Preparing your resource management for ISQM 1

How AI-powered resource management can help you meet the new quality standard

))) Dayshape

Contents

This non-authoritative document has been designed to help firms prepare for some of the resource-related requirements of the International Standard on Quality Management (ISQM) 1, and implement the standard as intended. This document is not a substitute for reading ISQM 1, the text of which alone is authoritative. This guide makes specific reference to the latest version of ISQM 1 available (Final Pronouncement Dec 2020) as of Aug 2021, any subsequent versions of the ISQM 1 documentation released after this date should then be referenced.[1]

Details of the latest publications can be found via `isaab.org`*.*

ISQM 1

Purpose of this guide

The International Standard on Quality Management (ISQM) 1 applies to all firms that "perform audits or reviews of financial statements, or other assurance or related services engagements," and will become mandatory from December 15, 2022.[1] Against a backdrop of increasingly robust regulation of the sector, the standard aims to strengthen and modernise the way firms manage their systems of quality management (SOQM) across the profession.

This guide will help your firm to prepare for and implement the resource and engagement management related components of ISQM 1. Using insight from our customers, including two of the Big Four, we highlight how Dayshape can support ISQM 1 compliant resource management practices.

This guide:

- Provides an introduction to ISQM 1 and the key quality objectives

- Details how Dayshape's resource management software can support your firm's SOQM for ISQM 1 compliance

- Signposts you to further ISQM 1 implementation support material

A new standard for quality management

Before we get into preparing your firm for ISQM 1 compliance, below is an overview of what it is, what it aims to achieve, and the key dates to remember.

ISQM 1 is part of the International Auditing and Assurance Standards Board's (IAASB) suite of quality management standards, issued in September 2020. The new standards for quality management comprise of three interrelated quality standards, outlined below:

- ISQM 1
- ISQM 2
- ISA 220 Revised[2]

ISQM 1 key objectives

- Enhancing the robustness of the firm's SOQM
- Introducing a more tailored approach to managing quality
- Enhancing firm governance and leadership
- Modernising the standard to reflect factors affecting the firm's environment
- Improving information and communication
- Proactive monitoring of the SOQM as a whole
- Establishing an ongoing culture of "commitment to quality"[1]

ISQM 1 effective dates

Firms are required to have their new SOQM in compliance with ISQM 1 implemented by December 15, 2022. ISQM 1 also requires that the evaluation of the SOQM (para 53–54) be performed within one year following December 15, 2022.[1]

> "*When effectively implemented, the standards should help ensure that a commitment to quality is at the heart of the firm strategy and operations.*"
> — IAASB Chair Tom Seidensten[2]

How can resource management software help?

Inevitably, ISQM 1 will require a significant pull on human and technological resources as firms prepare, design, and implement changes to meet the new standard. The technological resources that are necessary for the success of the SOQM include the IT applications, systems, and software used:

- In designing, implementing or operating the firm's SOQM

- By engagement teams in the performance of engagements

- To enable the effective operation of the above[1]

