SinceTex

Quality Management Systems

Start at the Top, Inspiring Excellence Throughout!

Tailored specifically for the Audit Profession

KEY FEATURES

- Latest updates on International Auditing Standards
- Your tailored-made Quality Management System
- Frequently Asked Questions: Your Guide
- Key Focus Areas on Quality Management System
- Common Findings on Quality Management System

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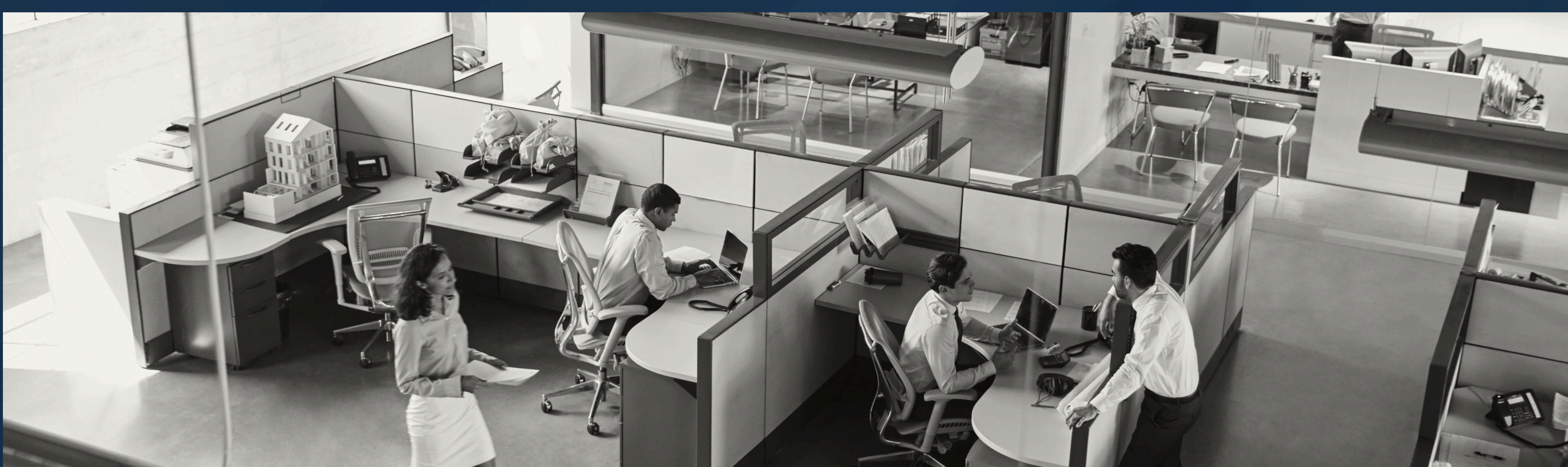
Latest Updates on International Auditing Standards



Comparison between ISQM 1 and QC 1000

- The International Standards on Quality Management (ISQMs), issued by the IAASB, have been effective since December 15, 2022. In contrast, the QC 1000 - "A Firm's System of Quality Control," adopted by the PCAOB and approved by the US SEC - will take effect on December 15, 2026.
- QC 1000 mandates annual evaluations on September 30, while ISQM 1 requires only an annual evaluation without a specific date.
- QC 1000 introduces a distinct evaluation framework with different evaluation conclusions and additional requirements compared to ISQM 1.
- Firms issuing audit reports for over 100 issuers must establish an external oversight function, an automated independence system, monitoring of in-progress engagements, and a confidential channel for reporting complaints, as mandated by QC 1000.
- Documentation under QC 1000 must be sufficient to enable an experienced auditor to understand. This threshold for an experienced auditor differs from ISQM 1.

