



The Need for Modernizing Your Quality Management System



Spreadsheets are not systems

The implementation of the International Standard on Quality Management 1 (ISQM 1) *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* is imminent. The level of readiness of professional accounting firms ranges from some firms who are already hard at work towards implementation to others who are starting to realize that they have a lot of work to do towards implementing the standard.

The objective of this standard requires that the firm needs to design, implement and operate a system of quality management for audits or reviews of financial statements or other assurance and related services engagements performed by the firm. The objective already requires that this system must provide the firm with assurance that engagement reports issued by the firm are appropriate in the circumstances. This is the second part of the objective in the standard.

The first part of the objective, however, is that the firm needs to operate that same system of quality management to provide the firm with reasonable assurance that the firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with these standards and requirements. The focus is therefore not just on the ultimate report that is signed by the engagement partner, but also on the journey taken towards signing that engagement report.

When embarking on the design and implementation of this system of quality management, one of the first decisions that a firm needs to make (and preferably sooner rather than later), is the format or the technology that they will use in documenting and keeping record of their system of quality management.

This system will include the more traditional quality control policies and procedures, previously included in the firm's quality control manual. It will also include the firm's quality risk register and even all the records generated as part of operating the system of quality management. Ultimately, this system should also record and maintain the data required for preparing assurance work declarations, reporting relevant audit quality indicators and other regulatory reports on a regular basis.

Firms should bear in mind that the old quality control manual that was either printed in hard copy and kept in a partner's office, or the pdf version thereof saved on the firm's intranet, will no longer suffice.

The starting point in this system of quality management is not so much the engagement report, being the end result, but the quality ecosystem of the firm that will enable and support a quality engagement and the resulting engagement report.

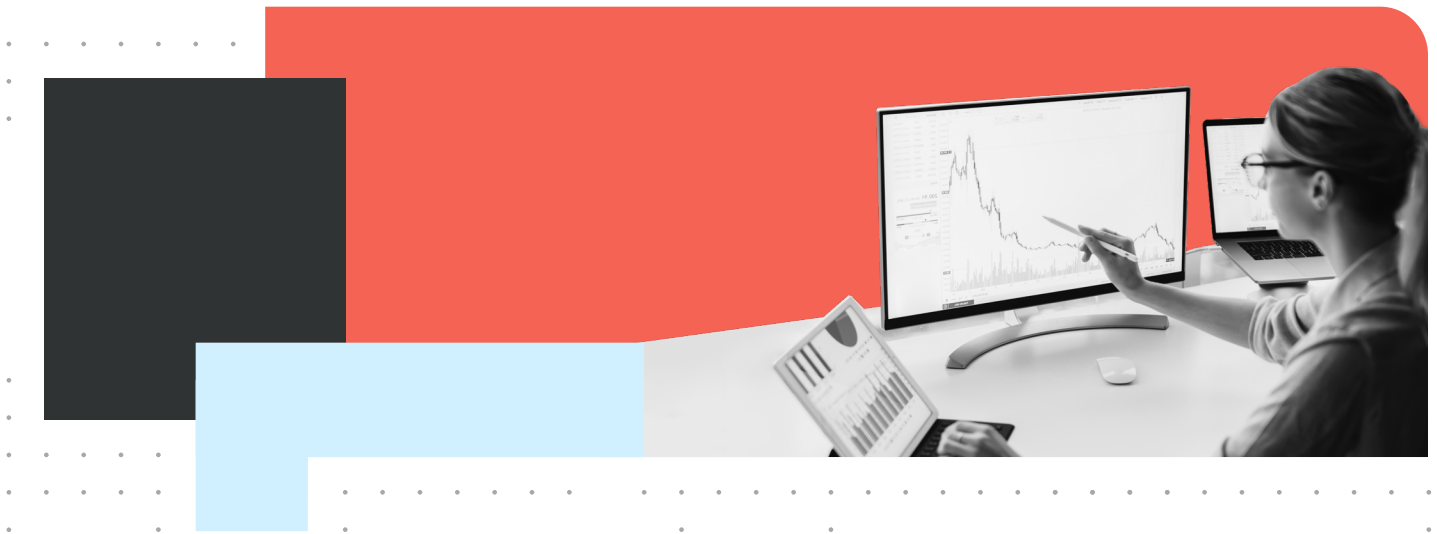
The firm therefore needs an integrated system of quality management, which starts with the firm and its personnel, resources, etc. and then moves towards the actual engagements that are performed.

In considering what technology the firm can use to design and operate its system of quality management, many firms opt for a spreadsheet-based system.

A spreadsheet-based system is relatively economical because the firm may already use spreadsheet software. It is also something that most professional accountants are familiar and comfortable with. There are various limitations to spreadsheets, though, and firms should consider if these limitations will lead to additional effort, cost, or risks in the firm's efforts in operating an effective system of quality management.

