



AUASB Agenda Paper

Project:	AUASB Framework and Process Plan	Meeting:	10 & 12 March 2021
Topic:	Revised Foreword to AUASB Pronouncements	Agenda Item:	3.0
Strategic Objective:	1 & 2	Decision-Making:	Final Review for Approval
ATG Staff:	Matthew Zappulla Johanna Foyster	Project Status:	Completion

Action Required and Decisions to be Made

- 1 For the AUASB to review and approve the revised *Foreword to AUASB Pronouncements* (Foreword) (refer **Agenda Item 3.1**).

ATG Recommendations Overview and Questions for the Board

Question for the Board	ATG Recommendation/Overview
Does the AUASB support the revised Foreword at Agenda Item 3.1 ?	The AUASB Technical Group Staff (ATG) recommends approval of the revised Foreword to be issued – refer to <i>Matters for Board Consideration and Discussion</i> (Part A of this Paper).
Does the AUASB support the ATG's view that public exposure of the revised Foreword is not necessary.	The ATG is of the view that public exposure of the revised Foreword document is not required on the basis that changes to the extant document are not significant in nature and to align the document with the AUASB's Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications document (Due Process Framework), which was finalised and approved by the Board at its December 2020 meeting and subsequently published on the AUASB website –

Question for the Board	ATG Recommendation/Overview
	refer to <i>Matters for Board Consideration and Discussion</i> (Part B of this paper).

Background

- 2 At the March and April 2020 AUASB meetings, a number of AUASB members expressed concern about certain elements of the AUASB's framework and processes related to standard-setting, including the process the AUASB and ATG undertakes when revising AUASB Guidance Statements.
- 3 At the May 2020 AUASB meeting, a plan was endorsed to review and update a number of AUASB framework and process documents, and associated operational procedures, related to the AUASB's standard setting process, to provide clarity and certainty for AUASB members, staff and stakeholders.
- 4 As part of this overall plan, the AUASB was requested to review the Foreword, not only to consider whether the current wording that determines when and for what purpose the AUASB issues Guidance Statements are appropriate but also to consider whether other aspects of the pronouncement, which was last updated in 2012, were still current and fit for purpose.
- 5 The Foreword is a formal framework pronouncement issued by the AUASB under s227B of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). As the Foreword is not a standard, and does not establish requirements for undertaking and reporting on audits or other assurance engagements, it is not issued under s336 of the *Corporations Act 2001* and therefore is not a legislative instrument.
- 6 The purpose of the Foreword is to set out an *overview* of the range and hierarchy of pronouncements and other materials issued by the AUASB.
- 7 The Foreword complements and is to be read in conjunction with the:
 - (a) [AASB and AUASB Board Charter](#) (Board Charter)
The Board Charter outlines the main corporate governance principles that apply to the AUASB, including the Board's objectives, functions, powers, and meeting and voting procedures.
 - (b) Auditing Standards [ASA 100 Preamble to AUASB Standards](#) and [ASA 101 Preamble to Australian Auditing Standards](#) (Preambles)
The Preambles together explain the authority and legal enforceability of AUASB Standards and how standards are to be understood, interpreted and applied. The Preambles furthermore set out the mandatory and non-mandatory components of standards.
 - (c) [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) (Due Process Framework)
The AUASB's Due Process Framework sets out the principles underlying the AUASB's due process and describes the processes followed by the AUASB to ensure that pronouncements and other materials issued by the AUASB are developed, issued and maintained with proper

regard to the public interest, are principles-based, of a high quality, clearly stated and concise, and meet the needs of stakeholders.

Previous Discussions on Topic

May - September 2020

- 8 The AUASB considered and provided feedback on the proposed revised Foreword at the following AUASB meetings:
 - (a) May 2020 – see **Agenda Item 2**
 - (b) June 2020 – see **Agenda Item 5**
 - (c) September 2020 – see **Agenda Item 3**
- 9 At the September 2020 meeting, the AUASB was also presented with a paper reviewing the effectiveness of the current AUASB Preambles to AUASB Standards (ASA 100 and ASA 101). The AUASB supported a project to review and amend the Preambles into a single document which will improve understanding of the key components of AUASB Standards.

December 2020

- 10 At the December 2020 AUASB meeting, the Board considered and approved the AUASB's Due Process Framework, which replaced the existing *AUASB Functions and Processes* (September 2014) publication.
- 11 The finalised document was published on the AUASB's website in December for a short comment period, complimented by targeted outreach with key stakeholders. CA ANZ and CPA Australia responded. Feedback was very positive with only minor editorial changes suggested.
- 12 At the December 2020 meeting, the ATG informed the Board that the Foreword document, presented to the Board at the September meeting, will need to be updated subsequent to the meeting to align with the final approved Due Process Framework, and to address any further feedback from the Board that may flow from the December meeting.

Matters for Board Consideration and Discussion

A. Summary of Key Changes to the Foreword tabled at the September 2020 AUASB meeting

- 13 This section provides a summary of the key changes made to the revised Foreword that was tabled at the September 2020 AUASB meeting for Board consideration in conjunction with the Board's review of the AUASB Due Process Framework. **Agenda Item 3.2** provides a 'mark-up' of changes since the September 2020 AUASB meeting.

14 These changes were in response to:

- feedback received from AUASB members out of session following the September 2020 AUASB meeting;
- a final review by the ATG to ensure the Foreword aligns with the final approved AUASB Due Process Framework published in December 2020;
- the ATG's preliminary review of the AUASB Preambles (ASA 100 and ASA 101); and
- a final review by the ATG to improve the structure and flow of the document and to remove unnecessary detail or duplication of content located in the AUASB's Due Process Framework - to clearly distinguish between high level principles and processes.

Changes in response to additional AUASB member feedback

15 The Foreword was updated as follows in response to feedback provided by Board members since the September 2020 AUASB meeting:

New paragraph 2 and footnote 1 - The September version of the Foreword listed the "Board Charter" and "Due Process Framework" documents as examples of "Other Publications" issued by the AUASB. The ATG agreed with Board member feedback that these documents looked out of place under this heading. Rather, these documents are framework or policy documents to be read in conjunction with the Foreword.

- (a) Paragraph 2 has been added to the "Introduction" to the Foreword and clarifies that these documents work in concert and compliments each other.
- (b) Footnote 1 has been added, linked to paragraph 2, to expand on "public interest" and to include a reference to the AUASB's "Public Interest Framework", attached as Appendix 1 to the Due Process Framework document.

Changes to align the Foreword and Due Process Framework documents

16 As noted in paragraphs 6-7 above, the purpose of the Foreword is to set out an *overview* of the range and hierarchy of pronouncements and other materials issued by the AUASB and needs to be read in conjunction with the Board Charter, Preambles and, in particular, the AUASB Due Process Framework, which sets out the principles underlying the AUASB's due process and describes in more detail the processes followed by the AUASB when setting standards and formulating guidance.

17 As the Foreword and Due Process Framework complement each other, the ATG has reviewed and updated these documents collectively and holistically to ensure they align, in order to minimise any consequential amendments or unintended inconsistencies.

18 The ATG has also undertaken a final review of the proposed revised Foreword to confirm that it aligns with the final Due Process Framework approved in December 2020.

For changes made to the September version of the Foreword to align it to the final approved Due Process Framework, refer to **Attachment 1** of this Agenda Paper.

Changes from the ATG's Preliminary Review of AUASB Preambles

- 19 At the September 2020 AUASB meeting, the AUASB was presented with a paper reviewing the effectiveness of the two Preambles to the AUASB Standards, ASA 100 and ASA 101. At this meeting, the AUASB supported the ATG's proposal to initiate a project to review and possibly amend ASA 101 to improve stakeholder understanding of key components of AUASB Standards and that the feasibility be explored of replacing ASA 100 and ASA 101 with only one Preamble that will apply to all AUASB Standards.
- 20 As part of the ATG's preliminary review of the Preambles, focussing on paragraphs that are contained in ASA 100 but not carried forward to ASA 101, the ATG identified content from ASA 100 that overlapped with, or could potentially be moved to the revised Foreword:

Foreword updated as follows:

- New paragraph 5 (based on ASA 100, paragraph 43)
- New footnote 4, linked to paragraph 6 of the Foreword (based on ASA 100, paragraph 44)
- New footnote 6 (based on ASA 100, paragraph 7)

Foreword not updated:

At the September meeting the ATG also highlighted paragraphs 33-35 of ASA 100 for possible inclusion in the Foreword. These paragraphs explain that AUASB Standards are framework neutral, applicable to all sizes of entities and sector neutral.

As the purpose of the Foreword is only to provide an *overview* of the pronouncements and other materials issued by the AUASB, the ATG considered that this information was too detailed for inclusion in the Foreword and better placed in the Preamble which will explain the key components of AUASB Standards.

Other Changes

- 21 References to ASQC 1 in the extant document has been replaced by references to "Australian Standards on Quality Management" – see new footnote 11 and Appendices 1 and 2.

Finalisation of Foreword

- 22 The ATG welcomes additional feedback on the Foreword document, in particular where AUASB members consider the document does not reflect previous deliberations by the AUASB or contains matters which require further consideration or updating.

Board members are requested to provide any feedback to the ATG prior to the March 2021 AUASB meeting to facilitate the finalisation of the document's review and approval at the meeting. Any recommended wording or specific suggestions for improvement will be most helpful in assisting the ATG in finalising a 'turn-around' document for final consideration and approval by the Board on the second day of the meeting.

B. Public Exposure

- 23 It is the view of the ATG that the proposed changes to Foreword do not require public exposure, as these changes are not significant but rather editorial in nature and to align the document with the AUASB's Due Process Framework, that was finalised and approved by the Board at its December 2020 meeting.
- 24 Further, the final Due Process Framework was published via the AUASB website in December 2020 for a short comment period. CA ANZ and CPA Australia have responded with positive feedback, with only minor editorial changes suggested.
- 25 The ATG also notes that the Board did not expose changes made to *the Framework for Assurance Engagements* back in June 2020 (which were also minor).

Next steps

AUASB website

- 26 A project is currently underway to re-design the AUASB website. As part of this project, the ATG will undertake a review of, and update, the AUASB website to align with the new AUASB Due Process Framework, revised Framework pronouncements and related new/revised policy documents. In the interim, some of the content and terminology used on the AUASB website may be inconsistent with these documents.

Materials Presented

Agenda Paper 3	AUASB Agenda Paper
Agenda Paper 3.1	Revised Foreword to AUASB Pronouncements - CLEAN VERSION
Agenda Paper 3.2	Revised Foreword to AUASB Pronouncements - MARKUP from September 2020 AUASB meeting



Attachment 1

- 27 Summary of changes made to the September version of the Foreword to align with the final Due Process Framework document which was approved by the AUASB at its December 2020 meeting and subsequently published on the AUASB website:

Foreword para(s)	Explanation
Para 1 (amended)	To clarify that the purpose of the Foreword is to provide an <u>overview</u> of the range and hierarchy of pronouncements and other materials issued by the AUASB. The Due Process Framework provides the detail of the process by which these documents are developed, maintained and issued. This section also now aligns with wording used in the Preface to the Foreword.
Para 1 and throughout the document (amended)	The term “Publications” have been replaced by “Materials” or “Non-Authoritative Materials” (as applicable) in both documents (in line with the IAASB). The term “Publications” are used to refer to a sub-category of documents under the broader category of “Non-Authoritative Materials”, mostly when referring to special once-off AUASB publications, such as: <i>Audit Committees: A Guide to Good Practice</i> and <i>Audit Quality in Australia: The Perspectives of Professional Investors</i> .
Paras 3-4 (amended) Para 5 (new) Footnote 2 (new)	Minor amendments made to align with wording used in the Due Process Framework (paras 8-12). A new footnote 2 has been inserted to point to the relevant sections of the Charter and Due Process Framework documents, where more detail about the AUASB’s mandate and strategic directive can be found.
Para 6 (new) and Para 7-9 (re-located) Footnotes 3-7 (new)	<p>The ATG has moved content included under the heading “Compliance” located at the back end of the extant Foreword (previously paras 23-25) to now follow the paras setting out the AUASB’s standard-setting functions under its legislative mandate (paras 3-5). Also, the heading of the section has been amended to “Compliance and Enforcement”.</p> <p>A new para 6, based on relevant content from para 17 (see page 8) of the Due Process Framework has been added to further clarify the legal status and enforceability of AUASB Standards.</p> <p>New footnote references have been included to the relevant sections of the ASIC Act (footnotes 3 & 5) and the Corporations Act (footnote 6). New footnote 4 provides a clear link to the Preambles and is based on para 44 of ASA 100. New footnote 7 now references the applicable APESB standard APES 210.</p>

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Paras 10-11 (new) Footnote 8 (new)	<p>New para 10 has been added to clearly distinguish between AUASB Pronouncements (which are authoritative) and Other Materials (not authoritative) - based on the introduction (para 16), and headings and structure used in paras 17 - 23 of the Due Process Framework document.</p> <p>New para 11 and new footnote 8 point the reader to the Due Process Framework document, which outlines the factors that will be considered by the AUASB when deciding on the appropriate type of pronouncement and/or non-authoritative material to issue in different circumstances. New para 11 is based on para 26 of the Due Process Framework.</p>
Para 12 (amended) Paras 13-14 (new)	<p>The term “authoritative” is defined in para 18 of the Due Process Framework document. For the sake of clarity, this definition has also been included in the Foreword as new para 13.</p> <p>Para 14 was added to clarify that not all authoritative pronouncements issued by the AUASB are legally enforceable. This para is based on similar content included in the Due Process Framework document at para 17 (on page 8) and para 19.</p>
Para 15 (content re-organised)	Individual paragraphs in the extant Foreword explaining the purpose of each type of Framework Pronouncement, have been moved to the appropriate sub-headings in para 15.
Para 16 (new)	Based on para 17 (on page 9) of the Due Process Framework.
Para 17 (content re-organised)	Individual paragraphs in the extant Foreword explaining application of each type of AUASB Standard, has been moved to the appropriate sub-headings in para 17.
Para 18 (new)	Based on para 17 (on page 8) of the Due Process Framework.
Para 19 (new)	Based on para 19 of the Due Process Framework. Establishes a link to the AUASB Preambles which explain in greater detail the authority and legal enforceability of AUASB Standards, how standards are to be understood, interpreted and applied, and identifies the mandatory and non-mandatory components of standards.
Paras 20-22 (amended)	Aligned closer to para 17 (on page 9) of the Due Process Framework. Factors the AUASB will take into consideration to determine whether it is appropriate to issue a new/updated Guidance Statement, are now located in Due Process Framework.
Para 23 (new) Footnote 13 (new)	This paragraph has been added to point readers to the Due Process Framework which outlines in more detail the circumstances that may lead to the AUASB issuing guidance materials and the factors the AUASB will consider in determining the appropriate form of guidance – that is, whether to update the application material in a standard, issue an authoritative Guidance Statement or other non-authoritative guidance materials. The relevant paragraphs in the Due Process Framework are specified in a new footnote 13.
Extant para 16 (deleted)	This paragraph now resides in the Due Process Framework (see para 229)

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Paras 24-26 (new) Footnote 14 (new)	<p>These paragraphs have been added to explain the purpose and authority of non-authoritative materials issued by the AUASB (in contrast to the authoritative pronouncements in the preceding section).</p> <p>New para 24 mirrors para 21 of the Due Process Framework. Para 25 has been added to point the reader to Due Process Framework document which outlines in more detail the circumstances that may lead to the AUASB issuing guidance materials and the factors the AUASB will consider in determining the appropriate form of guidance in the circumstances. The relevant paragraphs in the Due Process Framework are specified in a new footnote 14. The example in para 25 mirrors the example provided at para 33 of the Due Process Framework.</p>
Footnote 15 (new)	<p>This footnote points readers to the relevant section in the Due Process Framework for more detail on information included in a Basis for Conclusions document.</p>
Para 32 (new) Footnotes 16, 17 (new)	<p>The Due Process Framework (paragraph 22) also includes “AUASB Consultative Documents” as a category of non-authoritative materials issued by the AUASB. To align the Foreword with the Due Process Framework, a paragraph has been added to also identify this category of materials in the Foreword. New para 32 is based on para 64 of the Due Process Framework whilst new footnote 16 mirrors footnote 39 in the Framework.</p>
Para 33-35 (new/amended)	<p>The heading of this sub-section of Non-Authoritative Materials have been amended to include all other publications and materials issued by the AUASB/ATG. Para 34 has been added to provide examples of other materials that may be published on the AUASB website and aligns with the examples listed in paras 22 and 236 of the Due Process Framework document.</p>
Appendix 1 (amended)	<p>Appendix 1 has been updated to also cover ‘Non-Authoritative Materials’. The same diagram is included in the Due Process Framework document as Appendix 2</p>

March 2021

Foreword to AUASB Pronouncements

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



Australian Government

Auditing and Assurance Standards Board

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Contact Details

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

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

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

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PREFACE

Reasons for Issuing the *Foreword to AUASB Pronouncements*

The Auditing and Assurance Standards Board (AUASB) is an independent, 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).

The AUASB issues the *Foreword to AUASB Pronouncements* under its powers described in section 227B of the ASIC Act.

Main Features

The *Foreword to AUASB Pronouncements* sets out an overview of the pronouncements and other materials issued by the AUASB.

The *Foreword to AUASB Pronouncements* does not itself establish requirements for the performance of audit, review, other assurance engagements, and related services engagements. Accordingly, the AUASB has not issued the *Foreword to AUASB Pronouncements* for the purposes of the *Corporations Act 2001*.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates the *Foreword to AUASB Pronouncements*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

Dated: XX March 2021

WR Edge
Chair - AUASB

Foreword to AUASB Pronouncements

Introduction

1. The purpose of this *Foreword to AUASB Pronouncements* (Foreword) is to set out an overview of the range and hierarchy of pronouncements and other materials issued by the Auditing and Assurance Standards Board (AUASB).
2. The Foreword is to be read in conjunction with the:
 - (a) [*AASB and AUASB Board Charter*](#) (Board Charter)

The Board Charter outlines the main corporate governance principles that apply to the AUASB, including the Board's objectives, functions, powers, and meeting and voting procedures.
 - (b) Auditing Standards [*ASA 100 Preamble to AUASB Standards*](#) and [*ASA 101 Preamble to Australian Auditing Standards*](#) (Preambles)

The Preambles together explain the authority and legal enforceability of AUASB Standards and how standards are to be understood, interpreted and applied. The Preambles furthermore set out the mandatory and non-mandatory components of standards.
 - (c) [*Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*](#) (Due Process Framework)

The AUASB's Due Process Framework sets out the principles underlying the AUASB's due process and describes the processes followed by the AUASB to ensure that pronouncements and other materials issued by the AUASB are developed, issued and maintained with proper regard to the public interest¹, are principles-based, of a high quality, clearly stated and concise, and meet the needs of stakeholders.

The Auditing and Assurance Standards Board

Legislative Mandate

3. The AUASB is an independent, non-corporate Commonwealth entity of the Australian Government established under section 227A of the ASIC Act. The AUASB operates within a framework set out in Part 12 of the ASIC Act.
4. Under section 227B of the ASIC Act, the functions of the AUASB include making Auditing Standards under section 336 of the *Corporations Act 2001* (Corporations Act). The AUASB may also formulate other assurance standards and guidance on audit and assurance matters.
5. In fulfilling its standard-setting function, the AUASB develops standards that have a clear public interest focus and are of a high quality. Wherever possible, the AUASB uses, as appropriate, standards issued by the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop audit and audit-related standards in Australia. AUASB Standards are designed to strengthen confidence in the assurance provided by audit and other assurance engagements.²

¹ It is in the public interest that stakeholders have confidence in both the quality of pronouncements and other materials issued by the AUASB, as well as the credibility of the process by which these pronouncements and materials are developed. The AUASB's [*Due Process Framework*](#) is designed to ensure that AUASB pronouncements and other materials are developed in accordance with the principles of the 'Public Interest Framework for the Development of AUASB Pronouncements' (Public Interest Framework), set out in Appendix 1 of the Due Process Framework. The Public Interest Framework, together with due process, articulate the public interest responsiveness of AUASB audit-related standard-setting.

² For further background on the AUASB's mandate and strategic directive, refer to sections 2-4 of the AUASB [*Board Charter*](#) and section II of the AUASB's [*Due Process Framework*](#).

Compliance and Enforcement

6. The extent of compliance required with AUASB Standards is determined by the legislative or regulatory requirements of relevant industry regulators, and/or an entity's constitution or other governing documents, in conjunction with the application paragraphs of the pronouncements:
 - Standards made and issued under section 336 of the Corporations Act for the purposes of the corporations legislation have legal status and must be complied with under the Act.³ These standards are classified as disallowable legislative instruments under the *Legislation Act 2003*.⁴
 - Auditing and assurance standards may also be issued for other purposes.⁵ These standards do not have legal effect under the Corporations Act itself but may be legally enforceable under other legislation or authority.
7. Auditing Standards issued by the AUASB under the Corporations Act, are legally enforceable by the Australian regulator – the Australian Securities and Investments Commission (ASIC).⁶ ASIC conducts regular inspection programmes as an integral part of its enforcement responsibilities.
8. Through the standards issued by the Accounting Professional & Ethical Standards Board (APESB), members of the Australian Professional Accounting Bodies are compelled to comply with the requirements of AUASB Standards.⁷
9. Member compliance is enforced through the inspection programmes of the Professional Accounting Bodies, who are also responsible for member disciplinary action.

