

ASQC 1
(October 2009)

Explanatory Statement

ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements

Issued by the Auditing and Assurance Standards Board

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Australian Government

Auditing and Assurance Standards Board

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**Reasons for Issuing Auditing Standard ASQC 1
*Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Operative Date

ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements* is operative for financial reporting periods commencing on or after by 1 January 2010.

Purpose of Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements*

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material regarding the firm's responsibilities for its system of quality control for audits and reviews of financial reports, other financial information, and other assurance engagements.

Main Features

The Auditing Standard:

- (a) sets out the firm's requirements for applying and complying with relevant requirements;
- (b) establishes elements of a system of internal control and leadership responsibilities for quality within the firm;
- (c) establishes the relevant ethical requirements, including independence;
- (d) outlines the policies and procedures required for the acceptance and continuance of client relationships and specific engagements;
- (e) outlines the policies and procedures concerning the firm's allocation of human resources to engagements;
- (f) outlines the policies and procedures required for the firm's engagement performance, including consultation, quality review processes, resolution of any differences of opinion within the firm concerning the engagement; and the management of and retention of engagement documentation;
- (g) outlines the required monitoring process over the firm's system of quality control, including dealing with any deficiencies identified or any complaints or allegations made; and

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- (h) outlines the policies and procedures regarding appropriate documentation that provides evidence of the operation of the system of quality control.

Preamble and Overall Objectives

ASQC 1 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;

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- clearly identified, by use of the prefix “Aus”, AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 09/09 *Proposed Auditing Standard: Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements*, was issued on 14 April 2009 with a 34 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the

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Australian economy in general are, on balance, likely to outweigh expected costs.

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