

ASQM 1
(March 2021)

Explanatory Statement

ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements and ASA 2021-1 Amendments to Australian Auditing Standards

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

Reasons for Issuing Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Review of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and ASA 2021-1 *Amendments to Australian Auditing Standards*

The AUASB issues Auditing Standard ISQM 1 *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and ASA 2021-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non Corporate Commonwealth entity 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 AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISQM 1 *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and the IAASB's Conforming Amendments to ISAs and Related Material Arising from the Quality Management Standards.

Purpose of Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and ASA 2021-1 *Amendments to Australian Auditing Standards*

The purpose of the Auditing Standard represents the Australian equivalent of ISQM 1 *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and will replace the current ASQC 1 *Quality Control for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the AUASB in June 2020 (as amended). ASA 2021-1 *Amendments to Australian Auditing Standards* includes the consequential and conforming amendments to other Auditing Standards as a result of changes to ASQC 1.

Main Features

ASQM 1 introduces a quality management approach that is focused on proactively identifying and responding to risks to quality. The new quality management standard improves the robustness of firms' systems of quality management (e.g., enhanced requirements and focus on governance and leadership, monitoring and remediation, and circumstances when a firm belongs to a network). The essence of the new approach is to focus firms' attention on risks that may have an impact on engagement quality. The new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs.

Operative Date

Systems of quality management in compliance with this ASQM are required to be designed and implemented by 15 December 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of ASQM 1 is required to be performed within one year following 15 December 2022.

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, as appropriate, the text of the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;
- make amendments to ISAs as necessary to conform with the Australian regulatory environment and statutory requirements; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard, by exposing the international ED-ISQM 1, along with an associated Australian Explanatory Memorandum. ED-ISQM 1 was exposed within Australia with a 60 day comment period.

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

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) has been prepared in connection with the preparation of ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: ***Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and ASA 2021-1 Amendments to Australian Auditing Standards***

These Legislative Instruments are compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee 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 AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASQM 1

The purpose of the Auditing Standard represents the Australian equivalent of ISQM 1 *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and will replace the current ASQC 1 *Quality Control for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the AUASB in June 2020 (as amended). ASA 2021-1 *Amendments to Australian Auditing Standards* includes the consequential and conforming amendments to other Auditing Standards as a result of changes to ASQC 1.

Main Features

ASQM 1 introduces a quality management approach that is focused on proactively identifying and responding to risks to quality. The new quality management standard improves the robustness of firms' systems of quality management (e.g., enhanced requirements and focus on governance and leadership, monitoring and remediation, and circumstances when a firm belongs to a network). The essence of the new approach is to focus firms' attention on risks that may have an impact on engagement quality. The new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs.

Human Rights Implications

These Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.