Categories of Pronouncements and Other Materials issued by the AUASB

10. Standards, guidance and other materials issued by the AUASB adhere to a hierarchy of authority and will fall into one of the following categories:
 - (a) authoritative pronouncements; and
 - (b) non-authoritative materials.

Diagrams which illustrate the range and authority of pronouncements issued by the AUASB are contained in the Appendices to this Foreword.
11. The AUASB will apply appropriate judgement to determine the most suitable type of pronouncement and/or non-authoritative material to issue in the specific circumstances, taking into consideration a range of factors as outlined in the AUASB's Due Process Framework.⁸

Authoritative Pronouncements

12. The AUASB issues the following types of authoritative pronouncements pursuant to its mandate under section 227B of the ASIC Act:
 - (a) Framework Pronouncements;
 - (b) Standards; and
 - (c) Guidance Statements.

³ Pursuant to section 227B(1)(a) of the ASIC Act.

⁴ The AUASB has adopted certain drafting principles (see [ASA 100](#) and [ASA 101](#), as applicable) in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the *Legislation Act 2003*.

⁵ Pursuant to section 227B(1)(b) of the ASIC Act.

⁶ Section 307A of the Corporations Act gives legal backing to the auditing standards, as it requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act in accordance with auditing standards.

⁷ See APES 210 *Conformity with Auditing and Assurance Standards*, issued by the APESB.

⁸ See paragraphs 24-34 of the AUASB's [Due Process Framework](#).

13. The term “authoritative” is used to refer to AUASB pronouncements that are formally approved and issued by the AUASB. AUASB pronouncements are developed, issued and maintained in accordance with the AUASB’s [Due Process Framework](#).
14. Not all authoritative pronouncements issued by the AUASB are legally enforceable. The extent of compliance required with AUASB pronouncements is determined by the legislative or regulatory requirements of relevant industry regulators, and/or an entity’s constitution or other governing documents, in conjunction with the application paragraphs of the pronouncements. The individual issued AUASB pronouncement will explain the status of the material it contains.

Framework Pronouncements

15. The AUASB issues framework pronouncements to provide information, structure and context to the pronouncements and other materials that it issues. The framework pronouncements comprise:
 - (a) *Foreword to AUASB Pronouncements*

The *Foreword to AUASB Pronouncements* sets out an overview of the range and hierarchy of pronouncements and other materials issued by the AUASB.
 - (b) [Framework for Assurance Engagements](#)

The *Framework for Assurance Engagements* defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services apply.
 - (c) [AUASB Glossary](#)

The *AUASB Glossary* sets out terms that are defined or used in the AUASB Standards.
16. Framework pronouncements, whilst formally approved and issued by the AUASB, do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards, and do not have legal enforceability.

Standards

17. The AUASB issues the following types of standards:
 - (a) Australian Auditing Standards (ASAs)

ASAs issued by the AUASB comprise Auditing Standards and certain Standards on Review Engagements made under section 336 of the Corporations Act. ASAs, whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information.
 - (b) Standards on Review Engagements (ASREs)

ASREs are to be applied to the review of a financial report and the review of other historical financial information.
 - (c) Standards on Assurance Engagements (ASAEs)

ASAEs are to be applied to assurance engagements dealing with subject matters other than historical financial information.⁹

⁹ Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls.

(d) Standards on Related Services (ASRSs)

ASRSs are to be applied when an assurance practitioner is engaged to undertake engagements other than assurance engagements covered by ASAs, ASREs or ASAEs.¹⁰

These standards are collectively referred to as the “AUASB Standards”¹¹.

18. Standards made by the AUASB establish mandatory requirements and also include related application and other explanatory material essential for a proper understanding of a standard and application of its requirements. Auditors and assurance practitioners must have regard to such application and explanatory material when applying standards.
19. The AUASB Preambles¹² explain in greater detail the authority and legal enforceability of AUASB Standards, how standards are to be understood, interpreted and applied, and identifies the mandatory and non-mandatory components of standards.

Guidance Statements

20. Guidance Statements provide guidance to auditors and assurance practitioners on the application of AUASB Standards and assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard(s) of general application to particular circumstances or specialised industries/sectors.
21. Accordingly, Guidance Statements refer to, and are written in the context of:
 - (a) specified AUASB Standards; and
 - (b) where relevant, legislation, regulation or other authoritative publication.
22. Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and do not have legal enforceability.
23. The AUASB’s [Due Process Framework](#) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances. In deciding on the form of guidance, the AUASB considers the level of authority required to meet the informational need. Where there is a need for authoritative guidance, the AUASB has the option to include the guidance in a standard(s) as new/amended application and explanatory material, or to issue/amend a separate Guidance Statement. Alternatively, the AUASB may determine that non-authoritative guidance materials may be more suitable in the circumstances.¹³

Non-Authoritative Materials

24. The AUASB may also issue non-authoritative materials if it considers that doing so would improve audit and assurance quality and consistency in application, or to raise awareness of the auditing and assurance implications of new or emerging issues in the public interest. Such non-authoritative materials do not have the status of AUASB Standards or Guidance Statements. Non-authoritative materials do not establish or extend requirements for the performance of engagements under the AUASB Standards.

¹⁰ Examples of financial and non-financial subject matters on which Standards on Related Services may be applied include: Agreeing the eligibility of expenditures claimed from a funding program; Recalculating revenues for determining royalties, rent or franchise fees based on a percentage of revenues; Confirming the calculation of capital adequacy ratios for regulatory authorities; Observation of the destruction of fake or defective goods reported to a regulatory authority; and Tracing data generating processes for lottery draws reported to a regulatory authority.

¹¹ AUASB Standards include Australian Standards on Quality Management for audit, review, other assurance, and related services engagements.

¹² See [ASA 100](#) and [ASA 101](#), as applicable.

¹³ See paragraphs 29-33 and 221-223, 231 of the AUASB’s [Due Process Framework](#).

25. The AUASB's [Due Process Framework](#) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.¹⁴ Non-authoritative materials may be appropriate in the following circumstances:
- (a) urgent guidance is necessary to address a significant issue or support the implementation of a new/revised standard, and this can be developed and issued more promptly than the development/revision of a formal AUASB Guidance Statement; or
 - (b) further guidance is desired to clarify, explain or interpret the requirements of a new/revised Standard or Guidance Statement for a particular industry or sub-sector.
26. The diagram in Appendix 1 of this document provides an outline of the types of non-authoritative materials issued by the AUASB.

Explanatory Guides

27. The AUASB issues *Explanatory Guides* to provide additional information about specific aspects of a standard(s), such as the deliberations undertaken by the AUASB when assessing their need and purpose. For example: the *Explanatory Guide to AUASB Standards Applicable to Review Engagements*, explains the historical background to the development of the suite of review standards and when each standard is to be used.
28. Explanatory Guides are not Guidance Statements that provide guidance to auditors and assurance practitioners on the application of AUASB Standards. Explanatory Guides do not establish or extend requirements for the performance of engagements under the AUASB Standards.

Basis for Conclusions

29. Whenever the AUASB has made decisions on substantive matters relating to the development of a standard, details of the matter, the options considered and the reasons supporting the conclusions made are documented in a *Basis for Conclusions* document.¹⁵

AUASB Bulletins

30. *AUASB Bulletins* are issued to either raise a general awareness of matters that are of interest to auditors and assurance practitioners or provide specific guidance on entity or industry specific matters for which an AUASB Guidance Statement is not required or appropriate.
31. AUASB Bulletins are designed to address matters of principle as they relate to market conditions or specific technical issues, and how these may impact the work of auditors. They do not provide authoritative guidance and do not amend existing AUASB Standards or Guidance Statements.

AUASB Consultative Documents

32. As part of the AUASB's consultation process, the AUASB may issue various consultative documents to set out the details of the matter(s) on which the AUASB is consulting and seeking input from stakeholders prior to making decisions. Typical consultative documents issued by the AUASB include: Exposure Drafts, Discussion Papers, Consultation Papers¹⁶ and Invitations to Comment.¹⁷

Other Non-Authoritative Publications and Guidance Materials

33. The AUASB may also issue other publications, either in its own right or jointly with other bodies, on the auditing and assurance implications of emerging issues that contain

¹⁴ See paragraphs 29-33 and 221-223, 231 of the AUASB's [Due Process Framework](#).

¹⁵ For further detail on information included in a *Basis for Conclusions* document, see paragraphs 193-194 of the AUASB's [Due Process Framework](#).

¹⁶ For example, when the IAASB issues an Exposure Draft (ED), the AUASB concurrently issues the unmodified IAASB ED in Australia along with Australian-specific commentary in the form of an AUASB Consultation Paper 'wrapped around' the IAASB ED.

¹⁷ See paragraph 64 of the AUASB's [Due Process Framework](#).

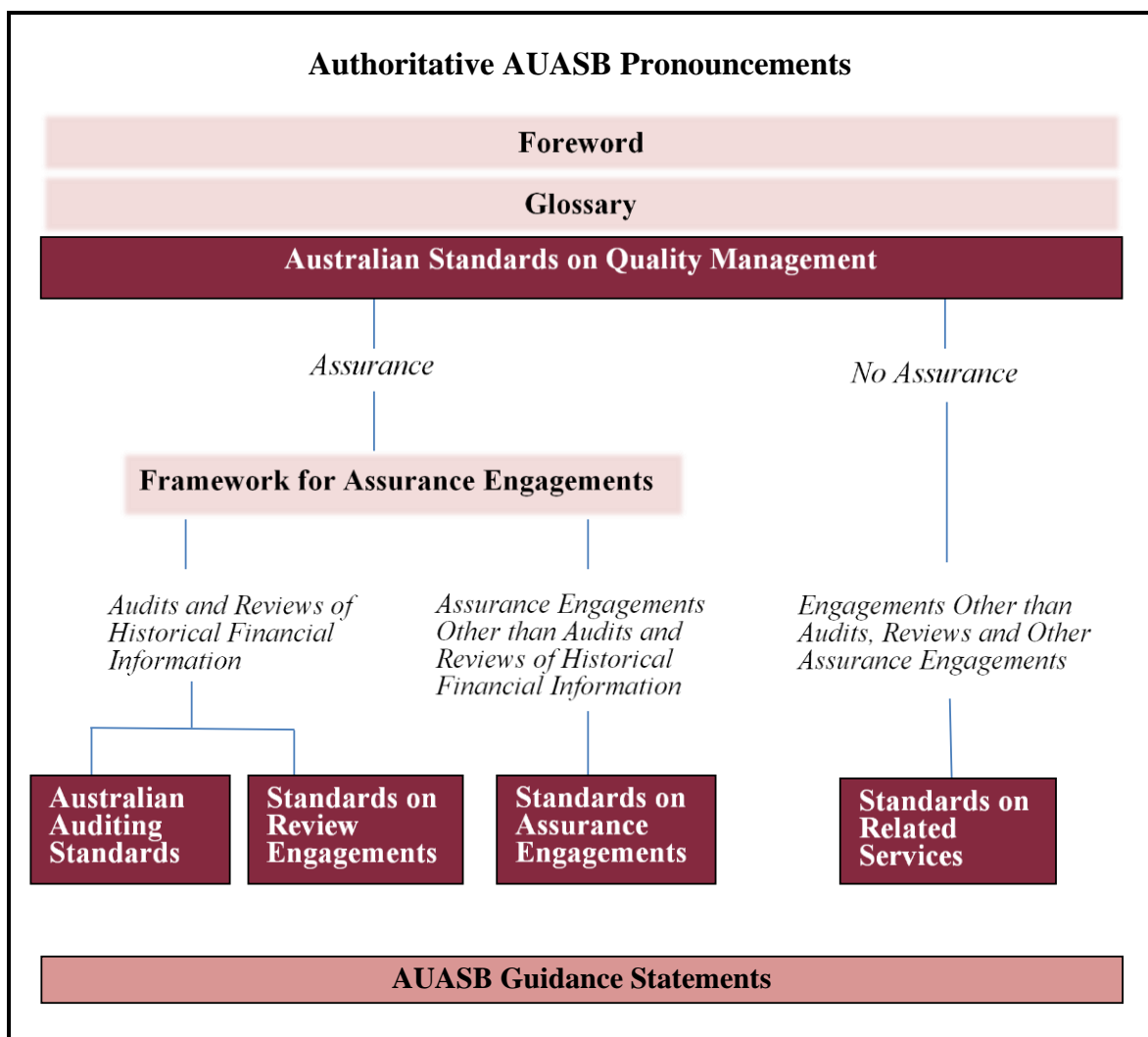
observations or findings deemed critical for audits and/or auditors. For example: *Audit Committees: A Guide to Good Practice* (issued jointly with the Australian Institute of Company Directors and The Institute of Internal Auditors Australia).

34. The AUASB or technical staff may also publish the following materials on the AUASB website:
- responses to Frequently Asked Questions (FAQs);
 - periodic newsletters and news alerts;
 - implementation support materials;
 - other contextual, supportive and educational materials related to pronouncements, including webcasts, podcasts, articles, presentations for conferences and training materials; and
 - AUASB research reports.
35. These materials do not have authoritative status and do not add or change requirements in AUASB pronouncements.

* * *

Appendix 1

Categories of Pronouncements and Other Materials issued by the AUASB



Non-Authoritative Materials	
<i>AUASB Publications and Guidance Materials</i>	<i>Technical Staff Guidance and Other Materials</i>
Explanatory Guides Basis for Conclusions AUASB Bulletins AUASB Consultative Documents	Frequently Asked Questions Newsletters and news alerts Implementation support materials Other contextual, supportive and education materials, webcasts, podcasts, articles, presentations and training materials Research reports

Framework
Pronouncements



Standards



Guidance Statements

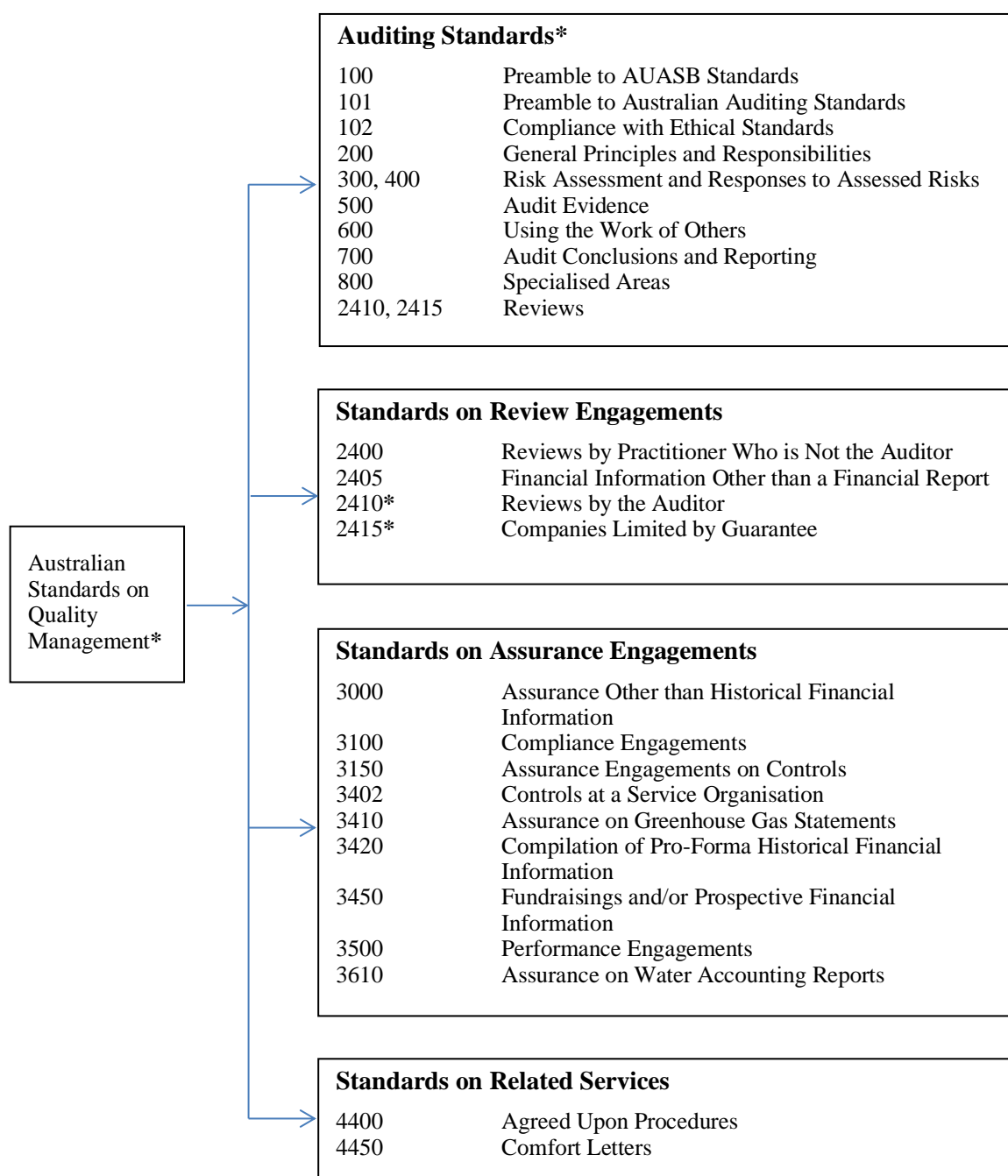


Non-Authoritative
Materials



Appendix 2

Overview of Numbering System used in AUASB Standards



Legend

* Standards made under the *Corporations Act 2001*

Notes

Auditing Standards numbered 200 to 2415 (above) denote a series of numbers

Auditing Standards ASA 805 and ASA 810 are not made under the *Corporations Act 2001*

March 2021

Foreword to AUASB Pronouncements

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Document

This publication 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
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

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

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Appendix 2: Overview of the Numbering System used in ~~the~~ AUASB Standards

PREFACE

Reasons for Issuing the *Foreword to AUASB Pronouncements*

The Auditing and Assurance Standards Board (AUASB) is an independent, 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).

The AUASB issues the *Foreword to AUASB Pronouncements* under its powers described in section 227B of the ASIC Act.

Main Features

The *Foreword to AUASB Pronouncements* sets out an overview of the pronouncements and other ~~publications~~ materials issued by the AUASB.

The *Foreword to AUASB Pronouncements* does not itself establish requirements for the performance of audit, review, other assurance engagements, and related services engagements. Accordingly, the AUASB has not issued the *Foreword to AUASB Pronouncements* for the purposes of the *Corporations Act 2001*.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates the *Foreword to AUASB Pronouncements*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

Dated: XX March 2021

~~R Simnett~~ AQR Edge
Chair - AUASB

Foreword to AUASB Pronouncements

Introduction

1. The purpose of this *Foreword to AUASB Pronouncements* (~~the “Foreword”~~) is to ~~set out~~ set out an overview of the range and hierarchy of pronouncements and other publications materials issued by the Auditing and Assurance Standards Board (the “AUASB”).
2. The Foreword is to be read in conjunction with the:

- (a) AASB and AUASB Board Charter (Board Charter)

The Board Charter outlines the main corporate governance principles that apply to the AUASB, including the Board’s objectives, functions, powers, and meeting and voting procedures.

- (b) Auditing Standards ASA 100 Preamble to AUASB Standards and ASA 101 Preamble to Australian Auditing Standards (Preambles)

The Preambles together explain the authority and legal enforceability of AUASB Standards and how standards are to be understood, interpreted and applied. The Preambles furthermore set out the mandatory and non-mandatory components of standards.

- (c) Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications (Due Process Framework)

The AUASB’s Due Process Framework sets out the principles underlying the AUASB’s due process and describes the processes followed by the AUASB to ensure that pronouncements and other materials issued by the AUASB are developed, issued and maintained with proper regard to the public interest¹, are principles-based, of a high quality, clearly stated and concise, and meet the needs of stakeholders.

The Auditing and Assurance Standards Board

Legislative Mandate

3. The AUASB is an independent, 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). The AUASB operates within a framework set out in Part 12 of the ASIC Act.
4. Under section 227B of the ASIC Act, the functions of the AUASB include making Auditing Standards for the purposes of the corporations legislation under section 336 of the Corporations Act 2001 (Corporations Act). These Auditing Standards are legislative instruments under the Legislative Act 2003. The AUASB may also formulate other assurance standards and guidance on audit and assurance matters.
5. In fulfilling its standard-setting function, the AUASB develops standards that have a clear public interest focus and are of a high quality. Wherever possible, the AUASB uses, as appropriate, standards issued by the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop audit and audit-related standards in Australia.

¹ It is in the public interest that stakeholders have confidence in both the quality of pronouncements and other materials issued by the AUASB, as well as the credibility of the process by which these pronouncements and materials are developed. The AUASB’s Due Process Framework is designed to ensure that AUASB pronouncements and other materials are developed in accordance with the principles of the ‘Public Interest Framework for the Development of AUASB Pronouncements’ (Public Interest Framework), set out in Appendix 1 of the Due Process Framework. The Public Interest Framework, together with due process, articulate the public interest responsiveness of AUASB audit-related standard-setting.

