CSQM 1

Risk Assessment Process Guide

Path to Implementation

Risk Assessment Process
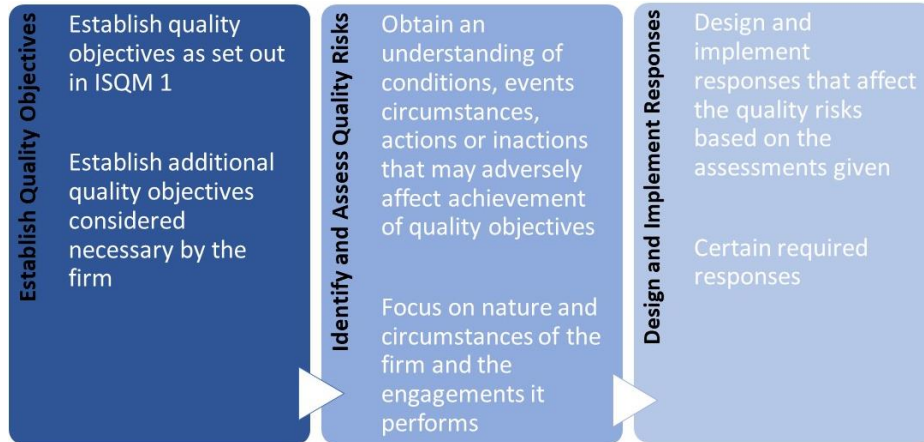
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Establish Quality Objectives	Identify and Assess Quality Risks	Design and Implement Responses
Establish quality objectives as set out in ISQM 1 Establish additional quality objectives considered necessary by the firm	Obtain an understanding of conditions, events circumstances, actions or inactions that may adversely affect achievement of quality objectives Focus on nature and circumstances of the firm and the engagements it performs	Design and implement responses that affect the quality risks based on the assessments given Certain required responses

Establishes a risk-based approach to quality management

Focuses the firm on the risks that may arise given the nature and circumstance of the firm and the engagements it performs.

Assists the firm in designing and implementing appropriate responses to address those risks.

Risk Assessment Process

Overview

CSQM 1 requires a firm to have a risk assessment process, the purpose of which is to:

- Establish quality objectives
- Identify and assess risks to the achievement of the quality objectives
- Design and implement responses to address the quality risks

In applying this risk-based approach, the firm is required to take into account the nature and circumstances of the firm and of the engagements it performs.

Establish Quality Objectives (What are you trying to achieve?)

The firm is required to establish quality objectives for the following components:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance
- Engagement performance
- Resources: human, technological, intellectual, service providers
- Information and communication

The quality objectives are outlined in the standard. A firm establishes additional quality objectives if necessary.

Identify and Assess Quality Risks (What could go wrong?)

The objective of identifying and assessing quality risks is to put the focus of the firm on what can go wrong in achieving the quality objectives. It also helps the firm develop the appropriate risk responses.

The definition of a quality risk is when it meets both of the following criteria in CSQM 1:

- The risk has a reasonable possibility of occurring
- The risk has a reasonable possibility of individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives

Professional judgement is exercised whether a risk meets the threshold set out in the standard.

Design and implement risk responses (What are you going to do about it?)

A firm is required to design and implement responses that are based on, and responsive to, the reasons given for the quality risks assessments. Unlike the quality objectives, which are prescribed by the standard, the responses to the risks are dependent upon the nature and circumstances of the firm and the engagements it performs.

There are no other "required" responses other than a limited number of specified responses.

Risk Assessment Process

Nature and Circumstances of the Firm and its Engagements

The value of focusing on a risk assessment process it that it helps the firm to identify the various "conditions, events, circumstances, actions or inactions" (CECAI) related to the firm and its engagements that could adversely affect the achievement of the quality objective.

That is, describe your firm and the challenges you may have in meeting the objective of the SQM which is that partners and staff fulfill their responsibilities and the reports issued are appropriate.

CSQM 1 sets out the areas in which "conditions, events, circumstances, actions or inactions" a firm is required to understand as follows:

Complexity and operating characteristics of the firm

Understand and consider such matters as the size of the firm, firm structure, locations and how activities and processes are handled.

Considerations:

Size of the firm. Lines of service. Number of offices. Firm structure. Use of service delivery centers. Characteristics and availability of firm resources.

Strategic and operational decisions and actions, business processes and business model of the firm

Understand and consider such matters as strategic goals, growth/succession planning, how decisions about operational and financial matters are made, how resources are managed, industry specialization or new service offerings.