The standard encourages firms to design a system of quality management, and relying on manual processes for this system is inefficient. With both human and technological resources at the foundation of a successful SOQM, the need for firms to embrace technology and replace inefficient, manual, and time-consuming resource management processes is more pressing than ever.
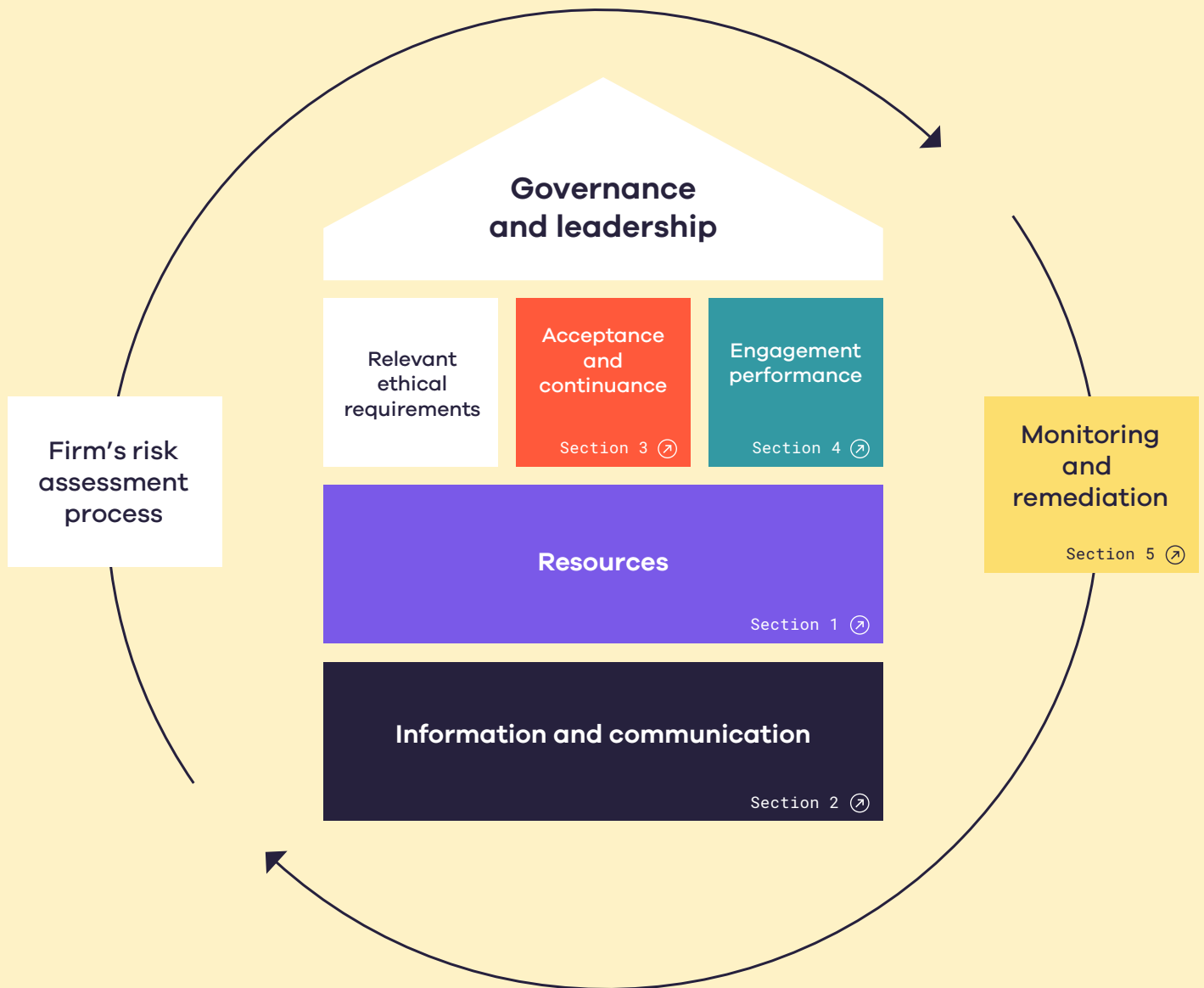
Forward-thinking firms have recognised the value of introducing new automated and AI-powered technology to streamline their resource planning and engagements. In fact, the IAASB guidance for ISQM 1 states that as part of a SOQM:

> *"Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements."*[1] Para 32 (f)

In this guide, we'll explain how Dayshape is one such tool that can help you deliver a robust SOQM. By embracing AI-powered resource scheduling tools specifically built for optimising resource management, firms are able to:

- Save valuable time by reducing admin burden on engagement managers

- Identify and resolve resource clashes at an earlier stage

- Streamline decision-making processes

- Reduce likelihood of human error or bias

- Deploy the right skills and knowledge to engagements automatically

- Drive efficiencies through bigger-picture and centralised resource planning

- Run in-depth reporting to accurately plan future capacity vs. demand

- Proactively monitor and track engagement performance in real-time

The Components of a System of Quality Management

Governance and leadership

Relevant ethical requirements

Acceptance and continuance
Section 3 ↗

Engagement performance
Section 4 ↗

Firm's risk assessment process

Monitoring and remediation
Section 5 ↗

Resources
Section 1 ↗

Information and communication
Section 2 ↗

ISQM 1 consists of eight components, five of which relate to resource and engagement management practices.