AUASB Standards are designed to strengthen confidence in the assurance provided by audit and other assurance engagements.²

Compliance and Enforcement

6. The extent of compliance required with AUASB Standards is determined by the legislative or regulatory requirements of relevant industry regulators, and/or an entity's constitution or other governing documents, in conjunction with the application paragraphs of the pronouncements:

- Standards made and issued under section 336 of the Corporations Act for the purposes of the corporations legislation have legal status and must be complied with under the Act.³ These standards are classified as disallowable legislative instruments under the Legislation Act 2003.⁴
- Auditing and assurance standards may also be issued for other purposes.⁵ These standards do not have legal effect under the Corporations Act itself but may be legally enforceable under other legislation or authority.

7. Auditing Standards issued by the AUASB under the Corporations Act, are legally enforceable by the Australian regulator – the Australian Securities and Investments Commission (ASIC).⁶ ASIC conducts regular inspection programmes as an integral part of their enforcement responsibilities.

8. Through the standards issued by the Accounting Professional and Ethical Standards Board (APESB), members of the Australian Professional Accounting Bodies are compelled to comply with the requirements of AUASB Standards.⁷

9. Member compliance is enforced through the inspection programmes of the Professional Accounting Bodies, who are also responsible for member disciplinary action.

4. ———

Categories of Pronouncements and Other Materials issued by the AUASB

10. Standards, guidance and other materials issued by the AUASB adhere to a hierarchy of authority and will fall into one of the following categories:

- (a) authoritative pronouncements; and
- (b) non-authoritative materials.

Diagrams which illustrate the range and authority of pronouncements issued by the AUASB are contained in the Appendices to this Foreword.

11. The AUASB will apply appropriate judgement to determine the most suitable type of pronouncement and/or non-authoritative material to issue in the specific circumstances, taking into consideration a range of factors as outlined in the AUASB's Due Process Framework.⁸

² For further background on the AUASB's mandate and strategic directive, refer to sections 2-4 of the AUASB Board Charter and section II of the AUASB's Due Process Framework.

³ Pursuant to section 227B(1)(a) of the ASIC Act.

⁴ The AUASB has adopted certain drafting principles (see ASA 100 and ASA 101, as applicable) in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the Legislation Act 2003.

⁵ Pursuant to section 227B(1)(b) of the ASIC Act.

⁶ Section 307A of the Corporations Act gives legal backing to the auditing standards, as it requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act in accordance with auditing standards.

⁷ See APES 210 *Conformity with Auditing and Assurance Standards*, issued by the APESB.

⁸ See paragraphs 24-34 of the AUASB's Due Process Framework.

Authoritative Pronouncements issued by the AUASB

12. The AUASB issues the following types of authoritative pronouncements pursuant to its mandate under section 227B of the ASIC Act: framework pronouncements, standards and guidance statements.
- (a) Framework Pronouncements;
 - (b) Standards; and
 - (c) Guidance Statements.
13. ~~Diagrams which illustrate the range of pronouncements issued by the AUASB are contained in the Appendices to this Foreword.~~ The term “authoritative” is used to refer to AUASB pronouncements that are formally approved and issued by the AUASB. AUASB pronouncements are developed, issued and maintained in accordance with the AUASB’s Due Process Framework.
- 2.14. Not all authoritative pronouncements issued by the AUASB are legally enforceable. The extent of compliance required with AUASB pronouncements is determined by the legislative or regulatory requirements of relevant industry regulators, and/or an entity’s constitution or other governing documents, in conjunction with the application paragraphs of the pronouncements. The individual issued AUASB pronouncement will explain the status of the material it contains.

Framework Pronouncements

- 3.15. The AUASB issues framework pronouncements to provide information, structure and context to the pronouncements and other publications materials that it issues. The framework pronouncements comprise:
- (a) Foreword to AUASB Pronouncements;
The Foreword to AUASB Pronouncements sets out an overview of the range and hierarchy of pronouncements and other publications materials issued by the AUASB.
 - (b) Framework for Assurance Engagements~~Framework for Assurance Engagements;~~ and
The Framework for Assurance Engagements defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services apply.
 - (c) AUASB Glossary~~AUASB Glossary.~~
The AUASB Glossary sets out terms that are defined or used in the AUASB Standards.
- 4.1. ~~The Foreword to AUASB Pronouncements sets out the range of pronouncements and other publications issued by the AUASB.~~
- 5.1. ~~The Framework for Assurance Engagements defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services apply.~~
- 6.16. ~~The AUASB Glossary sets out terms that are defined or used in the AUASB Standards.~~ Framework pronouncements, whilst formally approved and issued by the AUASB, do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards, and do not have legal enforceability.

Standards

- 7.17. The AUASB issues the following types of standards:

(a) Australian Auditing Standards (ASAs);

ASAs issued by the AUASB comprise Auditing Standards and certain Standards on Review Engagements made under section 336 of the Corporations Act. ASAs, whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information.

(b) Standards on Review Engagements (ASREs);

ASREs are to be applied to the review of a financial report and the review of other historical financial information.

(c) Standards on Assurance Engagements (ASAEs); ~~and~~

ASAEs are to be applied to assurance engagements dealing with subject matters other than historical financial information.⁹

(d) Standards on Related Services (ASRSs)

ASRSs are to be applied when an assurance practitioner is engaged to undertake engagements other than assurance engagements covered by ASAs, ASREs or ASAEs.¹⁰

These standards are collectively referred to ~~in this document~~ as the “AUASB Standards”¹¹.

~~8. Australian Auditing Standards issued by the AUASB comprise Auditing Standards and certain Standards on Review Engagements made under section 336 of the Corporations Act. Australian Auditing Standards, whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information.~~

~~9. Standards on Review Engagements are to be applied to the review of a financial report and the review of other historical financial information.~~

~~10. Standards on Assurance Engagements are to be applied to assurance engagements dealing with subject matters other than historical financial information.~~¹²

~~18. Standards on Related Services are to be applied when an assurance practitioner is engaged to undertake engagements other than assurance engagements covered by Australian Auditing Standards, Standards on Review Engagements or Standards on Assurance Engagements.~~¹³ Standards made by the AUASB establish mandatory requirements and also include related application and other explanatory material essential for a proper understanding of a standard and application of its requirements. Auditors and assurance practitioners must have regard to such application and explanatory material when applying standards.

~~19. The AUASB Preambles~~¹⁴ explain in greater detail the authority and legal enforceability of AUASB Standards, how standards are to be understood, interpreted and applied, and identifies the mandatory and non-mandatory components of standards.

⁹ Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls.

¹⁰ Examples of financial and non-financial subject matters on which Standards on Related Services may be applied include: Agreeing the eligibility of expenditures claimed from a funding program; Recalculating revenues for determining royalties, rent or franchise fees based on a percentage of revenues; Confirming the calculation of capital adequacy ratios for regulatory authorities; Observation of the destruction of fake or defective goods reported to a regulatory authority; and Tracing data generating processes for lottery draws reported to a regulatory authority.

¹¹ AUASB Standards include Australian Standards on Quality Management for audit, review, other assurance, and related services engagements.

¹² Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls.

¹³ Examples of financial and non-financial subject matters on which Standards on Related Services may be applied include: Agreeing the eligibility of expenditures claimed from a funding program; Recalculating revenues for determining royalties, rent or franchise fees based on a percentage of revenues; Confirming the calculation of capital adequacy ratios for regulatory authorities; Observation of the destruction of fake or defective goods reported to a regulatory authority; and Tracing data generating processes for lottery draws reported to a regulatory authority.

¹⁴ See ASA 100 and ASA 101, as applicable.

11. —

Guidance Statements

~~12.20. Guidance Statements are issued to meet an identified informational need, within the AUASB's area of responsibility, to provide practical or specific application guidance to certain bespoke or critical subject matters in Australia, or industry specific guidance commonly applied or interpreted in Australia. Guidance Statements provide guidance to auditors and assurance practitioners on the application of AUASB Standards and assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard(s) of general application to particular circumstances or specialised industries/sectors.~~

~~Factors determining whether the AUASB should issue a Guidance Statement include, but are not limited to:~~

- ~~(a) The timeliness of the Guidance Statement, including whether the subject matter is a permanent or temporary consideration;~~
- ~~(b) The capability and capacity of the AUASB to develop the Guidance Statement; and~~
- ~~(c) The level of authority required to meet the informational need, and whether the need could be met through another type of AUASB Publication.~~

~~13.21. Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objectives of the engagement. Accordingly, Guidance Statements refer to, and are written in the context of:~~

- ~~(a) specified AUASB Standards; and~~
- ~~(b) where relevant, legislation, regulation or other authoritative publication.~~

~~22. Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and do not have legal enforceability.~~

~~23. The AUASB's Due Process Framework outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances. In deciding on the form of guidance, the AUASB considers the level of authority required to meet the informational need. Where there is a need for authoritative guidance, the AUASB has the option to include the guidance in a standard(s) as new/amended application and explanatory material, or to issue/amend a separate Guidance Statement. Alternatively, the AUASB may determine that non-authoritative guidance materials may be more suitable in the circumstances.¹⁵~~

14. —

~~15. Guidance Statements contain a specific clause indicating their operative date. A Guidance Statement remains in force until the operative date of any amendment to the Guidance Statement or until the Guidance Statement is withdrawn by the AUASB. An operative date is one of the features that differentiates a Guidance Statement from an Explanatory Guide.~~

Other Non-Authoritative PublicationsMaterials

~~24. The AUASB may also issue non-authoritative materials if it considers that doing so would improve audit and assurance quality and consistency in application, or to raise awareness of the auditing and assurance implications of new or emerging issues in the public interest. Such non-authoritative materials do not have the status of AUASB Standards or Guidance~~

¹⁵ See paragraphs 29-33 and 221-23, 231 of the AUASB's Due Process Framework.

Statements. Non-authoritative materials do not establish or extend requirements for the performance of engagements under the AUASB Standards.

25. The AUASB's Due Process Framework outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.¹⁶ Non-authoritative materials may be appropriate in the following circumstances:

(a) urgent guidance is necessary to address a significant issue or support the implementation of a new/revised standard, and this can be developed and issued more promptly than the development/revision of a formal AUASB Guidance Statement; or

(b) further guidance is desired to clarify, explain or interpret the requirements of a new/revised Standard or Guidance Statement for a particular industry or sub-sector.

26. The diagram in Appendix 1 of this document provides an outline of the types of non-authoritative materials issued by the AUASB.

AUASB Charter

16. The AUASB Charter outlines the main corporate governance principles that apply to the AUASB.

AUASB Due Process Framework

17. The AUASB Due Process Framework Framework for Developing and Issuing AUASB Pronouncements and Other Publications sets out the minimum steps the AUASB must take to ensure that, consistent with the AUASB's functions set out in the ASIC Act 2001 and in line with the AUASB Strategy, the standards and guidance it develops, issues and maintains are:

18. in the public interest;

19. principle based;

20. high quality;

21. clearly stated and easy to understand;

22. meet the needs of stakeholders; and

23. enhances audit and assurance consistency and quality in Australia.

It is intended to complement the AUASB Charter and Foreword to AUASB Pronouncements.

Explanatory Guides

24.27. The AUASB issues Explanatory Guides to provide additional information about specific aspects of a standard(s), such as the deliberations undertaken by the AUASB when assessing their need and purpose. For example: the Explanatory Guide to AUASB Standards Applicable to Review Engagements, explains the historical background to the development of the suite of review standards and when each standard is to be used.

25.28. Explanatory Guides are not Guidance Statements that provide guidance to auditors and assurance practitioners on the application of AUASB Standards, and Explanatory Guides similarly do not establish or extend requirements for the performance of engagements under the AUASB Standards.

¹⁶ See paragraphs 29-33 and 221-23, 231 of the AUASB's Due Process Framework.

Basis ~~of~~for Conclusions

29. Whenever the AUASB has made decisions on substantive matters relating to the development of a standard, details of the matter, the options considered and the reasons supporting the conclusions made are documented in a *Basis for Conclusions* document.¹⁷

AUASB Bulletins

- 26.30. *AUASB Bulletins* are issued to either raise a general awareness of matters that are of interest to auditors and assurance practitioners or provide specific guidance on entity or industry specific matters for which an AUASB Guidance Statement is not required or appropriate.
- 27.31. AUASB Bulletins are designed to address matters of principle as they relate to market conditions or specific technical issues, and how these may impact the work of auditors. They do not provide authoritative guidance and do not amend existing AUASB Standards or Guidance Statements.

AUASB Consultative Documents

32. As part of the AUASB's consultation process, the AUASB may issue various consultative documents to set out the details of the matter(s) on which the AUASB is consulting and seeking input from stakeholders prior to making decisions. Typical consultative documents issued by the AUASB include: Exposure Drafts, Discussion Papers, Consultation Papers¹⁸ and Invitations to Comment.¹⁹

Other Non-Authoritative Publications and Guidance Materials

33. The AUASB may also issue other publications, including responses to 'Frequently Asked Questions' (FAQs), either in its own right or jointly with other bodies, on the auditing and assurance implications of emerging issues that contain observations or findings deemed critical for audits and/or auditors. For example: *Audit Committees: A Guide to Good Practice* (issued jointly with the Australian Institute of Company Directors and The Institute of Internal Auditors Australia), and FAQs on Auditor Reporting published on the AUASB Website.
34. The AUASB or technical staff may also publish the following materials on the AUASB website:
- responses to Frequently Asked Questions (FAQs);
 - periodic newsletters and news alerts;
 - implementation support materials;
 - other contextual, supportive and educational materials related to pronouncements, including webcasts, podcasts, articles, presentations for conferences and training materials; and
 - AUASB research reports.

28. —

- 29.35. These materials do not have authoritative status and do not add or change requirements in AUASB pronouncements.

Compliance

- 30.1. ~~Auditing Standards issued by the AUASB under the Corporations Act, are legally enforceable by the Australian regulator — the Australian Securities and Investments Commission (ASIC).~~

¹⁷ For further detail on information included in a *Basis for Conclusions* document, see paragraphs 193-194 of the AUASB's Due Process Framework.

¹⁸ For example, when the IAASB issues an Exposure Draft (ED), the AUASB concurrently issues the unmodified IAASB ED in Australia along with Australian-specific commentary in the form of an AUASB Consultation Paper 'wrapped around' the IAASB ED.

¹⁹ See paragraph 64 of the AUASB's Due Process Framework.

~~ASIC conduct regular inspection programmes as an integral part of their enforcement responsibilities.~~

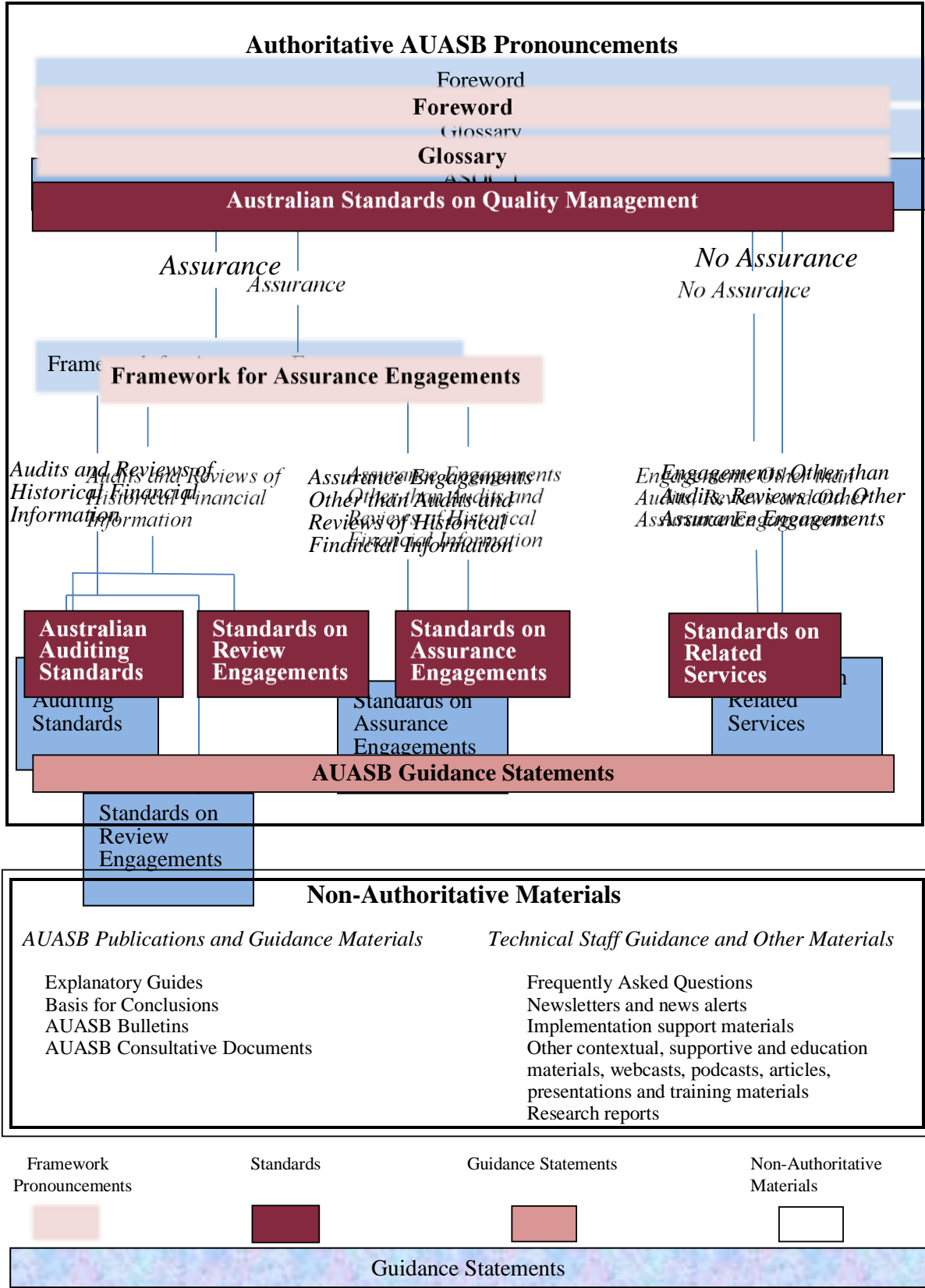
~~31.1. Through the standards issued by the Accounting Professional and Ethical Standards Board (APESB), members of the Australian Professional Accounting Bodies are compelled to comply with the requirements of AUASB Standards.~~

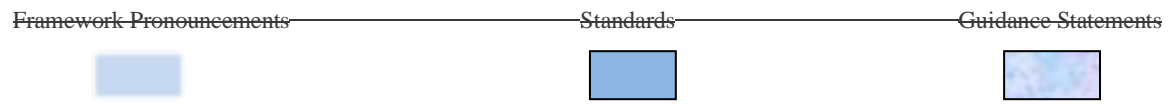
~~32.1. Member compliance is enforced through the inspection programmes of the Professional Accounting Bodies, who are also responsible for member disciplinary action.~~