Considerations:

Strategic goals. Growth plans. Decisions about financial and operational matters. Management of financial resources are managed. Industry specialization. Market specialization. New service offerings.

Characteristics and management style of leadership

Understand and consider such matters as the composition of firm leadership, distribution of authority, how partners operate within the firm and how leadership motivates and encourages personnel.

Considerations:

Composition of firm leadership. Leadership roles. Tenure. How roles established. How authority distributed among leadership. Style. How leadership motivates and encourages personnel.

Resources of the firm, including human resources, technological resources, intellectual resources and use of service providers

Understand and consider such matters as the background and makeup of personnel, overall staff composition, use of technology, use of other resources, availability and allocation of financial resources and the use of service providers.

Considerations – Human Resources:

General background and composition of personnel. Overall staff structure. Involvement of component auditors. Feedback. Compensation. Training.

Considerations – Technological Resources:

Use of technology. IT applications. Databases. Hardware. Software. How obtained, developed and maintained. Availability and allocation of financial resources.

Considerations – Intellectual Resources:

Use of intellectual resources. Products developed. Products purchased. How obtained, developed and maintained. Availability and allocation of financial resources.

Considerations – Use of Service Providers:

Nature of the resources. How used by firm. Extent to which used. General characteristics.

Law, regulation, professional standards and the environment in which the firm operates

Understand and consider such matters as regulations relevant to the firm, professional standards, other standards or regulations affecting engagements, and social factors.

Considerations:

Regulations directly relevant to the firm. Professional standards. Other standards or regulation affecting engagements performed by the firm. Economic stability. Social factors.

Types of engagements performed and the reports to be issued

Understand and consider such matters as to the types of engagements the firm performs and the subject matter of engagements and specialized service offerings.

Considerations:

Nature of engagement performed. Audits, reviews of financial statements. Related services engagements. Other assurance engagements. How reports the firm issues may be used by users.

Types of entities for which engagements are to be undertaken

Understand and consider such matters as size and complexity of clients, industries in which they operate and nature of their businesses.

Considerations:

Industries in which clients operate. Size and complexity of client. Listed entities. Other public interest entities. Financial services organizations. Owner-managed companies. Charities. Other not-for-profit organizations.

Nature and extent of the network requirements and network services, if applicable

Understand and consider such matters as the participation in a network of firms and the related requirements and services provided.

Considerations:

Nature of the network. How network organized. General level of quality of network requirements. Network services provided.

Risk Assessment Process

Action Required: Identify Risks Related to Your Firm

Complete the Preliminary Risk Identification Worksheet to identify the "conditions, events, circumstances, actions or inactions" (CECAI) related to the firm and its engagements that could **adversely** affect the achievement of the quality objectives.

The definition of a quality risk is when it meets both of the following criteria in CSQM 1:

- The risk has a reasonable possibility of occurring *(What is the likelihood?)*
- The risk has a reasonable possibility of individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives *(What is the consequence?)*

Your objective in completing the risk worksheet is to *identify* potential quality risks at your firm based on its nature and circumstances.

Use Appendix 1 as a reminder as to what are the quality objectives in CSQM 1. Use Appendix 2 as guidance on questions to ask as you identify the potential risks that may exist in your firm and therefore prevent you from achieving the quality objectives.
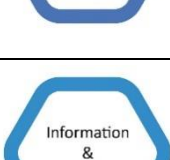
During in-person workshop, we will finalize risk identification and assess those risks based on their likelihood of occurring and the consequences related to achieving quality objectives.

The risk assessment process will then lead into designing risk responses, also covered in detail in the in-person workshop.

Appendix 1: Quality Objectives Summary

Component	Its Role	Summary Quality Objectives
Governance & Leadership	*Establishes the environment in which the SQM operates.*	• Firm demonstrates commitment to quality through culture • Leadership is responsible and accountable • Leadership demonstrates a commitment to quality • Organizational structure is appropriate • Resources are planned for and allocated appropriately
Relevant Ethical Requirements	*Specific topic fundamental for engagement performance.*	• The Firm and Personnel understand and fulfill responsibilities in relation to ethical requirements • Others external to the Firm understand and fulfill responsibilities in relation to ethical requirements
Acceptance & Continuance	*Specific topic fundamental for engagement performance.*	• Judgements about whether to accept or continue a client relationship or engagement are appropriate • The Firm has the ability to perform the engagement • Financial and operation priorities do not lead to inappropriate judgements
Engagement Performance	*Specific topic fundamental for engagement performance.*	• Engagement teams understand and fulfill responsibilities • Direction and supervision and review of work is appropriate • Appropriate professional judgement and professional skepticism • Consultation is undertaken and conclusions implemented • Differences of opinion are resolved • Engagement documentation is assembled on a timely basis
Resources	*Enables the operation of the other components.*	• Personnel are hired, developed and retained • Engagement teams members are competent and capable • Individuals assigned to SQM are competent and capable • Technological resources are obtained, implemented and maintained • Intellectual resources are obtained, implemented and maintained • Service providers are appropriate
Information & Communication	*Enables the operation of other components.*	• Information system identifies, captures, processes and maintains relevant and reliable information • Culture of Firm recognizes and reinforces exchange of information • Information is exchanged in both directions • Information is communicated to external parties