For each of the five components highlighted, we will explore how Dayshape can help firms prepare their resource management practices and support the implementation of the new quality standard as defined in ISQM 1.

1. Resources

(Para 32)(A86–A108)[1]

Underpinning the success of the SOQM is the resources component which consists of three categories of resources: human, technological, and intellectual.[1] Under ISQM 1 firms must:

- Recruit, develop, and retain resources with the relevant knowledge, skills, and experience to consistently perform quality engagements
- Proactively assess and monitor the appropriateness of resources, including the use of external service providers
- Take responsibility for its own SOQM when operating within a network[1]

Resources: Where can Dayshape help?

Dayshape can provide unique and comprehensive support to this requirement by helping to ensure that the firm assigns the appropriate resources, competences and capabilities to each engagement. Dayshape can also support the assessment and monitoring of the resources used to perform engagements on an ongoing basis.

a: Bigger-picture resourcing

Dayshape's AI-powered resource planning software gives the option to expand beyond local resource assignment and drives efficiencies by looking at skills and availability at a nationwide and global level. This visibility allows for the creation of more effective, bigger-picture capacity and resource planning strategies.

With centralised resourcing, engagement managers can continue to drive optimal delivery by proactively assessing the skills needed to deliver quality engagements now and in the future. Dayshape supports this by identifying relevant skill gaps with in-depth reporting of predicted surplus or shortfall versus demand by geography or type of engagement. On the individual level, a national or global approach to resourcing can also allow for more opportunities and exposure to projects based on preference or career development goals.

b: Skills tracking

Dayshape also allows individuals' knowledge, experience, and accreditations to be tracked. As competencies and skills change over time, the audit trail functionality allows for detailed investigations into when skills and accreditations were acquired and lost. If Dayshape isn't used as the system of record for skills tracking, it can integrate with other source system/s to obtain this data and make it visible and usable for the purposes of resource management.

With in-depth reporting and tracking of skills, competencies, and experience required and acquired over time, resource managers have the insight they need to understand resourcing risks alongside current and future demand.

2. Information and communication
(Para 33)(A109–A115)[1]

The information and communication component requires that firms establish a SOQM that can effectively capture, process, maintain, and communicate relevant and reliable information regarding the SOQM, within the firm and to external parties.[1]

Information and communication: Where can Dayshape help?

Dayshape's reporting capabilities provides greater visibility of key performance metrics and supports the continual flow of relevant and reliable information within the firm and across engagement teams.

a: Enhanced data reporting

Dayshape helps to promote a culture of transparency by offering a view of engagement performance that is available to most users by default, and is configurable to the firm's needs. The system is specifically designed to capture, process, maintain, and manage resource data. Real-time reporting informs the budgeting and allocation process by supporting the communication of relevant and reliable information. Dayshape also integrates with other systems such as time recording systems to reduce manual intervention.

3. Acceptance and continuance
(Para 30)(A67–A74)[1]

ISQM 1 requires firms to continually assess their judgements on whether to accept or continue specific client relationships or engagements. This includes judgements about whether the firm has the right level and availability of resources to perform the engagement.[1] To perform an engagement the firm must ensure it has resources with the:

- Relevant skills, qualification, knowledge, and time necessary
- Required "experience in the relevant regulatory or reporting requirements"[1]

Acceptance and continuance: Where can Dayshape help?

Dayshape's AI powered planning software has several features that support and inform judgements about whether the firm should accept or continue an engagement. Weighing up the resources, expertise, and capacity necessary, with those that are available at any given time, the software highlights where there are critical matches or gaps.

a: Configurable approval workflows

Dayshape's configurable approval workflows constitute an automated control that can ensure engagement plans are reviewed by the right people, as well as ensuring enforcement of independence restrictions and accreditation compliance.

The flexibility of these workflows allows engagements that are failing certain criteria (for example, signs of insufficient resourcing, or a lack of detail in requirements) to automatically be escalated for more detailed review and approval.

b: Capacity planning

Effective capacity planning encompasses more than just maximising billable hours. An optimal resource plan should be accessed holistically, taking into account factors including competency, capability, and sufficient time to perform the work. Live budgeting and performance data is also essential to maintain visibility of capacity, monitor and adapt to ongoing changes, and identify quality risks.