* * *

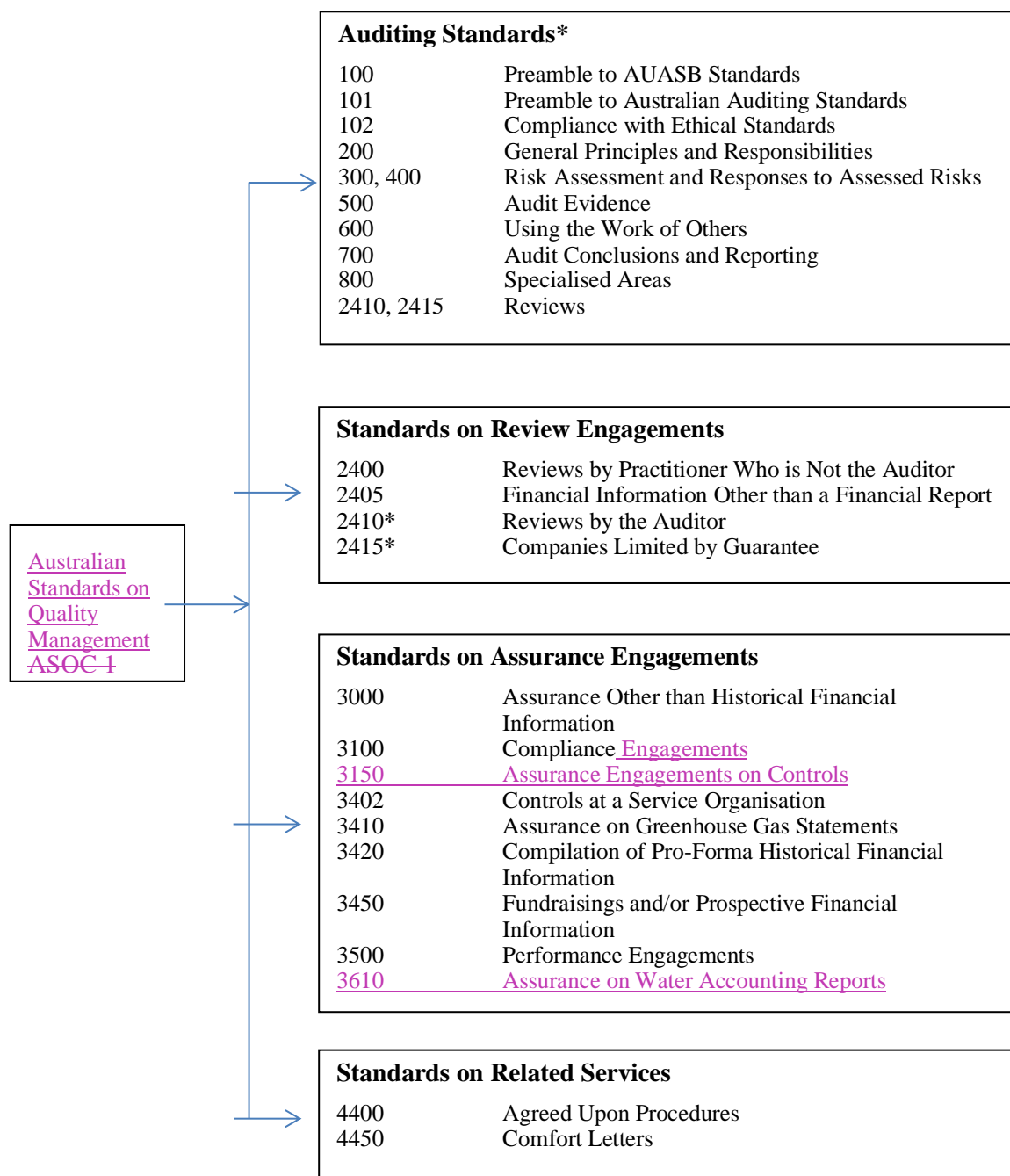
Appendix 1

Framework Categories of Pronouncements and Other Materials issued by the AUASB





Overview of Numbering System used in AUASB Standards



Legend

* Standards made under the *Corporations Act 2001*

Notes

Auditing Standards numbered 200 to 2415 (above) denote a series of numbers

Auditing Standards ASA 805 and ASA 810 are not made under the *Corporations Act 2001*

AUASB Agenda Paper

AUASB Agenda Paper

Project:	Quality Management Suite Standards	Meeting:	10 March 2021
Topic:	Australian Equivalent Standards	Agenda Item:	4.0
Strategic Objective:	Issue Australian Auditing and Assurance Standards based on IAASB equivalent standards in accordance with AUASB functions and mandate from the Financial Reporting Council (FRC).	Decision-Making:	Review and Approval
ATG Staff:	Rene Herman, Marina Michaelides, Tim Austin	Project Status:	Final approval of ASQM suite of standards
AUASB Sponsor:	None		

A. Action Required and Decisions to be Made

- The **objective of this meeting agenda item is for the AUASB to approve to issue the final AUASB QM suite of standards for issue**. There are 4 standards for consideration for approval to issue:
 - 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* (Agenda Item 4.2);
 - ASQM 2 *Engagement Quality Reviews* (Agenda Item 4.3);
 - ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (Agenda Item 4.4); and
 - Conforming Amendments ASA 2021-1 (Agenda Item 4.5 and section F of this Agenda Paper)
- The AUASB is requested to **approve to issue the Explanatory Statements** for each of the QM Standards (Agenda Items 4.6-4.8)
- The **AUASB is requested to review the marked up Australian amendments** in the tables (included at Agenda Item 4.1) **and included in the marked up standards** (included at Agenda Item 4.2-4.5) and provide agreement on the final amendments and any fatal flaw comments prior to approving the suite of AUASB QM standards to issue. The AUASB Technical Group (ATG) position on Australian amendments to the standards is outlined in Section E of this Agenda Paper.
- For the AUASB to consider the AUASB's technical group proposals regarding re-expose of ASQM 1, ASQM 2 and ASA 220; and to **vote on these re-exposure proposals** (refer Section H of this Agenda Paper).
- For the AUASB to **provide feedback on the draft Basis for Conclusions** for each of the Quality Management Standards (refer Agenda Items 4.9-4.11).

B. ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB agree with the ATG's proposed Amendments to the QM suite of standards as included Agenda Item 4.1 and as summarised in section E of this Agenda Paper.	Approve all 'Aus' paragraph amendments to the AUASB QM suite as recommended by the ATG.
Question 2	Are there any other fatal flaw comments on the marked up AUASB QM suite of standards, as included at Agenda Item 4.2-4.5?	Approve to issue the final AUASB QM suite of standards including the associated Explanatory Statements.
Question 3	Does the AUASB agree with the ATG's proposal not to re-expose any of the QM standards? Refer Section H of this paper.	Re-exposure of the standards is not required.
Question 4	Does the AUASB support the ATG's draft Basis of Conclusions documents as included at Agenda Items 4.9-4.11?	Provide feedback on the Basis of Conclusions documents.

C. Background

- 6 The IAASB approved the Quality Management suite of standards at its September 2020 IAASB meeting. These standards include a revised ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, a new ISQM 2 *Engagement Quality Reviews* and a revised ISA 220 *Quality Management for an Audit of Financial Statements*. The Quality Management Standards were approved by the PIOB in December 2020 and will become effective on 15 December 2022.
- 7 The ATG considers that the IAASB has addressed the substantive matters raised by the AUASB through the development of these proposed standards. At the December 2020 AUASB meeting, the AUASB was provided a summary of all AUASB matters raised and how these had been addressed in the final standard. This information has been included in the Basis of Conclusions documents.
- 8 At the February 2021 AUASB meeting the AUASB considered and provided input into the Australian amendments to the suite of Quality Management Standards (refer Section E below).

D. Previous Discussions on Topic

- 9 Over the past year, the AUASB has been tracking the progress of the updates to the QM standards against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. A summary of the tracking of issues can be found in the 19 February 2021 meeting papers at Agenda Item 2.

E. Matters for Discussion and ATG Recommendations – Australian Amendments

- 10 In line with the AUASB / NZAuASB Policy and Process for International Conformance and Harmonisation of Standards there are terms that will automatically be amended throughout the suite of QM standards and will not be reflected as AUS paragraphs. These have not been marked up in the final standards for the AUASB. Examples include ISQM to ASQM, 'professional accountant' to 'assurance practitioner' (or 'member' where appropriate), 'financial statements' to 'financial report' and 'professional standards' to 'AUASB Standards'. These changes are not considered to be significant terminology changes and the intent of the language remains the same.

- 11 The AUASB is requested to review the compelling reason trigger tables included at Agenda Item 4.1 and provide feedback. All proposed Australian changes are highlighted in green. The paragraphs below summarise the contents of the tables from Agenda Item 4.1.

How the proposed QMS have addressed and incorporated requirements of the Corporations Act 2001

- 12 The ATG have worked through each of the options put forward to the AUASB at the February 2021 AUASB meeting. The 2 options that the ATG further considered were:
- Including an explicit upfront reference in the introductory section of the quality management standards; and
 - Clarifying in the AUASB Preamble that a Firm's/Auditor's *Corporations Act 2001* (the Act) obligations must be addressed when applying the Auditing Standards.
- 13 The ATG considers that these suggestions are not mutually exclusive, and stakeholders will benefit if both options are incorporated into the AUASB standards. The ATG is yet to determine the revised wording to address the revised AUASB Preamble, this will be brought back to the AUASB for further consideration at the April 2021 AUASB meeting.
- 14 For the Introductory Paragraphs the ATG has drafted revised 'Aus' paragraphs (these will be amended as required for each quality management standard). This wording is consistent with ASA 200 paragraph 2, and is an approach, that where relevant, we would intend to take when referencing other legislative or regulatory requirements when updating AUASB standards in future.

Aus 4.1 This ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM (Ref: Para. A2).*

Aus 4.2 This ASQM does not address the responsibilities of the firm that may exist in legislation, regulation or otherwise in connection with, for example, independence or other assurance related requirements of the Corporations Act 2001. Such responsibilities may differ from those established in this ASQM. It is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations.

Proposed removal of specific Corporations Act 2001 references in the application guidance of the QMS

- 15 Further to the issue of how the Act is referenced in the Quality Management Standards, the ATG have reconsidered whether specific references to the Act are required in different parts of the application guidance in each standard. ASQM 1 and the extent of references to laws and regulations and ethics, which far exceeds extant ASQC 1, has prompted a more fulsome consideration of how best to reference the Act's requirements throughout the standards.
- 16 While not fully consider as part of the preliminary discussions on this issue at the February 2021 AUASB meeting, the ATG in consultation with the AUASB Chair, is proposing to remove all explicit references to the Act in the application material of the Quality Management Standards. The rationale we have considered to support this approach is based on several considerations:
- The firm or the auditor is required to consider all relevant legislation when designing their system of quality control, not just the Act;
 - Firms are already required to consider the requirements of the Act and other relevant legislation;
 - Future changes to the Act may mean that references to legislation in the Quality Management Standards become or are incorrect, incomplete or out of date which could impact effective and efficient compliance with the Act; and
 - Extant references to the Act are not within the requirements of the standards and impact application material only, as such these examples are 'nice to have' but not compelling.

Relevant Ethical Requirements

- 17 At the February 2021 AUASB members agreed with the way in which the Standards reference and define 'Ethical Requirements' and the nexus with ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

Public Sector Amendments

- 18 At the February 2021 AUASB meeting, members discussed how Auditor-Generals may apply the AUASB Quality Management Standards, and whether specific guidance for public sector auditors was required. Additionally, the AUASB generally does not set industry or sector specific Standards but may from time to time produce industry or sector specific guidance. The ATG note that at the time the AUASB exposed the Quality Management Standards, one respondent did express a preference to retain ASQC 1 public sector specific application material paragraphs. This preference has not been carried forward into ASQM 1 based on AUASB discussions and considering that the ATG is undertaking a separate public sector audit project whereby public sector guidance relating to the application of the Quality Management Standards by Auditor-Generals will now be addressed.

Definitional Amendments

- 19 At the February 2021 AUASB meeting, members discussed the nature of Definitional amendments to ISQM 1. The AUASB agreed with the suggested amendments provided to the AUASB at that meeting. The amendments are explained in the Conforming with International Standards on Quality Management section of the Standards and are further explained in the Basis of Conclusions documents.

F. Conforming Amendments Standard ASA 2021-1

- 20 The ATG has undertaken a review of the IAASB's *Conforming Amendments to ISAs and Related Material Arising from the Quality Management Projects* to determine the impact on the AUASB's legislative Auditing Standards. The proposed Auditing Standard ASA 2021-1 *Amendments to Australian Auditing Standards* at Agenda Item 4.5 has been drafted using the IAASB's pronouncement as its base. The following matters in paragraphs 21 to 24 below are brought to the attention of the AUASB:

- 21 IAASB's Conforming Amendments to ISAs included in the International Pronouncement but not included in ASA 2021-1

- a) *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements (the Preface)*

The AUASB does not issue an equivalent document, however, some of the elements from the Preface are incorporated into the AUASB's *Foreword to AUASB Pronouncements and Framework for Assurance Engagements*. As the Foreword is not a legislative instrument, amendments to this document do not need to go through an Amending Standard. Accordingly, the ATG will update these documents separately after the quality management suite of standards are complete.

- b) *ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

ASA 805 is not made under the *Corporations Act 2001* hence is not a legislative instrument. Accordingly, amendments to this document do not need to go through an Amending Standard. Accordingly, the ATG will update this Standard separately after the quality management suite of standards is complete.

22 *Proposed changes to AUASB Standards not included in IAASB's Conforming Amendments to ISAs*

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* is made under the *Corporations Act 2001* and accordingly is a legislative instrument. There is no international equivalent of this standard and accordingly conforming amendments to this standard do not appear in the International Pronouncement. The ATG has undertaken a holistic review of ASA 102 with reference to the Quality Management suite of standards and has included conforming amendments to ASA 102 arising from the QM suite of standards within ASA 2021-1.

23 *Other legislative instrument standards not included in ASA 2021-1*

a) *ASA 101 Preamble to Australian Auditing Standards*

Conforming amendments to ASA 101 will be covered as part of the Preamble project which will be presented to the Board in April 2021.

b) *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (July 2020)*

In February 2021 the IAASB released an Exposure Draft on proposed conforming amendments to other non-ISA standards resulting from the QM suite of standards. The ATG proposed to wait for the finalisation of this IAASB ED into a final pronouncement and process changes in due course.

c) *ASRE 2415 Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*

There is no international equivalent of this standard, the ATG propose that the impact of conforming amendments arising as a result of the QM suite of standards is considered holistically as a separate project in due course.

24 *IAASB's Conforming Amendments to ISAs and consideration of ISA 600 amendments*

The IAASB determined that major amendments to ISA 600 would be addressed through the ISA 600 project as this standard will be finalised later this year. The more substantive conforming amendments arising from the QM suite of standards will be addressed through this revision.

G. Collaboration with NZAuASB and APESB

25 Consideration of the NZAuASB and their processes was discussed in detail at the February 2021 AUASB meeting. There has been no further action in this regard. Additionally the AUASB Chair and Deputy Technical Director attended the relevant sessions of the February 2021 NZAuASB meeting where the NZAuASB reviewed and approved their versions of the QM suite of standards.

26 As noted in the papers presented to the AUASB for its February 2021 meeting, the Accounting Professional and Ethical Standards Board (APESB) issues APES 320 *Quality Control for Firms*, which incorporates the entirety of extant ASQC 1. The requirements and application material of the extant standards are currently aligned; however as APES 320 applies to all services provided by Firms the expanded requirements and guidance relating to Assurance Firms in the new versions of ISQM 1 and ISQM 2 mean this consistency between the AUASB and APESB standards will no longer be practical.

27 The AUASB has held an ongoing dialogue with the APESB staff to determine a consistent approach that doesn't create an unnecessary burden on Non-Assurance Firms and is in the public interest when considering the changes imposed by the transition from ASQC 1 to the new ASQM 1 and ASQM 2 on the APESB's standards. For the APESB's upcoming March 2021 meeting (being held on 4 March 2021, prior to the AUASB meeting) an options paper is being presented to the APESB Board which recommends that the APESB harmonises the fundamental components of ISQM 1 and APES 320 by:

- Aligning the main elements in a revised APES 320 to the different components of the revised ISQM 1; and
- Removing all existing Audit and Assurance related materials from APES 320, so that a Firm that performs Assurance engagements only refers to one quality management framework (i.e. ASQM 1 and ASQM 2) and only minor changes are required to APES 320 from a non-assurance perspective.

28. The AUASB Technical Group supports the recommendation the APESB staff have made on this issue to their Board. It means that for firms only providing assurance services, the proposed alignment of APES 320 with ASQM 1 requires them to comply with only the AUASB's quality management standards. And for firms that provide both Assurance and Non-Assurance services, whilst they will need to maintain a system of quality management that is compliant with both APES 320 and the ASQM's, the minimal changes planned to APES 320 from a non-assurance perspective will hopefully mean any transitional arrangements not related to the implementation of the new AUASB standards should not be onerous.
29. The AUASB Technical staff will observe the March APESB 2021 meeting and advise the AUASB of the outcome of the APESB's deliberations on this issue and any further implications for the AUASB's standards.

H. Considerations for Re-Exposure

30. Following approval of the QM suite of standards at its September 2020 meeting the IAASB voted on whether ISQM 1, ISQM 2 and ISA 220 should be re-exposed. Refer to the IAASB's papers which details the matters they considered:
- (a) [ISQM 1](#)
 - (b) [ISQM 2](#)
 - (c) [ISA 220](#)
31. The principal consideration in the IAASB's due process is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The IAASB's due process includes three examples of situations that may constitute potential grounds for a decision to re-expose:
- Substantial change to a proposal arising from matters not aired in the exposure draft (ED) such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
 - Substantial change arising from matters not previously deliberated by the IAASB; or
 - Substantial change to the substance of a proposed international pronouncement.
32. The ISQM 1, ISQM 2 and ISA 220 Taskforce's (TF) analysis for the IAASB included consideration of while there have been many changes to proposed ISQM 1, ISQM 2 and ISA 220, the key elements of ED-ISQM 1, ED-ISQM 2 and ED-ISA 220 have been retained, with further clarifications and modifications in response to comments received on exposure.
33. The IAASB voted not to re-expose ISQM 1, ISQM 2 and ISA 220.
34. [The AUASB's Due Process Framework](#) now explicitly covers the matters to consider when considering re-exposure and these considerations are generally consistent with those considerations of the IAASB. However, it does include the following:

Extracted from Paragraph 69:

(a) changes impacting on potential compelling reasons modifications to international standards adopted in Australia, are generally considered to be significant changes.

35. After consideration of the criteria for re-exposure of AUASB Standards in paragraphs 68-70 of the AUASB's Due Process Framework document (largely consistent with the IAASB) and after consideration that the nature of the 'Aus' Amendments, under the 'compelling reasons' test outlined in Section E of this paper, are not significant changes, the ATG do not recommend re-exposure of the these QM

standards. Note: the ATG have not repeated the considerations already covered in the IAASB documents referred to in paragraph 21.

I. Next steps/Way Forward

- 36 Completion of the AUASB internal Quality Assessment (QA) processes and other internal processes.
- 37 Completion of the 'Basis of Conclusion' documents (after consideration of AUASB input) to accompany the QM standards.
- 38 The ATG expects that the completion stages will be finalised by the end of March 2021 when the final approved standards can be expected to be released.
- 39 The ATG expects to bring a communications and implementation guidance plan to the AUASB at the April or June 2021 AUASB meeting.

J. Attachments to this Agenda Paper

Agenda Item	Description
4.1	Table of Australian amendments across the suite of QM standards (Marked-up since February 2021)
4.2	ASQM 1 in Mark-up
4.3	ASQM 2 in Mark-up
4.4	ASA 220 in Mark-up
4.5	Conforming Amendments Standard – ASA 2021-1
4.6	Explanatory Statement ASQM 1 (including ASA 2021-1)
4.7	Explanatory Statement ASQM 2
4.8	Explanatory Statement ASA 220
4.9	Basis of Conclusions ASQM 1 (including ASA 2021-1)
4.10	Basis of Conclusions ASQM 2
4.11	Basis of Conclusions ASA 220

AUASB Agenda Paper

APPENDIX 1

TABLE 1 – AUS PARAGRAPHS FROM EXTANT ASQC 1

Australian modifications from extant ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagement and Related Services Engagements.*

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
	Introduction			
1	Aus 1.1	<p>Extant ISQC 1 paragraph 1</p> <p>This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.</p>	<p>Replaced by Aus 1.1 in extant ASQC 1</p> <p>This Auditing Standard, ASQC 1 (the Standard), deals with the firm’s responsibilities for its system of quality control for audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements. This Standard is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.*</p> <p>Footnote * See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.</i></p>	No Australian paragraph proposed.
		<p>ISQM 1 paragraph 1</p> <p>This International Standard on Quality Management (ISQM) deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.</p>	<p>Proposed ASQM 1</p> <p>“financial statements” will need to change to: financial reports and other financial information.</p>	
	Authority of this Auditing Standard			

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
2	Aus 4.1	<p>Extant ISQC 1 paragraph 4</p> <p>This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as size and operating characteristics of the firm, and whether it is part of a network.</p> <p>ISQM 1 paragraph 5</p> <p>This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies and the system of quality management that is established in accordance with the requirements of this ISQM enables the consistent performance by the firm of all such engagements).</p>	<p>Replaced by Aus 4.1 in extant ASQC 1</p> <p>This Standard applies to all firms of assurance practitioners in respect of audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</p> <p>Proposed ASQM 1</p> <p>“financial statements” will need to change to: financial reports and other financial information and references to ISQM will change to ASQM. These changes will run throughout the full ASQM 1</p>	No Australian paragraph proposed.
3	Aus 4.2	N/A – additional material	<p>Aus 4.2 in extant ASQC 1</p> <p>The requirements of this Standard apply to a firm, not to the individual auditor(s) within the firm.</p> <p>Proposed ASQM 1</p> <p>No amendment required.</p>	N – standard is clear enough in the scope ISQM 1 paragraph 5.
Definitions				
4	Aus 12.1	N/A – additional definition	<p>Aus 12.1 in extant ASQC 1</p> <p>Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about</p>	Y – ASQM 1 is a legislative instrument – suggest including definitions that are not contained within the ASAs.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			<p>the outcome of the evaluation or measurement of a subject matter against criteria.</p> <p>Proposed ASQM 1</p> <p>Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria. See ASQM 1 – Aus 16.1 Placeholder at ASQM 1 paragraph 16.</p>	
5	Aus 12.2	N/A – additional definition	<p>Aus 12.2 in extant ASQC 1</p> <p>Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures).</p> <p>Proposed ASQM 1</p> <p>Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures). The term ‘assurance practitioner’ is referred to in ASRS 4400 as ‘practitioner’.</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions that are not contained within the ASAs.</p> <p>ASQM 1 will need to use assurance practitioner or member (context dependent) in place of professional accountant used in the IESBA Code and ISQM 1 due to the AUASB’s mandate and the APES Code terminology. Such terminology changes will occur throughout ASQM 1.</p> <p>Example of change of term professional accountant to assurance practitioner is reflected in issue 10 below. Change of term professional</p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			See ASQM 1 – Aus 16.2 Placeholder at ASQM 1 paragraph 16	accountant to member is reflected in table 2.
6	Aus 12.3	Extant ISQC 1 paragraph 12(a) Date of report – The date selected by the practitioner to date the report.	Replaced by Aus 12.3 in extant ASQC 1 Date of report means the date the assurance practitioner signs the report.	Y – ASQM 1 is a legislative instrument – suggest including definitions. Definition is representative of Principles and practices that are considered appropriate in Australia to improve quality and is to prevent forward/backdating of reports.
		ISQM 1 does not contain a definition of date of report.	Proposed ASQM 1 Date of report means the date the assurance practitioner signs the report. See ASQM 1 Aus 16.3 Placeholder at ASQM 1 paragraph 16	
7	Aus 12.4	Extant ISQC 1 paragraph 12(b) Engagement documentation – The record of work performed, results obtained , and conclusions the practitioner reached (terms such as “working paper” or “workpapers” are sometimes used).	Replaced by Aus 12.4 in extant ASQC 1 Engagement documentation means the record of work performed, relevant evidence obtained , and conclusions the assurance practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).	N – when considering audit quality/practice and legislative circumstances, this is not considered to be a compelling reason amendment.
		ISQM 1 paragraph 16(b) The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).	Proposed ASQM 1 No amendment required.	