Appendix 2: Guidance on Questions to Ask for Each Component Related to Quality

Governance and Leadership

- Is the Firm structure formal or informal?
- Are specific roles identified and assigned? Is there a "managing partner"?
- What is the culture of the firm? What do you want it to be?
- How do partners operate with the firm?
- What tone do partners set for staff? Is it consistent?
- How are financial and operational decisions made?
- How are resources allocated?
- What are strategic priorities of the Firm? Is there a strategic plan in place?
- Are goals set by the Firm tracked and monitored?
- Do staff know to go to when faced with an issue?

Relevant Ethical Requirements

- How is the client listing updated and maintained? What is the process when gain a new client?
- How is the client listing communicated to staff?
- How is independence tracked?
- Are personnel aware of firm's policies/procedures?
- Do staff understand their ethical requirements?
- Do service providers understand their ethical requirements?
- Is there a reporting process in place if a breach is identified?
- How are breaches handled? What is the process?
- Is there a reporting process for complaints? How are they handled and resolved?

Acceptance and Continuance

- Who drives acceptance and continuance decisions?
- How are acceptance and continuance procedures documented?
- How do independence threats or prohibitions addressed?
- How are new clients are added to the client listing?
- Where is client listing stored? Do staff have access?
- How do you know you have capability to take on client?
- How do you do background checks and gather information related to new clients?
- What is the process for responding to proposals?

Risk Assessment Process

Engagement Performance

- How are staff assigned to jobs?
- What supervision is provided?
- Are staff provided sufficient direction?
- What are the working papers reviewed? How are working papers reviewed? When?
- What is the process for " releasing " financial statements?
- Are files locked down?
- What is the criteria for involving an Engagement Quality Reviewer? Is it known?
- What is the evidence of review?
- To what extent is the partner involved? When and how do they document their review?
- How do staff demonstrate professional judgment? How is this documented?
- Do staff exercise professional skepticism? How is this documented?
- When is an expert required?
- How are differences of opinion handled?

Resources

Human Resources

- Does the Firm have the right staff complement?
- Are there adequate resources in place to meet engagement and client requirements?
- How are staff trained and developed?
- Is on the job coaching provided?
- When are staff evaluated? When?
  - Job feedback?
  - Mid-year assessment?
  - Annual evaluations?
- Is feedback formal or informal? How is feedback used to develop staff?
- How are staff compensated?
- Is it clear when staff are ready to be promoted? Are expectations made clear?
- Do staff know what is required in their role? Are job descriptions in place?
- Are external resources required? How are they assessed?

Technological Resources

- What hardware is in use at the Firm? Is it documented?
- What software is in use at the Firm? Is it documented?
- Where are passwords stored? Who has access?
- What is process if something goes awry?
- What is our backup process?
- Do we have a system in place if something goes wrong?
- Who supports IT processes?
- How is IT maintained?
- Is an IT service provider used?
- How are new applications assessed before being used?
- How are new systems bought and allocated?
- How is the confidentiality and integrity of electronic information protected?

Risk Assessment Process

Intellectual Resources

- What tools and templates are in use?
    - If in-house developed is documentation in place? How are changes or revisions made or tracked?
    - If third party, how are updates rolled out? How communicated?
- How are intellectual resources kept up to date?
- Who is responsible for assessing intellectual resources?
- Is training required for new resources? How is it provided?
- Any maintenance required (ie subscriptions)? How is it maintained and tracked?
- How do you learn what is new?
- Are staff aware of resources available to them? Do they use the most current version?

Service Providers

- What service providers are used?
- Are they aware of their responsibilities?
- Are they competent and capable?
- How are they held accountable for service delivery?

Information and Communication

- How does the firm gather information?
- Is there a process for receiving complaints and allegations?
    - Internally?
    - Externally?
- Are there clear communication channels from the Firm to personnel? From personnel to the Firm?
- How are conflicts of interest identified and addressed?
- Are the communication requirements with external parties known? What are the communication channels?