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Tailor your quality management system to fit your specific circumstances and portfolios

Regulators' 2024 Inspection Insights

Quality management systems among firms can vary significantly due to factors such as the firm size, operational complexity, audit portfolios, and strategic approaches. These differences are apparent in multiple areas, including the framework for risk assessment process, the level of formality in addressing quality risks, the number of responses implemented, the complexity of monitoring mechanisms and their independence, as well as the depth and frequency of formal reporting to governance bodies.

Regulatory review will focus on assessing whether the firms' quality management systems are appropriately tailored to their unique circumstances.

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Frequently Asked Questions: Your Guide

Commonly Asked Questions

Whenever evaluating various aspects of the Quality Management System, keep the following key questions in mind:

- Have all quality risks been fully identified and assessed for their relevance and impact?
- Are there well-defined strategies and responses in place to address these quality risks, detailing how the quality risks can be effectively mitigated?
- Has there been adequate monitoring of these responses, alongside relevant data such as root cause analysis, ethical considerations, staff input, complaints, and investigation outcomes?
- Have deficiencies been meticulously identified and assessed on an individual basis, with a thorough evaluation of their overall impact and significance?
- Has there been a thorough assessment of the extent and effectiveness of the remedial actions taken?

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Key Focus Areas on Quality Management Systems

Core Areas in Quality Management Optimization

- Leadership must maintain a comprehensive understanding of SQM activities to facilitate timely oversight and initiate necessary interventions, all while cultivating a robust quality-centric culture.
- In terms of monitoring and remediation, firms should enhance their frameworks for conducting cold file reviews and performing root cause analyses.
- Adherence to relevant ethical standards is imperative to uphold independence and objectivity in all engagements. This is particularly crucial in the context of approving non-audit services and regulating the engagement duration of key audit partners and their firms.
- Strategic resource management and allocation for audit engagements and SQM initiatives will be critical focal points.
- Promote effective two-way communication among audit personnel and encourage substantive dialogue between the Audit Committee and the External Auditor.

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Common Findings on Quality Management Systems

Key Findings from Regulators' Inspections

- Non-compliance with independence standards: Inadequate policies and procedures in place to effectively identify, assess, and mitigate threats to auditors' independence that arise from prolonged client relationships and the provision of non-assurance services.
- Inadequate intellectual capital and training resources hinder the consistent execution of high-quality audits.
- Weaknesses in Audit Documentation Controls: Inadequate controls in place to ensure the integrity of audit documentation, coupled with a lack of sufficient policies and procedures to safeguard archived files.
- Need for Robust Remedial Evaluation: A more rigorous approach is required for assessing the effectiveness of remedial actions taken.
- Enhancement of SQM findings identification, assessment, and deficiencies to support more robust evaluations.

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Sources

- QC 1000, A Firm’s System of Quality Control, published by the PCAOB, can be found on the PCAOB's website (www.pcaobus.org).
- International Standard on Quality Management 1 (ISQM 1), published by the IAASB, can be found on the IAASB's website (www.iaasb.org).
- Hong Kong Standard on Quality Management 1, published by the HKICPA, can be found on the HKICPA's website (www.hkicpa.org.hk).
- 2024-25 Annual Inspection Report and Annual Investigation and Compliance Report were published by the Hong Kong Accounting and Financial Reporting Council (AFRC). The full Reports are available on the AFRC's website (www.afrc.org.hk).
- 2025 Annual Review of Audit Quality was published by the UK Financial Reporting Council (FRC). The full Report is available on the FRC's website (www.frc.org.uk).

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SinceTex | Your Global Partner in Compliance

At SinceTex, we understand that navigating the intricate landscape of financial and corporate governance can often feel overwhelming. Our team of top-tier professionals brings a wealth of expertise gained from leading global accounting and professional firms. We are committed to promoting an ethical culture, ensuring robust corporate governance, and maintaining regulatory compliance in a complicated financial world with confidence and clarity.

At SinceTex, we prioritize Precision, Trust, and Transparency. Your Financial Success, backed by solid corporate governance, starts with us! Let's embark on this journey towards excellence!

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