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
8	Aus 12.5	Extant ISQC 1 paragraph 12(c) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.	Replaced by Aus 12.5 in extant ASQC 1 Engagement partner means the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. Engagement partner should be read as referring to a public sector equivalent where relevant.	N – ISQM 1 now references public sector.
		ISQM 1 paragraph 16(c) The partner or other individual, appointed by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body Footnote to paragraph 16(c): “Engagement partner” and “partner” is to be read as referring to their public sector equivalents where relevant.	Proposed ASQM 1 No amendment required.	
9	Aus 12.6	Extant ISQC 1 paragraph 12(f) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement	Replaced by Aus 12.6 in extant ASQC 1 Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.	Y – Australia does not allow direct assistance of internal audit. This amendment represents principles and practices that are considered appropriate in Australia. Refer to proposed ASQM 1 wording. The amendment is only to remove the reference to direct assistance.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		<p>when the external auditor complies with the requirements of ISA 610 (Revised 2013).³</p> <p>Footnote 3 ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.</p>		
		<p>ISQM 1 paragraph 16(f)</p> <p>All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement.</p> <p>Footnote to paragraph 16(f): ISA 620, <i>Using the Work of an Auditor's Expert</i>, paragraph 6(a), defines the term "auditor's expert."</p>	<p>Proposed ASQM 1</p> <p>All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert.</p> <p><u>See ASQM 1 Aus 16.4</u></p>	
10	Aus 12.7	<p>Extant ISQC 1 paragraph 12(g)</p> <p>Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.</p>	<p>Replaced by Aus 12.7 in extant ASQC 1</p> <p>Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.</p>	N – Public sector now referenced in ISQM 1. However, the term professional accountant will change to assurance practitioner as described in issue 5 above.
		<p>ISQM 1 paragraph 16(i)</p>	<p>Proposed ASQM 1</p> <p>No amendment required.</p>	

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.		
11	Aus 12.8	N/A – additional definition	<p>Replaced by Aus 12.8 in extant ASQC 1</p> <p>Limited assurance engagement means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion. A limited assurance engagement is commonly referred to as a review.</p> <p>Proposed ASQM 1</p> <p>No amendment required.</p>	N – The term “limited assurance engagement” is not used within ISQM 1.
12	Aus 12.9	N/A – additional definition	<p>Replaced by Aus 12.9 in extant ASQC 1</p> <p>Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).</p> <p>Proposed ASQM 1</p> <p>Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).</p> <p>Placeholder at ASQM 1 paragraph 16 See ASQM 1 paragraph Aus 16.5.</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions that are not included in the ASAs.</p> <p><u>Note the Preamble ASA 100 para 6:</u></p> <p><u>Although Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, as appropriate, to the audit of other financial information.</u></p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
13	Aus 12.10	<p>Extant ISQC 1 paragraph 12(m)</p> <p>Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	<p>Replaced by Aus 12.10 in extant ASQC 1</p> <p>Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement. Partner should be read as referring to a public sector equivalent where relevant.</p>	<p>Y – professional services engagement is a non-defined term. Australian definition provides clarity and therefore aids consistency of application.</p> <p>Refer to proposed ASQM 1 wording.</p> <p>Note: No reference to public sector is required here as the definition of firm contains this reference.</p>
		<p>ISQM 1 paragraph 16(m) – same definition as extant ISQC 1 paragraph 12(m)</p>	<p>Proposed ASQM 1</p> <p>Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement.</p> <p><u>See ASQM 1 Aus 16.6</u></p>	
14	Aus 12.11	<p>Extant ISQC 1 paragraph 12(o)</p> <p>Professional Standards – IAASB Engagement Standards, as defined in the <i>IAASB's Preface to the International Quality Control, Auditing Review, Other Assurance and Related Services Pronouncements</i>, and relevant ethical requirements.</p> <p>[Note: IAASB's Engagement Standards include ISAs, ISREs, ISAEs, ISRSs]</p>	<p>Replaced by Aus 12.11 in extant ASQC 1</p> <p>AUASB Standards means standards issued by the AUASB, comprising:</p> <p>(a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:</p> <ul style="list-style-type: none"> • Auditing Standards made under section 336 of the <i>Corporations Act 2001</i>; • ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>; and • ASA 810 <i>Engagements to Report on Summary Financial Statements</i>. <p>(b) Standards on Review Engagements;</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions within the standard. "Engagement standards" is not an Australian term, rather the AUASB Preface defines AUASB Standards.</p> <p><u>Additionally, all references to 'professional standards' throughout ASQM 1 will be changed to AUASB standards.</u></p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			(c) Standards on Assurance Engagements; and (d) Standards on Related Services.	
		ISQM 1 paragraph 16(p) IAASB Engagement Standards, as defined in the IAASB's <i>Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> , and relevant ethical requirements.	Proposed ASQM 1 Same text as above. <u>See ASQM 1 Aus 16.7.</u>	
15	Aus 12.12	Extant ISQC 1 paragraph 12(q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code) together with national requirements that are more restrictive.	Replaced by Aus 12.12 in extant ASQC 1 Relevant ethical requirements mean relevant ethical requirements as defined in ASA 102.	Y – definition to hook to ASA 102 to give force of law to the ethical standards.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		ISQM 1 paragraph 16(t) Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.	Proposed ASQM 1 Relevant ethical requirements mean relevant ethical requirements as defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . <u>See ASQM 1 Aus 16.8</u>	
16	Aus 12.13	Extant ISQC 1 paragraph 12(s) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.	Replaced by Aus 12.13 in extant ASQC 1 Suitably qualified external person means an individual outside the firm with the competence and capabilities to act as an engagement partner. For example: <ul style="list-style-type: none"> a partner of another firm, or a member (with appropriate experience) of a professional accountancy body whose members may perform audits and reviews of financial reports and other financial information, other assurance engagements or related services engagements, or a member (with appropriate experience) of an organisation that provides relevant quality control services. Footnote* For example, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.	N. Note, ISQM 1 does not contain definition and the standard only references the term 'suitably qualified' in application material paragraph A50. Not considered to be a compelling reason trigger.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		ISQM 1 does not contain definition and only references the term 'suitably qualified' in application material paragraph A50 in the context of an example of a firm response to address quality risks. The reference to suitably qualified is in reference to engagement team consultations.	Proposed ASQM 1 No amendment required.	
Relevant Ethical Requirements				
17	Aus 21.1	N/A – additional material	Aus 21.1 in extant ASQC 1 Where multiple threats to independence are identified, which individually might not be significant, the significance of those threats in aggregate and the safeguards applied or in place to eliminate some or all of the threats or reduce them to an acceptable level in aggregate, shall be evaluated. Proposed ASQM 1 No amendment required.	N – this paragraph was added through Amending Standard ASA 2020-2 as a result of changes to the ethics code. The change was in the context of granular requirements in relation to independence in ISQC 1. This level of granularity on independence and safeguards is not contained in the requirements of ISQM 1. Rather ISQM 1 has a broader quality objective and response that addresses the fulfilment of relevant ethical requirements including those related to independence.
18	Aus 24.1	Extant ISQC 1 paragraph 24 At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independences from all firms personnel required to be independent by relevant ethical requirements. (Ref: Para A10-A11)	Replaced by Aus 24.1 in extant ASQC 1 At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, and applicable legal and regulatory requirements. (Ref: Para. A10-A11)	Y – to include reference to applicable legal and regulatory requirements. <u>N – no specific law/reg in Australia – so suggest not required as an Australian amendment.</u>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		ISQM 1 paragraph 34(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.	Proposed ASQM 1 The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent, and applicable legal and regulatory requirements. <u>No Change proposed.</u>	
Engagement Performance				
19	Aus 34.1	N/A – additional material	Aus 34.1 in extant ASQC 1 The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. A36-A40) Proposed ASQM 1 A76 contains examples of direction, supervision and review. The review of work may consider whether appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented.	N – consider that A76 deals with review of conclusions and documentation which is expected to address the matter from Aus 34.1 of extant ASQC 1.
Applying, and Complying with, Relevant Requirements				
<i>Considerations specific to Public Sector Entities</i>				

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
20	Aus A1.1	N/A – additional material	<p>Aus A1.1 in extant ASQC 1</p> <p>For assurance engagements conducted in the public sector by Auditors-General pursuant to legislation, public sector auditors should have regard to the relevant public sector mandate and address any threats in that context. Requirements relating to independence (paragraphs 21-25), acceptance and continuance of client relationships and specific engagements (paragraphs 26-28), and complaints and allegations (paragraphs 55-56) may not be consistent with the Auditors-General legislative mandate in all circumstances.</p> <p>Proposed ASQM 1</p> <p>For assurance engagements conducted in the public sector by Auditors-General pursuant to legislation, public sector auditors should have regard to the relevant public sector mandate and address any threats in that context. Requirements relating to independence (paragraph 29), acceptance and continuance of client relationships and specific engagements (paragraph 30), and complaints and allegations (paragraph 34) may not be consistent with the Auditors-General legislative mandate in all circumstances. No amendment.</p>	<p>Y – This paragraph is specific to Australia and not covered in ISQM 1.</p> <p>Placeholder at proposed ASQM 1 Aus A29.1.</p> <p>N – at the February 2021 AUASB meeting, members discussed that auditor generals are to have due regard to the standards, they do not need to follow them. Additionally, the ATG is undertaking a separate public sector project whereby public sector guidance will be addressed. On this basis, separate public section application material paragraphs not considered necessary.</p> <p>Note: The NZAuASB in its February 2021 meeting papers suggested that guidance for the Auditor-General was “nice to have” but not a compelling reason to change.</p>
Relevant Ethical Requirements				
21	Aus A7.1	<p>Extant ISQC 1 paragraph A7</p> <p>The IESBA Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> (a) Integrity ; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and 	<p>Replaced by Aus A7.1 in extant ASQC 1</p> <p>The firm is required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits and reviews, other assurance engagements and related services engagements, as defined in ASA 102.</p>	<p>N – the format and content of ISQM 1 in relation to ethics is different to that of ISQC 1.</p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		(e) Professional behavior		
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	Proposed ASQM 1 Refer to Table 2.	
22	A8	Extant ISQC 1 paragraph A8 Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.	Paragraph deleted by the AUASB [Deleted by the AUASB. Refer ASA 102]	N – the format and content of ISQM 1 in relation to ethics is different to that of ISQC 1.
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	Proposed ASQM 1 Refer to Table 2.	
23	A9	Extant ISQC 1 paragraph A9 The fundamental principles are reinforced in particular by: <ul style="list-style-type: none"> • The leadership of the firm; • Education and training • Monitoring; and • A process for dealing with non-compliance 	Paragraph deleted by the AUASB [Deleted by the AUASB. Refer ASA 102]	N – the format and content of ISQM 1 in relation to ethics is different to that of ISQC 1.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	Proposed ASQM 1 Refer to Table 2.	
24	Aus A10.1	<p>Extant ISQC 1 paragraph A10</p> <p>The definitions of “firm”, “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISQC. For example, the IESBA Code defines the “firm” as:</p> <ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties through ownership, management or other means; and (c) An entity controlled by such parties through ownership, management or other means. <p>The IESBA Code also provides guidance in relation to the terms “network” and “network firm”.</p> <p>In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.</p>	<p>Replaced by Aus A10.1 in extant ASQC 1</p> <p>Independence (Ref: Para. 21)</p> <p>Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> Part 2M.3 Division 3, and relevant ethical requirements.*</p> <p>Footnote * See ASA 102.</p>	<p>Y—Corporations Act 2001 specific—N</p> <p>See detailed explanations included in the Covering Agenda Paper that describes the path forward for application material paragraphs that reference the Corporations Act.</p>
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	<p>Proposed ASQM 1</p> <p>Modification to A117 – Aus A117.1</p> <p>Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test. Examples of independence</p>	

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			<u>requirements that may be applicable are addressed in the Corporations Act 2001 Part 2M.3 Division 3, and relevant ethical requirements.</u> ⁴⁶ N/A	
25	Aus A12.1	Extant ISQC 1 paragraph A12 The IESBA Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.	Replaced by Aus A12.1 in extant ASQC 1 A threat may be created as a result of an individual's long association with: <ul style="list-style-type: none"> • The entity and its operations; • The entity's senior management; or • The underlying subject matter and subject matter information of the assurance engagement. 	N – ISQC 1 contained granular requirements with respect to long association. This level of granularity is not contained in ISQM 1. Rather ISQM 1 has a broader quality objective and response that addresses the fulfilment of relevant ethical requirements including those related to independence.
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	Proposed ASQM 1 No amendment required.	
26	Aus A13.1	Extant ISQC 1 paragraph A13 Determining appropriate criteria to address familiarity threats may include matters such as: <ul style="list-style-type: none"> • The nature of the engagement, including the extent to which it involves a matter of public interest; and • The length of service of the senior personnel on the engagement. Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.	Replaced by Aus A13.1 in extant ASQC 1 Relevant ethical requirements include examples of factors that are relevant to evaluating the level of a threat that may arise when an individual is involved in an assurance engagement over a long period of time. Relevant ethical requirements also provide examples of actions to address threats, including: <ul style="list-style-type: none"> • Eliminating the threat by rotating the individual off the engagement team; or • Applying safeguards to reduce the threat to an acceptable level, for example by performing 	N – ISQC 1 contained granular requirements with respect to long association. This level of granularity is not contained in ISQM 1. Rather ISQM 1 has a broader quality objective and response that addresses the fulfilment of relevant ethical requirements including those related to independence.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			regular independent internal or external quality reviews of the engagement.	
		ISQM 1 contains considerable ethical requirements and application material. Refer paragraphs 4, 16(t), 29 and application material paragraphs – see Table 2.	Proposed ASQM 1 Refer to Table 2.	
27	Aus A14.1	<p>Extant ISQC 1 paragraph A13</p> <p>The IESBA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IESBA Code requires the rotation of key audit partners⁴ after a pre-defined period, normally no more than seven years, and provide related standards and guidance. National requirements may establish shorter rotation periods.</p> <p>Footnote 4 As defined in the IESBA Code</p> <p>ISQM 1 No specific paragraphs on familiarity threats but partner rotation paragraph at paragraph A63.</p>	<p>Replaced by Aus A14.1 in extant ASQC 1</p> <p>Relevant ethical requirements and the <i>Corporations Act 2001</i> require the rotation of the engagement partner, the engagement quality control reviewer, and other key audit partners in respect of certain engagements.</p> <p>Proposed ASQM 1</p> <p>Relevant ethical requirements and the <i>Corporations Act 2001</i> require the rotation of the engagement partner, the engagement reviewer, and other key audit partners in respect of certain engagements..</p>	<p>Y—<i>Corporations Act 2001</i> requirements.</p> <p>Attach application material after paragraph A63. See detailed explanations included in the Covering Agenda Paper that describes the path forward for application material paragraphs that reference the Corporations Act.</p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			Placeholder at proposed ASQM 1 paragraph Aus A63.1: N/A	
Acceptance and Continuance of Client Relationships and Specific Engagements				
28	Aus A22.1	N/A – additional material	<p>Aus A22.1 in extant ASQC 1</p> <p>For example, the firm may be required to obtain consent from the Australian Securities and Investments Commission (ASIC) prior to resigning from certain audits.*</p> <p>Footnote * See, for example, ASIC Regulatory Guide 26 <i>Resignation, removal and replacement of auditors</i> (June 2015).</p> <p>Proposed ASQM 1</p> <p>Same text as above, placeholder at proposed ASQM 1 paragraph A123. No amendments proposed</p>	<p>Y—ASIC See detailed explanations included in the <u>Covering Agenda Paper that describes the path forward for application material paragraphs that reference the Corporations Act requirement</u></p>
Engagement Performance				
Retention of Engagement Documentation (Ref: Para. 47)				
29	Aus A61.1	N/A – additional material	<p>Aus A61.1 in extant ASQC 1</p> <p>For audits or reviews of financial reports conducted under the <i>Corporations Act 2001</i> (the Act), section 307B of that Act requires an auditor or member of an audit firm to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until:</p> <p>(a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or</p>	<p>Y—N – See detailed explanations included in the <u>Covering Agenda Paper that describes the path forward for application material paragraphs that reference the Corporations Act, Corporations Act 2001</u> specific.</p>

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
			<p>(b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers.</p> <p>Proposed ASQM 1</p> <p>Same text as above, placeholder at proposed ASQM 1 paragraph A85. No amendment.</p>	
30	Aus A61.2	N/A – additional material	<p>Aus A61.2 in extant ASQC 1</p> <p>Relevant law or regulation, other than the <i>Corporations Act 2001</i>, may require the retention of audit working papers for specified periods.</p> <p>Proposed ASQM 1</p> <p>N/A already dealt with above.</p>	N – already dealt with in issue 29 above.
Engagement Performance				
Ownership of engagement documentation				
31	Aus A63.1	<p>Extant ISQC 1 paragraph A63</p> <p>Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.</p>	<p>Replaced by Aus A63.1 in extant ASQC 1</p> <p>Unless otherwise specified by law or regulation, engagement documentation remains the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed or the independence of the firm or its personnel.</p>	N – This paragraph no longer exists in ISQM 1.

No.	Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	ATG recommendation to retain/include an AUS specific paragraph
		ISQM 1 This paragraph no longer exists.	Proposed ASQM 1 No amendment required.	
Engagement Performance				
Considerations Specific to Public Sector Organisations				
32	Aus A68.1	N/A – additional material	<p>Aus A68.1 in extant ASQC 1</p> <p>In the public sector, an auditor appointed under statute (for example, an Auditor-General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement.</p> <p>Proposed ASQM 1</p> <p>Same text as above, placeholder at proposed ASQM 1 paragraph A77.<u>N/A</u></p>	<p><u>N – at the February 2021 AUASB meeting, members discussed that auditor generals are to have due regard to the standards, they do not need to follow them. Additionally, the ATG is undertaking a separate public sector project whereby public sector guidance will be addressed. On this basis, separate public section application material paragraphs not considered necessary.</u>This paragraph is specific to Australia and not covered in ISQM 1.</p> <p>Note: The NZAuASB in its February 2021 meeting papers suggested that guidance for the Auditor-General was “nice to have” but not a compelling reason to change.</p>

TABLE 2– ETHICAL REFERENCES FROM ISQM 1 FOR CONSIDERATION IN THE AUSTRALIAN ENVIRONMENT (if not already considered in Table 1 above)

Note that “relevant ethical requirements”, “ethical values” and “professional ethics” are mentioned more than seventy times throughout the whole of ISQM 1, only the paragraphs relevant to ethical requirements and IESBA Code will be listed below.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group’s comments
1	4	This ISQM is to be read in conjunction with relevant ethical requirements. Law, regulation or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this ISQM. (Ref: Para. A2)	<p>Refer to Agenda Item 8 at the December 2020 AUASB Meeting, reference to ASA 102 will be made upfront in ASQM 1.</p> <p>Proposed ASQM 1</p> <p>See ASQM 1 Aus 4.1 This ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.* Law, regulation or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this ASQM. (Ref: Para. A2)</p> <p>Footnote * See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p>
2	16(t)	Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)	<p>Proposed ASQM 1 (as per Table 1).</p> <p>See ASQM 1 Aus 16.8</p> <p>Relevant ethical requirements mean relevant ethical requirements as defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p>
3	29	<p>Relevant Ethical Requirements</p> <p>The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with</p>	No amendment required.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<p>relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)</p> <p>(a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and (Ref: Para. A22, A24)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.</p> <p>(b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:</p> <p>(i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A22, A24, A65)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.</p>	
4	A2	<p>The IESBA Code⁷ contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. As indicated in paragraph 15, in the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.</p> <p>Footnote 7 The International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code)</p>	As mentioned above, no amendment required apart from converting IESBA Code to APESB Code and amending footnote 7 to the title of APESB Code. All wording and section references will be cross checked to the APESB Code. Additionally, in the context of this paragraph, the term professional accountant will be replaced by member (as per the APES Code).
5	A22	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 16(t), 29)</p> <p>The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending</p>	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references. Additionally, in the context of this paragraph, the term

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		on the nature and circumstances of the firm and its engagements. The term "professional accountant" may be defined in relevant ethical requirements. For example, the IESBA Code defines the term "professional accountant" and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.	professional accountant will be replaced by member (as per the APES Code).
6	A23	The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references. Additionally, in the context of this paragraph, the term professional accountant will be replaced by member (as per the APES Code).
7	A24	<p>Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example:</p> <ul style="list-style-type: none"> Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when they are performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner, and may be relevant in the context of the performance of engagements. Certain requirements in Parts 3 and 4 of the IESBA Code also apply to individuals who are professional accountants in public practice when they are performing professional activities for clients. <p>Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm's system of quality management.</p> <p><i>Example of relevant ethical requirements that are applicable only to individuals and</i></p>	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references. Additionally, in the context of this paragraph, the term professional accountant will be replaced by member (as per the APES Code).

