships and review engagements. -Compliance with legal and regulatory provisions through the company's monitoring and remediation process. <p>In reviewing identified deficiencies in the firm's quality management system that may affect the review engagement, the engagement partner may consider remedial actions taken by the firm to address those deficiencies.</p>
ISRE 2400, point 273	<p>Compliance with relevant ethics provisions</p> <p>During the course of the engagement, the engagement partner must remain vigilant, by observing and conducting interviews as appropriate, to detect evidence of violations of relevant ethical provisions by members of the engagement team. If matters come to the attention of the engagement partner through the firm's quality management system or other means that indicate that members of the engagement team have violated relevant ethical provisions, the engagement partner must determine the appropriate measures to be taken, after consultation with other people within the company.</p>
ISRE 2400, point 28	<p>Monitoring and remediation</p> <p>A company-wide quality management system includes establishing a monitoring and remediation process for:</p> <p>(a) You would provide the firm with relevant, reliable and timely information relating to the design, implementation and operation of the quality management system.</p> <p>(b) To take appropriate measures in order to respond to identified deficiencies so that they are remedied by the firm in a timely manner.</p> <p>The engagement partner should consider information from the firm's monitoring and remediation process, as communicated by the firm and, as appropriate, other firms in the network, and the extent to which it may affect the review engagement</p>

See:	Final regulation for other IAASB standards (from October 2021)
ISRE 2400, point 92	<p>Date of the practitioner's report</p> <p>The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base its conclusion about the financial statements, including evidence that is sufficient to satisfy the practitioner: (Ref: Para. A144A147):</p> <ul style="list-style-type: none"> -that all the statements that make up the financial statements have been drawn up according to the applicable financial reporting framework, including the related notes, as the case may be; and -that persons with the necessary authority have declared that they have assumed responsibility for those financial statements.
ISRE 2400, point 94	<p>Documentation</p> <p>When documenting the nature, timing and extent of procedures performed under this ISRE, the practitioner must record:</p> <ul style="list-style-type: none"> -Who performed the activity and the date it was completed; and -Who reviewed the activity performed for the purpose of quality management related to the mission and the date and extent of the review. <p>ISQM 1 requires the firm to establish a quality objective that engagement documentation is completed in a timely manner after the date of the engagement report.</p>
ISRE 2400, point A32 and A34	<p>Acceptance and continuation of client relations and review missions:</p> <p>ISQM 1 requires the firm to establish quality objectives that address the acceptance and continuation of client relationships and review engagements. Information for accepting and continuing client relationships and review engagements have been followed and the conclusions drawn are appropriate may include information about:</p> <ul style="list-style-type: none"> -Integrity of principal owners, key management personnel and persons responsible for governance; and -Significant issues that arose during the current or previous review engagement and their implications for the continuation of the relationship. <p>The practitioner's consideration of the acceptance and continuation of client relationships and review engagements and relevant ethical provisions, including independence, is exercised throughout the engagement as certain conditions and changes in circumstances arise. Carrying out initial acceptance and continuation procedures for client relationships and review engagements and assessing relevant ethical provisions (including independence) at the start of an engagement provides the practitioner with information on which to base decisions and actions before undertaking other significant activities for the mission.</p>

Source: adapted made by the author using the provisions of ISQM 1 and ISRE 240 (Revised)

Conclusions

It is worth concluding that the International Quality Management Standard ISQM 1 “Quality Management for Firms Performing Audits and Reviews of Financial Statements and Other Assurance Engagements and Related Services” **will replace** the current International Quality Control Standard ISQC 1 “Quality Control for firms performing audits and reviews of financial statements, as well as other assurance engagements and related services.

In accordance with the new requirements of ISQM 1, a fundamental change was made **by replacing the concept of quality control** with that of **quality management**. The concept of quality control has been replaced by that of quality management, **which will be based on the risk-based approach**.

The risk-based approach provides a flexible system for the audit entity to adapt to the unique circumstances it faces and to deal with the tasks itself, which in certain situations goes far beyond the linear approach traditionally used until now. This will enable audit entities of all types and sizes to be able to apply ISQM standard 1. The new approach is also inherently proactive and based on continuous improvement and bug fixes. Quality objectives are found in most of the requirements prescribed in the new ISQM standard 1. That is, by the term “requirements” one actually means the quality objectives. It also follows that the main focus in the standard is on the final results.

Being currently in the period of transition and accommodation for the acquisition and proper implementation of the new audit quality management standards, we think that more internal restructuring will be required from audit entities than would be required to comply with the revised standards. The practical application of these standards will give much more credibility to the capital markets and will be a direct response to the most pressing needs of investors. The update of the standards was carried out taking into account modern technologies and effective approaches to quality management. In addition, these three standards can objectively be called stricter than the current requirements for audit quality management both at the level of the audit entity and at the level of the audit team.

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Ordonanța de urgență a Guvernului nr. 75/1999 privind activitatea de audit financiar, republicată în Monitorul Oficial nr. 598/22.08.2003, cu modificările și completările ulterioare.