



# Enhancing Audit Quality through Digitization

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Audit quality has always been a vital consideration for auditors. Audit firms carry an onerous responsibility to serve the larger public interest. Therefore, conducting high-quality audits; independently, with integrity, objectivity, and with professional skepticism is a standard benchmark for auditors.

In order to make informed decisions, stakeholders require accurate, transparent, and informative financial reporting. Regulatory review also plays an instrumental part in enhancing audit quality.

ISQM 1 (International Standard on Quality Management) is intended to strengthen the quality management system of accounting firms by providing a comprehensive, proactive, and effective approach to quality control. To implement and operate the quality management system of the firm in a way that proactively manages the quality of engagements performed by the firm, ISQM 1 requires firms to adopt a risk-based approach when designing, implementing, and operating components of the firm's control environment in an interconnected and coordinated manner. All firms that perform engagements under the international standards of the IAASB (International Auditing and Assurance Standards Board) are subject to ISQM 1. By December 15, 2022, every accounting firm performing engagements under IAASB's standards must adopt a system of quality management based on ISQM 1.

ISQM 1 prescribes a framework for evaluating findings, identifying deficiencies, and detecting the severity and pervasiveness of deficiencies to monitor and identify risks in the system.

ISQM 1, marks a significant shift made by the IAASB towards meeting public expectations of what a good audit should be, by improving the approach to quality management within accounting firms.

ISQM 1 makes an accounting firm responsible for designing and implementing a remediation plan that addresses the root cause of identified deficiencies. It is imperative that firm leadership determines the effectiveness of remedial actions and sets the right tone at the top.

At KNAV, we are embracing the opportunity to examine those areas where we can further support and transform our quality control system by implementing the International Standard of Quality Management 1 (ISQM 1) in accordance with our culture of continuous improvement and innovation.

### Components of ISQM 1

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- **The firm's risk assessment process**
- **Governance and leadership**
- **Relevant ethical requirements**
- **Acceptance & continuance of client relationships and specific engagements**
- **Engagement performance**
- **Resources**
- **Information and communication**
- **The monitoring and remediation process**

## Enter Automation

By leveraging emerging digital capabilities and technologies, we at KNAV continue to accelerate our progress, including enabling a more proactive approach to managing and responding to audit quality risks. We have automated the ISQM 1 standard compliance and monitoring process in order to optimize our efficiency and enhance accuracy. In this way, we are able to establish a quality management system that is customized, integrated and provides real-time feedback.

*Illustration 1- Table - Status on ISQM 1 by KNAV International Limited member firms*

Sr. No.	Stage and Task	USA	Canada	India	Singapore	U.K.
I	<b>Design stage</b>					
a	Identification of quality risks	Completed	Completed	Completed	Completed	Completed
b	Integration of existing, standalone policies and procedures, into a system of quality management	Completed	Completed	Completed	Completed	Completed
c	Integration of existing engagement quality review policy with the requirements of ISQM 2	Completed	Completed	Completed	Completed	Ongoing
d	Mapping of risks and controls to quality objectives and components	Ongoing	Ongoing	Ongoing	Completed	Completed
e	Identification of process owners for implementing the system of quality control	Completed	Completed	Completed	Completed	Completed
f	Collation and where necessary, documentation of existing policies and procedures	Completed	Completed	Completed	Completed	Ongoing
II	<b>Implementation stage</b>					
a	Trial run of qm.x automation tool	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
b	Training to users	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
c	Implementation of qm.x tool	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
d	Updating of risks and controls in the tool	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
e	Monitoring and remediation process	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
f	Independent review of the system of quality management by JGA	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing

qm.x is an efficient quality management tool developed by Grant Thornton. It provides one place to drive consistent compliance for ISQM 1 and other standards.

By providing an overview screen, the ISQM tool helps us to visualize all the elements of our quality management system. As a result, we are able to drill down into each element and see its hierarchy of component activities, objectives, risks, responses and findings. Also, a detailed page displays all information about an item, its key attributes, owners, and relationships, allowing us to view the relationship between risks and responses.

By providing a variety of services, such as detailed testing and evaluation of deficiencies, we will continue to evaluate the comprehensive quality management objectively and independently.

Bringing together the human element with technology is the way forward for progress. Accounting firms, including KNAV, are at the forefront of this change.

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