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<p><i>not the firm, and which relate to the performance of engagements</i></p> <p>Part 2 of the IESBA Code addresses pressure to breach the fundamental principles, and includes requirements that an individual shall not:</p> <ul style="list-style-type: none"> • Allow pressure from others to result in a breach of compliance with the fundamental principles; or • Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles. <p>For example, circumstances may arise when, in performing an engagement, an individual considers that the engagement partner or another senior member of the engagement team has pressured them to breach the fundamental principles.</p>	
8	A62	<p>Relevant Ethical Requirements (Ref: Para. 16(t), 29)</p> <p>The IESBA Code sets out the fundamental principles of ethics that establish the standards of behaviour expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards. In addition, the IESBA Code addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical</p>	<p>No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references. Additionally, in the context of this paragraph, the term professional accountant will be replaced by member (as per the APES Code).</p>

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		requirements, including independence, such as privacy laws affecting the confidentiality of information.	
9	A63	<p>In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.</p> <p><i>Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements</i></p> <ul style="list-style-type: none"> • The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential. • The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members. 	<p>Proposed placeholder at A63</p> <p>Relevant ethical requirements and the Corporations Act 2001 require the rotation of the engagement partner, the engagement quality reviewer, and other key audit partners in respect of certain engagements. <u>No amendment</u> - Refer already item 27-24 from table 1 above.</p>
10	A64	<p>Other components may affect or relate to the relevant ethical requirements component.</p> <p><i>Examples of relationships between the relevant ethical requirements component and other components</i></p> <ul style="list-style-type: none"> • The information and communication component may address the communication of various matters related to relevant ethical requirements, including: <ul style="list-style-type: none"> ○ The firm communicating the independence requirements to all personnel and others subject to independence requirements. ○ Personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to 	No amendment required.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<p>independence, or breaches of relevant ethical requirements.</p> <ul style="list-style-type: none"> • As part of the resources component, the firm may: <ul style="list-style-type: none"> ○ Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements. ○ Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence. 	
11	A65	<p>The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, or in the performance of engagements.</p> <p><i>Examples of relevant ethical requirements that apply to others</i></p> <ul style="list-style-type: none"> • Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, the IESBA Code includes independence requirements that apply to network firms. • Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (e.g., a component auditor or a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant 	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<p>ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.</p> <ul style="list-style-type: none"> The principle of confidentiality may apply to the firm's network, other network firms or service providers, when they have access to client information obtained by the firm. 	
12	A66	<p><i>Public Sector Considerations</i></p> <p>In achieving the quality objectives in this ISQM related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.</p>	No amendment required apart from converting references to ISQM to ASQM.
13	A71	<p>Professional standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300¹² requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.</p> <p>Footnote 12 ISA 300, <i>Planning an Audit of Financial Statements</i>, paragraph 13(b)</p>	No amendment required apart from replacing "professional standards" with "AUASB standards", converting references to IESBA Code to APESB Code and checking wording and section references.
14	A74	<p>There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The IESBA Code addresses fees and other types of remuneration,</p>	No amendment required apart from replacing "professional standards" with "AUASB standards", converting references to IESBA Code to APESB Code and checking wording and section references.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.	
15	A117	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 34(a))</p> <p>Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p>	<p><u>No amendment</u> - Refer item 24 from table 1 above. A117 will be amended as follows:</p> <p>Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test. Examples of independence requirements that may be applicable are addressed in the Corporations Act 2001 Part 2M.3 Division 3, and relevant ethical requirements.*</p>
16	A118	Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties.	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references.
17	A119	<p>Matters the firm may address relating to breaches of the relevant ethical requirements include:</p> <ul style="list-style-type: none"> • The communication of breaches of the relevant ethical requirements to appropriate personnel; • The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements; • The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable; 	No amendment required.

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<ul style="list-style-type: none"> • Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and • Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach. 	
18	A204	In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the IESBA Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.	No amendment required apart from converting references to IESBA Code to APESB Code and checking wording and section references.

TABLE 3—PROPOSED AMENDMENTS TO ISQM 1 TO MEET AUSTRALIAN JURISDICTIONAL REQUIREMENTS

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
1	10	<p><i>Scalability</i></p> <p>In applying a risk-based approach, the firm is required to take into account:</p> <ul style="list-style-type: none"> (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.</p>	<p>The paragraph requires amendment as “compilation engagements” is referred to an example of a related services engagement. In Australia, compilation engagements are part of the APESB suite of standards but rather form part of the APESB suite, the ATG proposes using agreed-upon procedures as the example.</p> <p>Proposed amendment – See Aus 10.1</p> <p>In applying a risk-based approach, the firm is required to take into account:</p> <ul style="list-style-type: none"> (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation agreed-upon procedures engagements.</p>
<u>2</u>	<u>A9</u>	<p><u>This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms</u></p>	<p><u>This paragraph references the IAASB handbook, for which the AUASB does not have a corresponding equivalent.</u></p> <p><u>Proposed amendment See ASQM 1 Aus A9.1</u></p> <p><u>This ASQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ASQM. These definitions are provided to assist in the consistent application and interpretation of this ASQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to AUASB Standards issued by the AUASB</u></p>

No.	Paragraph from ISQM 1	IAASB Text from ISQM 1	Audit Technical Group's comments
		<u>found in the ISQMs to assist in common and consistent interpretation and translation.</u>	<u>includes the terms defined in this ASQM. The Glossary of Terms also includes descriptions of other terms found in the ASQMs to assist in common and consistent interpretation and translation.</u>
23	A96	<p>ISA 220 (Revised)¹⁶ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement.....</p> <p>Footnote 16 ISA 220 (Revised), paragraph 26</p>	<p>The paragraph requires amendment as Australia prohibits the use of direct assistance of internal audit. <u>See ASQM 1 Aus A96.1.</u></p> <p>Proposed amendment</p> <p>ASA 220 (Revised)¹⁶ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement.</p> <p>Footnote 16 ASA 220 (Revised), paragraph 26</p>

Table 1

Australian Modifications in Extant ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information related to ASQM 2

No.	Para #	International Text	Australian Text	ATG Recommendation
		Requirements		
		<i>Engagement Quality Control Review</i>		
1	Aus 21.1 <i>In principle as included in extant ASA 220</i>	<p>Deleted paragraph 21 from extant ISA 220:</p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control reviewer, shall also consider the following:</p> <ul style="list-style-type: none"> (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. 	<p><i>Australian text Aus 21.1 from extant ASA 220</i></p> <p><i>Engagement Quality Control Review</i></p> <p>For audits of financial reports of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. A28-A31) 	<p>N – This Aus paragraph does not need to be carried forward as these requirements have been adequately covered in ASQM 2 in paragraphs 25(e) and 25(c)(i),(ii) and (iii).</p>

TABLE 2– ETHICAL REFERENCES FROM ISQM 2 FOR CONSIDERATION IN THE AUSTRALIAN ENVIRONMENT

Note that “relevant ethical requirements”, “ethical values” and “professional ethics” are mentioned more than twenty times throughout the whole of ISQM 2, only the paragraphs relevant to ethical requirements and IESBA Code will be listed below.

No.	Paragraph from proposed ISQM 2	IAASB Text from proposed ISQM 2	Audit Technical Group’s comments
1	2	<p>This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM 1.¹ This ISQM is premised on the basis that the firm is subject to ISQM 1 or to national requirements that are at least as demanding. This ISQM is to be read in conjunction with relevant ethical requirements.</p> <p>Footnote 1 International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>, paragraph 34(f)</p>	<p>Proposed ASQM 2 This ASQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ASQM 1.¹ This ASQM is premised on the basis that the firm is subject to ASQM 1 or to national requirements that are at least as demanding. This ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.</p> <p>Footnote 1 Australian Standard on Quality Management (ASQM) 1 (Previously Australian Standard on Quality Control 1), <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>, paragraph 34(f) Footnote * See ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.</p> <p><u>See ASQM 2 paragraph Aus 2.1.</u></p> <p><u>Further to the February 2021 AUASB meeting, the ATG has considered whether this amendment is required in ASQM 2 as this has already happened in ASQM 1. While the ATG agrees that information need not be replicated across the standards, because relevant ethical requirements are defined in both ISQM 1 and ISQM 2, from an Australian perspective to be consistent with the international standard, we have included these amendments in both ASQM 1 and ASQM 2.</u></p>
2	13(c)	Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional	Proposed ASQM 2

No.	Paragraph from proposed ISQM 2	IAASB Text from proposed ISQM 2	Audit Technical Group's comments
		accountant when undertaking the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A12–A15)	<p>Relevant ethical requirements mean relevant ethical requirements as defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p>See ASQM 2 paragraph Aus 13.1.</p> <p>Further to the February 2021 AUASB meeting, the ATG has considered whether this amendment is required in ASQM 2 as this has already happened in ASQM 1. While the ATG agrees that information need not be replicated across the standards, because relevant ethical requirements are defined in both ISQM 1 and ISQM 2, from an Australian perspective to be consistent with the international standard, we have included these amendments in both ASQM 1 and ASQM 2.</p>
3	18(b)	<p>The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)</p> <p>(a) Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A5–A11)</p> <p>(b) Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and (Ref: Para. A12–A15)</p> <p>(c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)</p>	No amendments required apart from converting IESBA Code to APESB Code. All wording and section references will be cross checked to the APESB Code.
4	A12	<p>Relevant Ethical Requirements (Ref: Para. 13(c), 18(b))</p> <p>The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending</p>	No amendments required apart from converting IESBA Code to APESB Code. All wording and section references will be cross checked to the APESB Code. Additionally, in the context of this

No.	Paragraph from proposed ISQM 2	IAASB Text from proposed ISQM 2	Audit Technical Group's comments
		on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm itself.	paragraph, the term professional accountant will be replaced by member (as per the APES Code).
5	A13	Relevant ethical requirements may include specific independence requirements that would apply to individual professional accountants, such as an engagement quality reviewer. Relevant ethical requirements may also include provisions that address threats to independence created by long association with an audit or assurance client. The application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 19.	No amendments required apart from converting IESBA Code to APESB Code. All wording and section references will be cross checked to the APESB Code.
6	A14	<p>Threats to the objectivity of the engagement quality reviewer</p> <p>Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:</p> <ul style="list-style-type: none"> • A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular as the engagement partner or other engagement team member. • A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team. • An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement 	No amendments required apart from converting IESBA Code to APESB Code. All wording and section references will be cross checked to the APESB Code.

No.	Paragraph from proposed ISQM 2	IAASB Text from proposed ISQM 2	Audit Technical Group's comments
		quality reviewer has a reporting line to the engagement partner).	
7	A15	<p>Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the IESBA Code provides specific guidance, including examples of:</p> <ul style="list-style-type: none"> • Circumstances where threats to objectivity may be created when a professional accountant is appointed as an engagement quality reviewer; • Factors that are relevant in evaluating the level of such threats; and • Actions, including safeguards, that might address such threats. 	No amendments required apart from converting IESBA Code to APESB Code. All wording and section references will be cross checked to the APESB Code.

APPENDIX 3

TABLE 1 – AUS PARAGRAPHS FROM EXTANT ASA 220

Australian modifications from extant ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
Definitions				
1	Aus 7.1	N/A – Aus. only definition.	<p>Aus 7.1 inserted in extant ASA 220</p> <p>Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.</p>	<p>N – No Australian paragraph proposed.</p> <p>Extant ASA 220 “assurance practitioner” definition was inserted and all references to “professional accountant” were replaced with “assurance practitioner”.</p> <p>Professional accountant is a term used within IAASB suite but not in Australia.</p> <p>As “professional accountant” is only used twice in proposed ASA 220 and “assurance practitioner” is already defined in proposed ASQM 1, ATG view that no</p>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
				insertion is needed in proposed ASA 220.
2	Aus 7.2	<p>Extant ISA 220 7(a)</p> <p>Engagement partner² – The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p><i>Footnote 2</i></p> <p>“Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents.</p>	<p>7(a) and Aus 7.2 in extant ASA 220</p> <p>Engagement partner² means the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p><i>Aus 7.2</i></p> <p>Engagement partner should be read as referring to a public sector equivalent where relevant.</p> <p><i>Footnote 2</i></p> <p>[Footnote deleted by the AUASB. Refer Aus 7.2, Aus 7.3 and Aus 7.4.]</p>	<p>N – No Australian paragraph proposed.</p> <p>Amendment to extant was to include public sector specifically in the definition. View that reference to public sector only in the footnote was not sufficient.</p> <p>Definition of “Firm” in ISA 220 (Revised) now explicitly includes a public sector reference.</p> <p>ATG view that change to “firm” sufficiently includes Public Sector in the definition and not solely in a footnote.</p>
		<p>ISA 220 (Revised)</p> <p>Engagement partner³ – The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p>	<p>Proposed ASA 220</p> <p>No amendment required.</p>	

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
		<p><i>Footnote 3</i></p> <p>“Engagement partner,” “partner,” and “firm” is to be read as referring to their public sector equivalents where relevant.</p>		
3	7(d)	<p>Extant ISA 220 7(d)</p> <p>Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s expert engaged by the firm or a network firm.³ The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).⁴</p>	<p>Extant ASA 220 7(d)</p> <p>Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or a network firm.³</p>	<p>Y – Australian paragraph proposed.</p> <p>Extant ASA 220 modified definition of engagement team to remove references to direct assistance. Marking of AUS paragraph was removed in error during 2015 compilations.</p>
		<p>ISA 220 (Revised) paragraph 12(d)</p> <p>Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert⁴ and internal auditors who provide direct assistance on an engagement.⁵ (Ref: Para. A15–A25)</p>	<p>Proposed ASA 220</p> <p>Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert⁴ and internal auditors who provide direct assistance on an engagement.⁵ (Ref: Para. A15–A25)</p>	<p>Additionally, extant ASA 220 deleted footnote 4 entirely resulting in footnotes of ISA 220 not aligning with ASA 220.</p> <p>ATG proposes modifying the definition to exclude direct assistance which is consistent with the proposed approach in</p>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
				<p>ASQM 1 (see ASQM 1 issue 9). Proposed ASA 220 application paragraph A21 will also be modified inline with these changes.</p> <p><u>Further to the February 2021 AUASB meeting, the ATG has considered whether this amendment is required in ASA 220 as this has already happened in ASQM 1. While the ATG agrees that information need not be replicated across the standards, because engagement team is defined in both ISQM 1 and ASA 220, from an Australian perspective to be consistent with the international standard, we have included these amendments in both ASQM 1 and ASA 220.</u></p>
4	Aus 7.3	Extant ISA 220 paragraph 7(e)	Aus 7.3 in extant ASA 220	

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
		Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.	Firm means a sole practitioner, partnership, or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.	N – No Australian paragraph proposed.
		ISA 220 (Revised) paragraph 12(e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.	Proposed ASA 220 Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent.	Definition now explicitly includes public sector equivalent. The amendment in extant ASA 220 was to move public sector references from a footnote to the definitions. Inline with proposed ASQM 1 issue 10, reference to “professional accountant” will be amended to “assurance practitioner”. The ATG does not consider the change of “professional account” to “assurance practitioner” to be a “significant terminology” change and inline with para 16 of the AUASB/NZAuASB Policy, the change will

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
				not be marked with an AUS paragraph.
5	Aus 7.4	Extant ISA 220 paragraph 7(k) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.	Aus 7.4 in extant ASA 220 Partner means any individual with authority to bind the firm with respect to the performance of an audit of a financial report or historical financial information. Partner should be read as referring to a public sector equivalent where relevant.	<p>Y – Australian paragraph proposed.</p> <p>“Professional services engagement” is not used in AUASB standards. ATG proposes deleting “professional services engagement” and inserting the specific engagement types of AUASB Standards to provide clarity.</p> <p>The increased clarity of the proposed amendment is considered by the ATG to be a “significant terminology” change and in line with para 16 of the AUASB/NZAuASB policy will be marked as an AUS para.</p>
		ISA 220 (Revised) paragraph 12(h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.	Proposed ASA 220 Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement.	

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
				<p>Refer to proposed ASQM 1 wording (issue 13).</p> <p>Consistent with “firm” and “engagement partner”, no reference to public sector is proposed as the definition of “firm” contains this reference.</p> <p><u>Further to the February 2021 AUASB meeting, the ATG has considered whether this amendment is required in ASA 220 as this has already happened in ASQM 1. While the ATG agrees that information need not be replicated across the standards, because partner is defined in both ISQM 1 and ASA 220, from an Australian perspective to be consistent with the international standard, we have included these amendments in both ASQM 1 and ASA 220.</u></p>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
6	Aus 7.5	Extant ISA 220 paragraph 7(m) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.	Aus 7.5 in extant ASA 220 Australian Auditing Standards means the suite of auditing standards issued by the AUASB, and includes ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> , and ASA 810 <i>Engagements to Report on Summary Financial Statements</i> .	Y – Australian paragraph proposed. In line with amendment in extant, ATG proposes explicitly stating the standards to improve clarity.
		ISA 220 (Revised) paragraph 12(j) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.	Proposed ASA 220 Australian Auditing Standards means the suite of auditing standards issued by the AUASB, comprising: <ul style="list-style-type: none"> • Auditing Standards made under section 336 of the <i>Corporations Act 2001</i>; • ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>; and • ASA 810 <i>Engagements to Report on Summary Financial Statements</i>. 	Reference to relevant ethical requirements within this definition is removed as relevant ethical requirements are captured as part of the first bullet point through ASA 102 which made under the <i>Corporations Act 2001</i> . ATG views this is a significant terminology change and will be marked as an AUS para. Proposed definition aligns with ASA 101 <i>Preamble to Australian Auditing Standards</i> definition of “Australian Auditing Standards”.

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
7	Aus 7.6	Extant ISA 220 paragraph 7(n) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprised Parts A and B of the International Ethics Standards Board for Accountants’ <i>Code of Ethics for Professional Accountants</i> (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.	Aus 7.6 in extant ASA 220 Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.* Footnote* See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> .	Y – Australian paragraph proposed. Definition is amended to reference ASA 102 which gives force of law to relevant ethical requirements.
		ISA 220 (Revised) definition, paragraph 12(k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to audits of	Proposed ASA 220 Relevant ethical requirements mean relevant ethical requirements as defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> .	Further to the February 2021 AUASB meeting, the ATG has considered whether this amendment is required in ASA 220 as this has already happened in ASQM 1. While the ATG agrees that information need not be replicated across the standards, because relevant ethical requirements are defined in both ISQM 1 and ASA 220, from an Australian perspective to be consistent with the international standard, we have included these amendments in both ASQM 1 and ASA 220.