Dayshape's live budgeting functionality also allows engagements to be planned to a high degree of granularity. Traits (configurable attributes such as skills and qualifications) can be recorded against engagement bookings and tasks, so that the type of skills or accreditations required to do the work can be tracked. Traits can also be recorded against individuals over time, and are used to track their competencies, skills and accreditations, including expertise in specific areas and industries. The visibility of traits on both bookings and individuals at the engagement level allows for quick and accurate matching and therefore, more representative capacity forecasting. The addition of assisted or AI-powered scheduling optimises this process even further, enabling faster, more strategic capacity planning.

In support of the acceptance and continuance requirements, Dayshape also allows prospective engagements to be planned alongside confirmed engagements. This allows future work to be easily and clearly viewed alongside confirmed work, without having to assign the unconfirmed booking/s to an actual resource (the individual would only see they have bookings assigned once confirmed). It also allows resources to be requested for engagements, which is tracked separately from – and therefore doesn't interfere with – assigned work. Dayshape can also take non-chargeable time into account to to forecast overall availability and project capacity across the firm.

4. Engagement performance

(Para 31)(A75 - A85)[1]

The engagement performance component deals with the firm's actions to support a consistent performance of quality engagements. This takes into account the direction, supervision, review, and consultation necessary at each stage of the engagement life-cycle.[1]

Engagement performance:
Where can Dayshape help?

The engagement performance component is a key area in which Dayshape can offer unique and extensive support. Dayshape is designed to allow firms to closely track the progress and performance of their engagements, while ensuring that the right level of skills, competencies and experience are allocated to the engagement consistently and at each stage.

ISQM 1 places a greater emphasis on the responsibility and accountability on leadership (para 20, a) for the SOQM, but this shouldn't be done in isolation of the wider team. By empowering different users at different levels with the performance data they need, the software supports a collective responsibility for maintaining quality.

a: Live engagement planning and economics

Dayshape provides engagement scheduling, real-time economics, and financial reporting in one-system, by modelling the implications of the future resource plan with timesheet data.

This data allows the firm to immediately see if an engagement is going off track and provides clarity on the impact that any resource changes will have on the overall engagement performance. Enhanced visibility and controls are also available at the engagement level, providing a consolidated view of performance.

By providing this level of control and visibility in one system, Dayshape empowers both leadership and engagement teams with the insights they need to trigger the right escalation process and implement changes to prevent risks to quality.

b: Full life-cycle management

Dayshape allows engagement leaders to create an engagement plan, manage budget approvals, track changes and monitor progress, all in one place. The system tracks the progress of the engagement by comparing actual time-sheets against budgeted time, which provides a leading indicator of engagement performance at each stage of the life-cycle.

Real-time tracking of project performance ensures advance notice of potential overruns and the opportunity to remediate any risks impacting the engagement performance or wider SOQM. Performance data can also be accessed through templated or custom reporting to ensure engagement performance remains on track.

c: Automated alerts and project controls

Automated alerts can be set in Dayshape, so when performance metric breaches occur, the relevant partners or managers are notified immediately. Alerts and notifications are configurable and can be triggered by being off-target, likely to miss recovery rate, and more.

The notifications and alerts system can also be set up to trigger a re-approval process. This proactive approach to monitoring provides the firm with the ability to identify the root cause of deficiencies and respond in a timely manner.

d: Best match resource allocation

Dayshape allows engagement managers to specify resource needs on an engagement, detailing all knowledge and technical accreditation requirements, as well as the level of experience of the individual. Whether using assisted or fully automated scheduling, Dayshape can help to ensure the right skills, availability, location, and team composition are assigned to perform the engagement. For example, ISQM 2 eligibility can be tracked as a trait against quality reviewers, and this can be used in Dayshape's configurable workflows to determine who is a suitable quality reviewer for a given engagement.