The firm should also consider their operational requirements (or needs) in selecting the most appropriate technology to operate their system of quality management.





What should you consider in selecting the most appropriate technology?



Version control

The system of quality management is an iterative process, so the firm will constantly be refining and improving the system based on deficiencies identified in the system (or as the firm's circumstances change and new risks are identified). The firm will also have to ensure that someone can monitor the activities and operation of the system for a specific period of time.

The change in the system will therefore have to show a log of changes to assist the monitoring process.

It may be challenging to maintain version control on a spreadsheet-based system to keep record of all changes made to earlier versions and to ensure that the latest version is always in use (and not overridden by an earlier version).



Access control

There will be different role players in the firm's system of quality management. The majority of staff will not be involved in the actual design of the system of quality management and the firm may therefore want to restrict these users' access on the system's databases for risks identified, risk assessment and the recorded and implemented responses to those risks. These users may only need to have 'view' access of the risks, policies and procedures, but may need 'edit' access in order to record activities and the execution of some of the procedures in the system, for example recording the receipt of a gift or other inducement from a client in a gift register.

A spreadsheet-based solution may be somewhat restrictive in maintaining this segregation of access rights for the different levels of users. Again, there will not be a change log to show details of any changes made.



Linking multiple objectives, risks, etc.

In designing the firm’s system, there will be various instances where a firm will identify more than one risk to an objective, or design one response that addresses more than one risk (and therefore also more than one objective).

It is important that the firm’s technology allows for “many-to-many” relationships between objectives, risks and responses.

Including hyperlinks or other live links between these are even better, so that the user can click through to each of these with ease.



Automation and automatic reminders

The effective operation of the system of quality management can be a daunting task and the use of automation in a system can relieve a great deal of pressure on the firm.

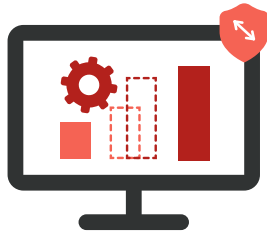
Today, technology can automatically send tasks to users when they are due to be performed. An example here could be that a system sends an email to all users to perform their annual independence declarations.

At the same time, the system can monitor which of the users have responded and keep on reminding those users who have not yet completed their declarations, that the due date is approaching.

Once all users have responded to the tasks, the system can identify specific responses that need review, for example, those users that declared relationships that may create a threat to compliance with the fundamental principles or independence, saving an individual a lot of time sifting through all those responses, just to identify the ones that need actioning.

Another example could be an automatic task that is created for an engagement partner to approve a gift or other inducement received by an engagement team member. This will ensure that the approval part of the firm’s procedure is adhered to and not only completed at the review at regular intervals.





Scalability for larger and smaller firms

The ideal technology will also allow for the needs of larger and smaller firms. For a smaller firm, or even a sole proprietor, the need for a distinction between the person designing the system and the person taking ultimate responsibility for the system (typically the managing partner or CEO) would be obsolete.

In this case, the firm would want to be able to merge the two roles and have all changes made by the CEO (or managing partner) finalized without the need for approval

On the other side of the scale, a larger firm may want to reflect that the CEO or managing partner has demonstrated the leadership's involvement in the system by approving the risks recorded by the quality manager.

If the firm belongs to a network of firms and that network has prescribed some additional objectives, or identified firm-specific risks and their responses, the firm may want to be able to incorporate those with as little effort as possible — even importing them into the system, if the tool includes that functionality.

Further, if a firm does not provide audit services, but only independent reviews and compilations, the firm would want to ensure compliance with ISQM 1 without being burdened by the audit-specific content in the standard (or even in the technology tool that is used). It would therefore be helpful if the technology can prompt a user to select which services are provided by the firm and then hide any non-relevant content from the user — or at the very least, indicate that it is not relevant.



Conclusion

To conclude, the emphasis on the management of quality, rather than just controlling quality, is one of the biggest changes with the introduction of ISQM 1. Firms are therefore no longer able to control quality by merely implementing policies and procedures as prescribed in the standards but have to proactively manage quality in the firm.

The use of technology to assist the firm in this mammoth task is essential.

It has also become clear, by now, that the use of spreadsheet-based software will not suffice.

The ideal technological tool to use, when designing and operating a firm's system of quality management, will:

- Maintain a log of changes made, including actual changes recorded in the risk register or responses and changes in the access rights of users.
- Provide functionality for access control to distinct parts of the system and for different rights to a specific part of it, for example only view access to some parts with edit rights to others, but no rights to delete any recorded information.
- Provide for many-to-many relationships in terms of linking objectives, risks and responses in the system
- Incorporate efficiencies like automation of tasks and reminders to users when specific responses are due
- Allow the scalability of the firm's system by considering its size, the type of services that it delivers and other relevant matters.

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