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
		financial statements, together with national requirements that are more restrictive.		
Requirements				
8	Aus 21.1	<p>Extant ISA 220 paragraph 21</p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> (d) The engagement team's evaluation of the firm's independence in relation to the audit engagement; (e) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (f) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. 	<p>Aus 21.1 in extant ASA 220</p> <p>For audits of financial reports of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether audit documentation selected for review reflects the work performed in relation to the 	<p>N – No Australian paragraph proposed.</p> <p>Amendment relates to Engagement Quality Control Reviews which is no longer in ASA 220. Consideration of the extant ASA 220 amendment has been included in the ASQM 2 table.</p>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
			significant judgements made and supports the conclusions reached. (Ref: Para. A30-A33)	
		ISA 220 (Revised) Does not contain requirements on EQCR/EQR. EQCR/EQR paragraphs have moved to ISQM 2.	Proposed ASA 220 No amendment required.	
Application and Other Explanatory Material				
System of Quality Control and Role of Engagement Teams				
9	Aus A2.1	N/A – additional Aus material	Aus A2.1 in extant ASA 220 <i>Reliance on the Firm's System of Quality Control</i> Notwithstanding reliance by the engagement team on the firm's system of quality control, for audits undertaken in accordance with the <i>Corporations Act 2001</i> (the Act), the engagement partner is required to comply with the auditing standards under section 307A of that Act.	<u>N – refer detail included in the overall board agenda paper that describes the approach taken to <i>Corporations Act 2001</i> additions from extant standard. N – No</u>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
			Proposed ASA 220 No amendment proposed.	Australian paragraph proposed. Paragraph inserted in extant ASA 220 references section of Corporations Act 2001 that the engagement partner or lead engagement partner has strict liability for complying with auditing standards. ATG view that this reference is no longer required in proposed ASA 220 as the amendments to the standards have given great weighting to the engagement partner's overall responsibility for the engagement.
Relevant Ethical Requirements				

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
10	Aus A4.1	Extant ISA 220 paragraph A4 The IESBA Code established the fundamental principles of professional ethics, which include: <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behaviour. 	Aus A4.1 in extant ASA 220 <i>Compliance with Relevant Ethical Requirements</i> The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.* Footnote* See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> .	N – No Australian paragraph proposed. In line with the proposed approach to ASQM 1, references to relevant ethical requirements will not be deleted and referenced purely to ASA 102. This is further discussed in ASA 220 Table 2.
		ISA 220 (Revised) contains considerable ethical requirements and application material. Refer paragraphs 16 - 21 and application material paragraphs A38 - A48 – see Table 2.	Proposed ASA 220 Refer to Table 2.	
11	Aus A5.1	Extant ISA 220 paragraph A5 The definition of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. For example, the IESBA Code defines the “firm” as: <ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties through ownership, management or other means; and (c) An entity controlled by such parties through ownership, management or other means. The IESBA Code also provides guidance in relation to the terms “network” and “network firm”. In complying with the requirements in paragraphs 9–11, the definitions used in the relevant ethical	Paragraph A5 in extant ASA 220 [Deleted by the AUASB. Refer ASA 102]	N – No Australian paragraph proposed. In line with the proposed approach to ASQM 1, references to relevant ethical requirements will not be deleted and referenced purely to ASA 102. This is further discussed in ASA 220 Table 2.

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
		requirements apply in so far as is necessary to interpret those ethical requirements.		
		ISA 220 (Revised) paragraph A27 The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. The IESBA Code also provides guidance in relation to the terms “network” and “network firm.” Networks and the other network firms may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISA in relation to networks also apply to any structures or organizations that do not form part of the firm, but that exist within the network.	Proposed ASA 220 No amendment proposed.	
12		N/A – additional Aus material	Aus A5.1 in extant ASA 220 <i>Independence</i> Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> , Part 2M.3 Division 3, and relevant ethical requirements in ASA 102.	<u>N – refer detail included in the overall board agenda paper that describes the approach taken to <i>Corporations Act 2001</i> additions from extant standard.</u> Y – Australian paragraph proposed.
		ISA 220 (Revised) paragraph A38 ISA 200 ²⁸ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA 600 includes additional requirements and	Proposed ASA 220 Examples of independence requirements that may be applicable are also addressed in the <i>Corporations Act 2001</i>, Part 2M.3 Division 3 <u>No proposed amendments.</u>	N – refer detail included in the overall board agenda paper that describes the approach taken to <i>Corporations Act</i> additions from extant standard.

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
		guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.		Reference to independence requirements in the Corporations Act 2001 are still applicable. Proposed AUS paragraph does not reference relevant ethical requirements as ATG views this has been appropriately addressed in ISA 220 (Revised) paragraph A38.
13	Aus A6.1	N/A – Inserted Aus application material.	<p>Aus A6.1 in extant ASA 220</p> <p><i>Threats to Independence</i></p> <p>The familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements[†] and the Corporations Act 2001 specify the partner rotation requirements.</p> <p>Footnote[†] See ASA 102.</p>	<p><u>N – refer detail included in the overall board agenda paper that describes the approach taken to Corporations Act 2001 additions from extant standard.</u></p> <p>1Y – Australian paragraph proposed.</p>
			<p>Proposed ASA 220</p> <p><i>Insert after proposed ASA 220 para A44</i></p> <p>The familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements[†] and the</p>	<p>Reference to Corporations Act 2001 rotation is still required as they differ to those in the APES Code.</p>

No.	Extant ASA 220 Paragraph number	IAASB Text (if applicable) from Extant ISA 220	ASA 220 (compiled June 2020) Australian Text	ATG recommendation to retain/include AUS paragraph
			<p>Corporations Act 2001 specify the partner rotation requirements.</p> <p>Footnote† See ASA 102.<u>No proposed amendments</u></p>	

TABLE 2 – ETHICAL REFERENCES FROM ASA 220 FOR CONSIDERATION IN THE AUSTRALIAN ENVIRONMENT (if not already considered in Table 1 above)

Note that “relevant ethical requirements”, “ethical values” and “professional ethics” are mentioned in total more than fifty times throughout the whole of ISA 220 (Revised), only the paragraphs relevant to ethical requirements and IESBA Code will be listed below.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group’s Recommendation
Introduction			
1	1	This International Standard on Auditing (ISA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. This ISA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1, A38)	No amendment required. Definition of “relevant ethical requirements” is proposed to be amended to refer to ASA 102.
Definitions			
2	12	References to “relevant ethical requirements” within the definitions section of ISA 220 (Revised) have been addressed as part of Table 1.	
Requirements			
3	16	Relevant Ethical Requirements, Including Those Related to Independence The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A38–A42, A48)	No amendment required. Definition has been amended to reference ASA 102.
	17	The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that address: (Ref: Para. A23–A25, A40–A44) (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;	No amendment required. Definition has been amended to reference ASA 102.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
		<p>(b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and</p> <p>(c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.⁶</p> <p>Footnote 6 – ISA 250 (Revised), <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i></p>	
	18	If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A43–A44)	No amendment required. Definition has been amended to reference ASA 102.
	19	The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A45)	No amendment required. Definition has been amended to reference ASA 102.
	20	If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A46)	No amendment required. Definition has been amended to reference ASA 102.
	21	Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A38 and A47)	No amendment required. Definition has been amended to reference ASA 102.
4	41	In applying ISA 230, the auditor shall include in the audit documentation: (Ref: Para. A117–A120)	No amendment required. Definition has been amended to reference ASA 102.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
		<p>(a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:</p> <ul style="list-style-type: none"> i. Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence. ii. The acceptance and continuance of the client relationship and audit engagement. <p>(b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.</p> <p>(c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.</p>	
Application and Other Explanatory Material			
5	A38	<p>Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)</p> <p><i>Relevant Ethical Requirements</i> (Ref: Para. 1, 16–21)</p> <p>ISA 200²⁸ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA 600 includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.</p> <p>Footnote 28 – ISA 200, paragraphs 14 and A16–A19</p>	No amendment required. Definition has been amended to reference ASA 102.
	A39	<p>Based on the nature and circumstances of the audit engagement, certain law, regulation or aspects of relevant ethical requirements, such as those pertaining to non-compliance with laws or regulations, may be relevant to the engagement, for example laws or regulations dealing with money laundering, corruption, or bribery.</p>	No amendment required. Definition has been amended to reference ASA 102.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
	A40	<p>The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may:</p> <ul style="list-style-type: none"> • Communicate the independence requirements to engagement teams. • Provide training for engagement teams on relevant ethical requirements. • Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements. • Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., ISQM 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements. • Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to: <ul style="list-style-type: none"> ○ Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter. ○ Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level. 	No amendment required. Definition has been amended to reference ASA 102.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
		<ul style="list-style-type: none"> Promptly communicate any breaches of the relevant ethical requirements, including those related to independence. 	
	A41	The engagement partner may take into account the information, communication, and resources described in paragraph A40 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.	No amendment required. Definition has been amended to reference ASA 102.
	A42	<p>Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:</p> <ul style="list-style-type: none"> Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures. 	No amendment required. Definition has been amended to reference ASA 102.
6	A43	<p><i>Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements</i> (Ref: Para. 17–18)</p> <p>In accordance with ISQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.</p>	No amendment required. Definition has been amended to reference ASA 102. Reference to ISQM 1 will be updated.
	A44	Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards. ²⁹	No amendment required. Definition has been amended to reference ASA 102, reference to IESBA Code will be updated to APESB Code.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
		Footnote 29 IESBA Code, paragraph 330.3 A2	
7	A45	<p><i>Breaches of Relevant Ethical Requirements</i> (Ref: Para. 19)</p> <p>In accordance with ISQM 1, the firm is required to establish policies or procedures for identifying, communicating, evaluating and reporting of any breaches of <u>relevant ethical requirements</u> and appropriately responding to the causes and consequences of the breaches in a timely manner.</p>	No amendment required.
8	A46	<p><i>Taking Appropriate Action</i> (Ref: Para. 20)</p> <p>Appropriate actions may include, for example:</p> <ul style="list-style-type: none"> • Following the firm's policies or procedures regarding breaches of <u>relevant ethical requirements</u>, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s). • Communicating with those charged with governance. • Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation. • Seeking legal advice. • Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation. 	No amendment required.
9	A47	<p><i>Prior to Dating the Auditor's Report</i> (Ref: Para. 21)</p> <p>ISA 700 (Revised) requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the <u>relevant ethical requirements</u> relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.³⁰ Performing the procedures</p>	No amendment required.

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group's Recommendation
		required by paragraphs 16–21 of this ISA provides the basis for these statements in the auditor's report. Footnote 30 ISA 700 (Revised), paragraph 28(c)	
10	A48	<i>Considerations Specific to Public Sector Entities</i> Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 16. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.	No amendment required.

TABLE 3– PROPOSED AMENDMENTS TO ISA 220 TO MEET AUSTRALIAN JURISDICTIONAL REQUIREMENTS

No.	Paragraph from ISA 220	IAASB Text from ISA 220	Audit Technical Group’s comments
<u>1</u>	<u>N/A</u>	N/A – New insertion	Paragraph Aus 1.1 is an additional Australian insertion. The paragraph has been included to remind the auditor that it is their responsibility to ensure compliance with all relevant legal, regulatory or professional obligations such as the <i>Corporations Act 2001</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.
<u>2</u>	<u>26</u>	<u>The engagement partner shall determine that members of the engagement team, and any auditor’s external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62, A71–A74)</u>	Paragraph Aus 26.1 is proposed to replace paragraph 26. The ISA requirement contains a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. ATG proposes deleting the paragraph and including paragraph Aus A26.1 which with the exception of the removal of “...and internal auditors who provide direct assistance...” the paragraph is consistent with the ISA equivalent.
<u>3</u>	<u>A21</u>	<u>An internal auditor providing direct assistance and an auditor’s external expert whose work is used in the engagement are not members of the engagement team. ISA 610 (Revised) 2013 and ISA 620 provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert, respectively. Compliance with these ISAs requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance and perform audit procedures on the work of an auditor’s expert.</u>	Paragraph Aus A21.1 is proposed to replaces paragraph A21. The ISA paragraph contains a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. The ATG proposes deleting the paragraph and including paragraph Aus A21 which with the exception of the removal of references to direct assistance, is consistent with the ISA equivalent.
<u>4</u>	<u>A31(b)</u>	<u>A31 (b) Others involved in the audit (e.g., internal auditors who provide direct assistance or an auditor’s external expert);</u>	Paragraph Aus A31.1 is proposed to replace sub-paragraph A31(b). The ISA paragraph contains a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. The ATG proposes deleting the paragraph and including Aus A31.1 which, with the exception of the removal of “...internal auditors who provide direct assistance or ...” is consistent with the ISA equivalent.
<u>5</u>	<u>A62</u>	<u>Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor’s external expert and individuals from within the</u>	Paragraph Aus A62.1 is proposed to replace paragraph A62. The ISA paragraph contains a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. The ATG proposes deleting the paragraph and including Aus A62.1

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<u>No.</u>	<u>Paragraph from ISA 220</u>	<u>IAASB Text from ISA 220</u>	<u>Audit Technical Group's comments</u>
		<u>entity's internal audit function who provide direct assistance on the audit.</u>	<u>which, with the exception of the removal of "...and individuals from within the entity's internal audit function who provide direct assistance on the audit" is consistent with the ISA equivalent.</u>

ASQM 1
(March 2021)

Auditing Standard ~~ASQC~~ 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***

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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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

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PREFACE

Reasons for Issuing -ASQM 1

The AUASB issues 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* 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.

Main Features

This 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* (December 2020) and will replace the current ASQC 1 issued by the AUASB in November 2013.

This Auditing Standard contains differences from -ISQC 1, which addresses the most relevant public interest issues related to firms' systems of quality control, including those highlighted in the Invitation to Comment (ITC) released in December 2015, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits*.

ASQM 1 introduces a quality management approach that is focused on proactively identifying and responding to risks to quality. The new quality management standard includes other enhancements to address key issues highlighted in the ITC to improve 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.

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

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this 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* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard 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.

Dated: <TypeHere>

B Edge
Chair - AUASB

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

Conformity with International Standards on Quality Management

This Auditing Standard conforms with International Standard on Quality Management ISQM 1 *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to, or amended from this Auditing Standard (and do not appear / appear differently in/from the text of the equivalent ISQM 1) are identified with the prefix “Aus”.

The following requirements introductory paragraphs and definitions are additional to or have been amended from -ISQM 1:

<u>Paragraph</u>	<u>Summary of Change</u>
<u>Aus 4.1</u>	<u>Replaces ISQM 1 introductory paragraph 4, to introduce ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</u>
<u>Aus 4.2</u>	<u>Additional to ISQM 1 to serve as a reminder that it is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations.</u>
<u>Aus 10.1</u>	<u>Replaces ISQM 1 paragraph 10 scalability, as the example used in ISQM 1 references <i>Compilation Engagements</i>. The AUASB does not issue a <i>Compilation Engagement</i> standard.</u>
<u>Aus 16.1- Aus16.2 and 16.5</u>	<u>Additional to ISQM 1, to include definitions of ‘Assurance engagement’, ‘Assurance practitioner’ and ‘Other financial information’, within the legislative instrument of ASQM 1.</u>
<u>Aus 16.3</u>	<u>Additional to ISQM 1 to include definition of ‘Date of report’, to represent current Australian principles and practices of dating reports.</u>
<u>Aus 16.4</u>	<u>Replaces ISQM 1 paragraph 16(f) definition of ‘Engagement team’, to remove the reference to direct assistance of internal audit which is prohibited in Australia, consistent with ASA 610 <i>Using the Work of Internal Auditors</i>.</u>
<u>Aus 16.5</u>	<u>Additional to ISQM 1, to include the definition of ‘Other financial information’. Consistent with ASA 100 <i>Preamble to AUASB Standards</i>, although Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, as appropriate, to the audit of other financial information.</u>
<u>Aus 16.6</u>	<u>Replaces ISQM 1 paragraph 16(m) definition of ‘Partner’, which references the term ‘professional services engagements’. This term is not defined within Australia and has been replaced with the words audit, review, other assurance engagement or related services engagement.</u>
<u>Aus 16.7</u>	<u>Replaces ISQM paragraph 16(p) definition of ‘Professional standards’. The AUASB Preface defines the term AUASB Standards.</u>
<u>Aus 16.8</u>	<u>Replaces ISQM 1 paragraph 16(t) definition of ‘Relevant ethical requirements’. Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</u>

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Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements

The following application and other explanatory material is additional to or amended from ~~ISQC~~ ISQM 1:

<u>Paragraph</u>	<u>Summary of Change</u>
<u>Aus A9.1</u>	<u>Replaces ISQM 1 paragraph A9 Glossary of terms to remove reference to the IAASB Handbook.</u>
<u>Aus A96.1</u>	<u>Replaces ISQM 1 paragraph A96 to remove the reference to direct assistance of internal audit which is prohibited in Australia, consistent with ASA 610 <i>Using the Work of Internal Auditors</i>.</u>

This Auditing Standard incorporates terminology and definitions used in Australia.

~~The equivalent requirements and related application and other explanatory material included in ISQM 1 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.~~

Compliance with this Auditing Standard enables compliance with ~~ISQM~~ ISQM 1.

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

Application

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other historical financial information;
 - (d) an audit or review other than of historical financial information;
 - (e) other assurance engagements; and
 - (f) related services engagements.

Operative Date

- Aus 0.2 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 this ASQM is required to be performed within one year following 15 December 2022.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Quality Management (ASQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial reports and other financial information, or other assurance or related services engagements.
2. Engagement quality reviews form part of the firm's system of quality management and:
 - (a) This ASQM deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
 - (b) ASQM 2¹ deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
3. Other pronouncements of the Australian Auditing and Assurance Standards Board (AUASB):
 - (a) Are premised on the basis that the firm is subject to the ASQMs or to national requirements that are at least as demanding;² and

¹ See ASQM 2 *Engagement Quality Reviews*.

² See, for example, Australian Standard on Auditing (ASA) 220, *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 3.

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Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements

- (b) Include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, ASA 220 deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report and the related responsibilities of the engagement partner. (Ref: Para. A1)

~~4. This ISQM is to be read in conjunction with relevant ethical requirements. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ISQM. (Ref: Para. A2)~~
~~[Deleted by the AUASB. Refer Aus 4.1]~~

~~Aus 4.1 This ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.* Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM. (Ref: Para. A2).~~

~~Aus 4.2 This ASQM does not address the responsibilities of the firm that may exist in legislation, regulation or otherwise in connection with, for example, independence or other assurance related requirements of the *Corporations Act 2001*. Such responsibilities may differ from those established in this ASQM. It is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations.~~

~~4.5.~~ This ASQM applies to all firms performing audits or reviews of financial reports and other financial information, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ASQM applies and the system of quality management that is established in accordance with the requirements of this ASQM enables the consistent performance by the firm of all such engagements).

The Firm's System of Quality Management

~~5.6.~~ A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ASQM, a system of quality management addresses the following eight components: (Ref: Para. A3)

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process.

~~6.7.~~ This ASQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and co-

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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

ordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: Para. A4)

7.8. The risk-based approach is embedded in the requirements of this ASQM through:

- (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this ASQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
- (b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.
- (c) Designing and implementing responses to address the quality risks. The nature, timing and extent of the firm's responses to address the quality risks are based on and are responsive to the reasons for the assessments given to the quality risks.

8.9. This ASQM requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 14(a) and (b), are being achieved. (Ref: Para. A5)

Scalability

10. ~~[Deleted by the AUASB. Refer Aus 10.1]~~~~In applying a risk-based approach, the firm is required to take into account:~~

~~The nature and circumstances of the firm; and~~

~~The nature and circumstances of the engagements performed by the firm.~~

~~Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.~~

Aus 10.1 In applying a risk-based approach, the firm is required to take into account:

- (a) The nature and circumstances of the firm; and
- (b) The nature and circumstances of the engagements performed by the firm.

Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial reports of listed entities, will likely need to have a more complex and formalised system of quality management and supporting documentation, than a firm that performs only reviews of financial reports or agreed-upon procedures engagements.

Networks and Service Providers

9.11. This ASQM addresses the firm's responsibilities when the firm:

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Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements

- (a) Belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in the performance of engagements; or
- (b) Uses resources from a service provider in the system of quality management or in the performance of engagements.

Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.

Authority of this ASQM

~~10.12.~~ Paragraph 14 contains the objective of the firm in following this ASQM. This ASQM contains: (Ref: Para. A6)

- (a) Requirements designed to enable the firm to meet the objective in paragraph 14; (Ref: Para. A7)
- (b) Related guidance in the form of application and other explanatory material; (Ref: Para. A8)
- (c) Introductory material that provides context relevant to a proper understanding of this ASQM; and
- (d) Definitions. (Ref: Para. A9)

Effective Date

~~11.13.~~ [Deleted by the AUASB. Refer Aus 0.2]

Objective

~~12.14.~~ The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial reports and other financial information, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with ~~professional~~ **AUASB** standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

~~13.15.~~ The public interest is served by the consistent performance of quality engagements. The design, implementation and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with ~~professional~~ **AUASB** standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and, when applicable to the type of engagement, exercising professional scepticism.

Definitions

~~14.16.~~ For purposes of this ASQM, the following terms have the meanings attributed below:

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- Aus 16.1 Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.
- Aus 16.2 Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures). The term ‘assurance practitioner’ is referred to in ASRS 4400 as ‘practitioner’.
- Aus 16.3 Date of report means the date the assurance practitioner signs the report.
- (a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ASQM) – This exists when: (Ref: Para. A10, A159–A160)
- (i) A quality objective required to achieve the objective of the system of quality management is not established;
- (ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)
- (iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or
- (iv) An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this ASQM has not been addressed. (Ref: Para. A12)
- (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
- (c) Engagement partner³ – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- (e) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert⁴ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13) [Deleted by the AUASB. Refer Aus 16.4]
- (e)(g)

³ “Engagement partner” and “partner” is to be read as referring to their public sector equivalents where relevant.

⁴ ISA 620, Using the Work of an Auditor’s Expert, paragraph 6(a), defines the term “auditor’s expert.”

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Aus 16.4 Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert⁵ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)

~~(f)~~(h) External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A14)

~~(g)~~(i) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: Para. A15–A17)

~~(h)~~(j) Firm – A sole practitioner, partnership or corporation or other entity of professional accountant~~assurance practitioners~~, or public sector equivalent. (Ref: Para. A18)

~~(i)~~(k) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

~~(j)~~(l) Network firm – A firm or entity that belongs to the firm’s network.

~~(k)~~(m) Network – A larger structure: (Ref: Para. A19)

(i) That is aimed at cooperation; and

(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

Aus 16.45 Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).