As the resource requirements on an engagement change over time, best-match resource allocation can be used to inform judgements on which resources should continue on a given engagement. In-depth reporting can also be made available at the engagement level and can be viewed by region, industry, and engagement type to provide greater visibility of overall engagement performance across the firm.

5. Monitoring and remediation

(Para 35 - 37)(A138–A174)[1]

The monitoring and remediation component requires that the firm undertake an ongoing and proactive approach in evaluating the system as a whole and addressing deficiencies. "At least annually," the firm must conclude whether the objectives of the SOQM have been met and communicate the root causes of deficiencies to leadership and engagement teams where appropriate.[1]

Monitoring and remediation: Where can Dayshape help?

Dayshape's AI powered planning software can offer specific capabilities to enhance the firm's overall monitoring and remediation processes. The software provides a framework for evaluating findings and identifying deficiencies within the SOQM by providing features such as full audit trails, and proactive monitoring. This centralised monitoring and reporting, brings all of the data points together, providing firms the insight and flexibility they need to maintain a robust SOQM.

a: Continuous improvement

Dayshape supports firms in taking both preventive and proactive approaches in decision making to avoid quality risks. This is done with centralised monitoring and controls that surface the engagements most at risk, enabling firms to prioritise.

Under ISQM 1 firms need to be able to demonstrate awareness of performance and quality risks as well as the processes put in place to manage them. To support monitoring and remediation process requirements, the system captures full audit trails for every engagement, allowing the project to be "rewound" to any time in the past to identify and learn from the root causes of failures.

This information can also serve as evidence and confirmation that the right processes were followed in support of the SOQM. In this way Dayshape facilities ongoing analysis and continuous improvement of decisions across projects and engagements.

To get a demo of Dayshape and learn more about how we can help you prepare for and comply with ISQM 1, book a discovery call with our team.

Where to find implementation support

Looking for additional resources on the suite of quality management standards? The IAASB has produced a range of useful materials, including:

- ISQM 1 Basis for Conclusion & Factsheet
- ISQM 2 Basis for Conclusion & Factsheet
- ISA 220 Basis for Conclusion & Factsheet
- IAASB Quality Management ISQM 1 Quality Management for Firms - Final Procurement Dec 2020
- IAASB-FAQ-for-Proposed-ISQM-1
- IAASB Implementation Plans
- An Overview of the IAASB's Quality Management Standards
- Quality Management Standards: Perspectives on Initial Implementation Efforts
- All You Need to Know about the Firm's Risk Assessment Process
- Bringing it all Together: Exploring all the Components of a Quality Management System
- What's New for Firms' Monitoring and Remediation Process
- Examples of how components or requirements interrelate across ISQM 1

Reference List

1 IAASB. Dec, 17 2020. "International Standard on Quality Management International Standard on Quality Management 1 (Previously International Standard on Quality Control 1). Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements." Final Pronouncement. Available from: https://www.iaasb.org/publications/international-standard-quality-management-isqm-1-quality-management-firms-perform-audits-or-reviews. Accessed August 2021.

2 IAASB. Dec, 17 2020. "IAASB raises the bar for quality management." Available from: https://www.iaasb.org/news-events/2020-12/iaasb-raises-bar-quality-management

AI-Powered Resource Management Software

Profitability
and growth

Outstanding
client service

Rewarding and
fulfilling careers

Dayshape is an AI-powered planning and scheduling platform, built from the ground-up for accountancy firms. We created Dayshape to help you maintain an optimal workforce and to ensure it supports your mission: profitability and growth, outstanding client service, and fulfilling careers for your people.

About Dayshape:

Dayshape helps firms plan, manage, and adapt. Its AI-powered planning platform optimises engagement planning, resource management, analytics, and risk management. Dayshape makes it easy, through assisted and fully automated scheduling, to assign the right person, at the right time, every time. Headquartered in Edinburgh, Dayshape has more than 20,000 users across ten countries. Global customers, including two of the Big Four accounting firms, use Dayshape to boost profitability, improve client service, and keep their teams happy.

Interested in finding out how Dayshape can help your business?

Book a discovery call with our team to learn how Dayshape can help boost profitability, improve client service, and keep your teams happy.

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