~~(n) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement. [Deleted by the AUASB. Refer Aus 16.56]~~

Aus 16.56 Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement.

~~(h)~~(o) Personnel – Partners and staff in the firm. (Ref: Para. A20–A21)

~~(m)~~(p) Professional judgement – The application of relevant training, knowledge and experience, within the context of professional AUASB standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.

~~(q) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements, and relevant ethical requirements. [Deleted by the AUASB. Refer Aus 16.67]~~

⁵ See ASA 620 *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert”.

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Aus 16.67 AUASB Standards means standards issued by the AUASB, comprising:

- (a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:
 - Auditing Standards made under section 336 of the *Corporations Act 2001*;
 - ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
 - ASA 810 *Engagements to Report on Summary Financial Statements*.
- (b) Standards on Review Engagements;
- (c) Standards on Assurance Engagements; and
- ~~(a)~~(d) Standards on Related Services.

~~(a)~~(r) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.

~~(a)~~(s) Quality risk – A risk that has a reasonable possibility of:

- (i) Occurring; and
- (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

~~(a)~~(t) Reasonable assurance – In the context of the ASQMs, a high, but not absolute, level of assurance.

~~(u)~~ Relevant ethical requirements—Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)[Deleted by the AUASB. Refer Aus 16.78]

Aus 16.78 Relevant ethical requirements mean relevant ethical requirements as defined in *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

~~(a)~~(v) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s): (Ref: Para. A25–A27, A50)

- (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
- (ii) Procedures are actions to implement policies.

~~(a)~~(w) Service provider (in the context of this ASQM) – An individual or organisation external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the

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firm's network, other network firms or other structures or organisations in the network. (Ref: Para. A28, A105)

~~(s)~~(x) Staff – Professionals, other than partners, including any experts the firm employs.

~~(+)~~(y) System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:

- (i) The firm and its personnel fulfill their responsibilities in accordance with ~~professional~~ AUASB standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Requirements

Applying, and Complying with, Relevant Requirements

~~45.17.~~ The firm shall comply with each requirement of this ASQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)

~~46.18.~~ The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ASQM, including the application and other explanatory material, to understand the objective of this ASQM and to apply its requirements properly.

System of Quality Management

~~47.19.~~ The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgement, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)

Responsibilities

~~48.20.~~ The firm shall assign: (Ref: Para. A32–A35)

- (a) Ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
- (b) Operational responsibility for the system of quality management;
- (c) Operational responsibility for specific aspects of the system of quality management, including:
 - (i) Compliance with independence requirements; and (Ref: Para. A36)
 - (ii) The monitoring and remediation process.

~~49.21.~~ In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)

- (a) Has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)

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- (b) Understands their assigned roles and that they are accountable for fulfilling them.

~~20:22.~~ The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process, have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

The Firm's Risk Assessment Process

~~21:23.~~ The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. (Ref: Para. A39–A41)

~~22:24.~~ The firm shall establish the quality objectives specified by this ASQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A42–A44)

~~23:25.~~ The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:

- (a) Obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including: (Ref: Para. A45–A47)
 - (i) With respect to the nature and circumstances of the firm, those relating to:
 - a. The complexity and operating characteristics of the firm;
 - b. The strategic and operational decisions and actions, business processes and business model of the firm;
 - c. The characteristics and management style of leadership;
 - d. The resources of the firm, including the resources provided by service providers;
 - e. Law, regulation, ~~professional~~ AUASB standards and the environment in which the firm operates; and
 - f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.
 - (ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:
 - a. The types of engagements performed by the firm and the reports to be issued; and
 - b. The types of entities for which such engagements are undertaken.
- (b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A48)

~~24:26.~~ The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34. (Ref: Para. A49–A51)

~~25:27.~~ The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are

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needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A53)

- (a) Establish additional quality objectives or modify additional quality objectives already established by the firm; (Ref: Para. A54)
- (b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or
- (c) Design and implement additional responses, or modify the responses.

Governance and Leadership

26-28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:

- (a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognises and reinforces: (Ref: Para. A55–A56)
 - (i) The firm's role in serving the public interest by consistently performing quality engagements;
 - (ii) The importance of professional ethics, values and attitudes;
 - (iii) The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management, and their expected behaviour; and
 - (iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.
- (b) Leadership is responsible and accountable for quality. (Ref: Para. A57)
- (c) Leadership demonstrates a commitment to quality through their actions and behaviours. (Ref: Para. A58)
- (d) The organisational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management. (Ref: Para. A32, A33, A35, A59)
- (e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: Para. A60–A61)

Relevant Ethical Requirements

27-29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)

- (a) The firm and its personnel:
 - (i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and (Ref: Para. A22, A24)
 - (ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.

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- (b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:
 - (i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A22, A24, A65)
 - (ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.

Acceptance and Continuance of Client Relationships and Specific Engagements

28.30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

- (a) Judgements by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:
 - (i) Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgements; and (Ref: Para. A67–A71)
 - (ii) The firm's ability to perform the engagement in accordance with professional AUASB standards and applicable legal and regulatory requirements. (Ref: Para. A72)
- (b) The financial and operational priorities of the firm do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A73–A74)

Engagement Performance

29.31. The firm shall establish the following quality objectives that address the performance of quality engagements:

- (a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)
- (b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)
- (c) Engagement teams exercise appropriate professional judgement and, when applicable to the type of engagement, professional scepticism. (Ref: Para. A78)
- (d) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented. (Ref: Para. A79–A81)
- (e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)

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- (f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or ~~professional AUASB~~ standards. (Ref: Para. A83–A85)

Resources

~~30.32.~~ The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)

Human Resources

- (a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)
 - (i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or
 - (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.
- (b) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognised through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)
- (c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. (Ref: Para. A94)
- (d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A88–A89, A95–A97)
- (e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.

Technological Resources

- (f) 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. (Ref: Para. A98–A101, A104)

Intellectual Resources

- (g) Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with ~~professional AUASB~~ standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A102–A104)

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Service Providers

- (h) Human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)

Information and Communication

~~31.~~33. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A109)

- (a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A110–A111)
- (b) The culture of the firm recognises and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)
- (c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A112)
 - (i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and
 - (ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
- (d) Relevant and reliable information is communicated to external parties, including:
 - (i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them; and (Ref: Para. A113)
 - (ii) Information is communicated externally when required by law, regulation or ~~professional~~ AUASB standards, or to support external parties' understanding of the system of quality management. (Ref: Para. A114–A115)

Specified Responses

~~32.~~34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)

- (a) The firm establishes policies or procedures for:
 - (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)
 - (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)

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- (b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.
- (c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with ~~professional AUASB~~ standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this ASQM. (Ref: Para. A120–A121)
- (d) The firm establishes policies or procedures that address circumstances when:
 - (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)
 - (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)
- (e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)
 - (i) Require communication with those charged with governance when performing an audit of a financial report of listed entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)
 - (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130)
 - (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)
- (f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ASQM 2, and require an engagement quality review for:
 - (i) Audits of financial reports of listed entities;
 - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)
 - (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134–A137)

Monitoring and Remediation Process

33,35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)

- (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
- (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

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Designing and Performing Monitoring Activities

34:36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies.

35:37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)

- (a) The reasons for the assessments given to the quality risks;
- (b) The design of the responses;
- (c) The design of the firm's risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)
- (d) Changes in the system of quality management; (Ref: Para. A145)
- (e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)
- (f) Other relevant information, including complaints and allegations about failures to perform work in accordance with ~~professional~~ AUASB standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures established in accordance with this ASQM, information from external inspections and information from service providers. (Ref: Para. A148–A150)

36:38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)

- (a) Take into account the matters in paragraph 37;
- (b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and
- (c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

37:39. The firm shall establish policies or procedures that:

- (a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
- (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A155–A156)

Evaluating Findings and Identifying Deficiencies

38:40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A157–A162)

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Evaluating Identified Deficiencies

39.41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A161, A163–A164)

- (a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity. (Ref: Para. A165–A169)
- (b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

Responding to Identified Deficiencies

40.42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A170–A172)

41.43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:

- (a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and
- (b) Implemented to address previously identified deficiencies are effective.

42.44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.

Findings About a Particular Engagement

43.45. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A173)

- (a) Taking appropriate action to comply with relevant ~~professional~~ AUASB standards and applicable legal and regulatory requirements; and
- (b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.

Ongoing Communication Related to Monitoring and Remediation

44.46. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A174)

- (a) A description of the monitoring activities performed;
- (b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and
- (c) The remedial actions to address the identified deficiencies.

45.47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.

Network Requirements or Network Services

46-48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A175)

- (a) The requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements);
- (b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm's system of quality management (i.e., network services); and
- (c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A176)

The firm remains responsible for its system of quality management, including professional judgements made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this ASQM. (Ref: Para. A177)

47-49. Based on the understanding obtained in paragraph 48, the firm shall:

- (a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented; and (Ref: Para. A178)
- (b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A179–A180)

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management

48-50. In circumstances when the network performs monitoring activities relating to the firm's system of quality management, the firm shall:

- (a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm's monitoring activities performed in accordance with paragraphs 36–38;
- (b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
- (c) As part of evaluating findings and identifying deficiencies in paragraph 40, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A181)

Monitoring Activities Undertaken by the Network Across the Network Firms

49-51. The firm shall:

- (a) Understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;
- (b) At least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and: (Ref: Para. A182–A184)

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- (i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and
- (ii) Consider the effect of the information on the firm's system of quality management.

Deficiencies in Network Requirements or Network Services Identified by the Firm

50.52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A185)

- (a) Communicate to the network relevant information about the identified deficiency; and
- (b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A186)

Evaluating the System of Quality Management

51.53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A187–A189)

52.54. Based on the evaluation, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall conclude, on behalf of the firm, one of the following: (Ref: Para. A190, A195)

- (a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; (Ref: Para. A191)
- (b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A192)
- (c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A192–A194)

53.55. If the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A196)

- (a) Take prompt and appropriate action; and
- (b) Communicate to:
 - (i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A197)
 - (ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A198)

54.56. The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the

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individual(s) assigned operational responsibility for the system of quality management. In doing so, the firm shall take into account the evaluation of the system of quality management. (Ref: Para. A199–A201)

Documentation

~~55.~~57. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A202–A204)

- (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and the performance of engagements;
- (b) Support the consistent implementation and operation of the responses; and
- (c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

~~56.~~58. In preparing documentation, the firm shall include:

- (a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management;
- (b) The firm's quality objectives and quality risks; (Ref: Para. A205)
- (c) A description of the responses and how the firm's responses address the quality risks;
- (d) Regarding the monitoring and remediation process:
 - (i) Evidence of the monitoring activities performed;
 - (ii) The evaluation of findings, and identified deficiencies and their related root cause(s);
 - (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and
 - (iv) Communications about monitoring and remediation; and
- (e) The basis for the conclusion reached pursuant to paragraph 54.

~~57.~~59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A206)

~~58.~~60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation.

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Application and Other Explanatory Material

Scope of this ASQM (Ref: Para. 3–4)

- A1. Other pronouncements of the AUASB, including ASRE 2400⁶ and ASAE 3000,⁷ also establish requirements for the engagement partner for the management of quality at the engagement level.
- A2. -The APESB Code⁸ contains requirements and application material for members that enable members to meet their responsibility to act in the public interest. As indicated in paragraph 15, in the context of engagement performance as described in this ASQM, the consistent performance of quality engagements forms part of the member's responsibility to act in the public interest.

The Firm's System of Quality Management (Ref: Para. 6–9)

- A3. The firm may use different terminology or frameworks to describe the components of its system of quality management.
- A4. Examples of the interconnected nature of the components include the following:
- The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management.
 - The governance and leadership component establishes the environment that supports the system of quality management.
 - The resources and information and communication components enable the design, implementation and operation of the system of quality management.
 - The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.
 - There may be relationships between specific matters, for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
- A5. Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 14(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management. Such limitations include that human judgement in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behaviour or failures in information technology (IT) applications.

Authority of this ASQM (Ref: Para. 12)

- A6. The objective of this ASQM provides the context in which the requirements of this ASQM are set, establishes the desired outcome of this ASQM and is intended to assist the firm in

⁶ See Australian Standard on Review Engagements (ASRE) 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.

⁷ See Australian Standard on Assurance Engagements (ASAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

⁸ See The Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code).

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understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.

- A7. The requirements of this ASQM are expressed using “shall.”
- A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- Explain more precisely what a requirement means or is intended to cover; and
 - Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ASQM. Where appropriate, additional considerations specific to public sector audit organisations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ASQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ASQM.

~~A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation. [Deleted by the AUASB. Refer Aus A9.1]~~

Aus 0.1 This ASQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ASQM. These definitions are provided to assist in the consistent application and interpretation of this ASQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to AUASB Standards issued by the AUASB includes the terms defined in this ASQM. The Glossary of Terms also includes descriptions of other terms found in the ASQMs to assist in common and consistent interpretation and translation.

Definitions

Deficiency (Ref: Para. 16(a))

~~A9-A10.~~ The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.

~~A10-A11.~~ When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the response(s) to address such quality risk(s) may also be absent, or not appropriately designed or implemented.

~~A11-A12.~~ The other aspects of the system of quality management consist of the requirements in this ASQM addressing:

- Assigning responsibilities (paragraphs 20–22);
- The firm’s risk assessment process;

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- The monitoring and remediation process; and
- The evaluation of the system of quality management.

Examples of deficiencies related to other aspects of the system of quality management

- The firm's risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives, or modify the quality risks or responses.
- The firm's monitoring and remediation process is not designed or implemented in a manner that:
 - Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
 - Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management.

Engagement Team (Ref: Para. 16(f))

[A12-A13.](#) ASA 220⁹ provides guidance in applying the definition of engagement team in the context of an audit of a financial report.

External Inspections (Ref: Para. 16(g))

[A13-A14.](#) In some circumstances, an external oversight authority may undertake other types of inspections, for example, thematic reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.

Findings (Ref: Para. 16(h))

[A14-A15.](#) As part of accumulating findings from monitoring activities, external inspections and other relevant sources, the firm may identify other observations about the firm's system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. Paragraph A158 explains how other observations may be used by the firm in the system of quality management.

[A15-A16.](#) Paragraph A148 provides examples of information from other relevant sources.

[A16-A17.](#) Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.

Firm (Ref: Para. 16(i))

[A17-A18.](#) The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ASQM.

⁹ See ASA 220, paragraphs A15–A25.

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Network (Ref: Para. 16(l), 48)

A18-A19. Networks and the firms within the network may be structured in a variety of ways. For example, in the context of a firm's system of quality management:

- The network may establish requirements for the firm related to its system of quality management, or provide services that are used by the firm in its system of quality management or in the performance of engagements;
- Other firms within the network may provide services (e.g., resources) that are used by the firm in its system of quality management or in the performance of engagements; or
- Other structures or organisations within the network may establish requirements for the firm related to its system of quality management, or provide services.

For the purposes of this ASQM, any network requirements or network services that are obtained from the network, another firm within the network or another structure or organisation in the network are considered "network requirements or network services."

Personnel (Ref: Para. 16(n))

A19-A20. In addition to personnel (i.e., individuals in the firm), the firm may use individuals external to the firm in performing activities in the system of quality management or in the performance of engagements. For example, individuals external to the firm may include individuals from other network firms (e.g., individuals in a service delivery centre of a network firm) or individuals employed by a service provider (e.g., a component auditor from another firm not within the firm's network).

A20-A21. Personnel also includes partners and staff in other structures of the firm, such as a service delivery centre in the firm.

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

A21-A22. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term "member" may be defined in relevant ethical requirements. For example, the APESB Code defines the term "member" and further explains the scope of provisions in the APESB Code that apply to individual members in public practice and their firms.

A22-A23. The APESB Code addresses circumstances when law or regulation precludes the member from complying with certain parts of the APESB Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the APESB Code and that members in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.

A23-A24. Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example:

- Part 2 of the APESB Code applies to individuals who are members in public practice when they are performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner, and may be relevant in the context of the performance of engagements.
- Certain requirements in Parts 3 and 4 of the APESB Code also apply to individuals who are members in public practice when they are performing professional activities for clients.

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Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm's system of quality management.

Example of relevant ethical requirements that are applicable only to individuals and not the firm, and which relate to the performance of engagements

Part 2 of the APESB Code addresses pressure to breach the fundamental principles, and includes requirements that an individual shall not:

- Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

For example, circumstances may arise when, in performing an engagement, an individual considers that the engagement partner or another senior member of the engagement team has pressured them to breach the fundamental principles.

Response (Ref: Para. 16(u))

A24-A25. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams), or through their restraint from taking actions that would conflict with the firm's policies.

A25-A26. Procedures may be mandated, through formal documentation or other communications, or may result from behaviours that are not mandated but are rather conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm's IT environment.

A26-A27. If the firm uses individuals external to the firm in the system of quality management or in the performance of engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. ASA 220¹⁰ provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of a financial report.

Service Provider (Ref: Para. 16(v))

A27-A28. Service providers include component auditors from other firms not within the firm's network.

Applying, and Complying with, Relevant Requirements (Ref: Para. 17)

A28-A29. *Examples of when a requirement of this ASQM may not be relevant to the firm*

- The firm is a sole practitioner. For example, the requirements addressing the organisational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant.
- The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

¹⁰ See ASA 220, paragraphs A23–A25.

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System of Quality Management

Design, Implement and Operate a System of Quality Management (Ref: Para. 19)

A29-A30. Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities and business processes. As a result, designing the system of quality management and the firm's operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.

A30-A31. The quality of professional judgements exercised by the firm is likely to be enhanced when individuals making such judgements demonstrate an attitude that includes an enquiring mind, which involves:

- Considering the source, relevance and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements; and
- Being open and alert to a need for further investigation or other action.

Responsibilities (Ref: Para. 20–21, 28(d))

A31-A32. The governance and leadership component includes a quality objective that the firm has an organisational structure and assignment of roles, responsibilities and authority that is appropriate to enable the design, implementation and operation of the firm's system of quality management.

A32-A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraphs 53 and 54, although the firm assigns the evaluation of the system of quality management and conclusion thereon to the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.

A33-A34. An individual(s) assigned responsibility for the matters in paragraph 20 is typically a partner of the firm so that they have appropriate influence and authority within the firm, as required by paragraph 21. However, based on the legal structure of the firm, there may be circumstances when an individual(s) may not be a partner of the firm but the individual(s) has the appropriate influence and authority within the firm to perform their assigned role because of formal arrangements made by the firm or the firm's network.

A34-A35. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual(s) assigned responsibility for a matter(s) in paragraph 20 may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities. However, an individual(s) assigned responsibility for a matter(s) in paragraph 20 remains responsible and accountable for the responsibilities assigned to them.

Scalability example to demonstrate how assigning roles and responsibilities may be undertaken

- In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the

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system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.

- In a more complex firm, there may be multiple levels of leadership that reflect the organisational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 20(c), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line.

~~A35-A36.~~ Compliance with independence requirements is essential to the performance of audits, or reviews of financial reports, or other assurance engagements, and is an expectation of stakeholders relying on the firm's reports. The individual(s) assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.

~~A36-A37.~~ Law, regulation or ~~professional~~ AUASB standards may establish additional requirements for an individual assigned responsibility for a matter(s) in paragraph 20, such as requirements for professional licensing, professional education or continuing professional development.

~~A37-A38.~~ The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management ordinarily includes an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.

The Firm's Risk Assessment Process (Ref: Para. 23)

~~A38-A39.~~ How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organised.

Scalability examples to demonstrate how the firm's risk assessment process may differ

- In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive than for a more complex firm (e.g., it may be documented in a single document).
- In a more complex firm, there may be a formal risk assessment process, involving multiple individuals and numerous activities. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks and responses to be included in the firm's system of quality management.

~~A39-A40.~~ The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative, and the requirements of this ASQM are not intended to be addressed in a linear manner. For example:

- In identifying and assessing quality risks, the firm may determine that an additional quality objective(s) needs to be established.

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- When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed.

A40-A41. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm's information and communication component and include:

- The results of the firm's monitoring and remediation process (see paragraphs 42 and A171).
- Information from the network or service providers, including:
 - Information about network requirements or network services (see paragraph 48); and
 - Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 50–51).

Other information, both internal or external, may also be relevant to the firm's risk assessment process, such as:

- Information regarding complaints and allegations about failures to perform work in accordance with ~~professional~~ **AUASB** standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this ASQM.
- The results of external inspections.
- Information from regulators about the entities for whom the firm performs engagements which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial report or non-compliance with securities regulation).
- Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm's resources.
- Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.

Establish Quality Objectives (Ref: Para. 24)

A41-A42. Law, regulation or ~~professional~~ **AUASB** standards may establish requirements that give rise to additional quality objectives. For example, a firm may be required by law or regulation to appoint non-executive individuals to the firm's governance structure and the firm considers it necessary to establish additional quality objectives to address the requirements.

A42-A43. The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.

A43-A44. The firm may establish sub-objectives to enhance the firm's identification and assessment of quality risks, and design and implementation of responses.

Identify and Assess Quality Risks (Ref: Para. 25)

A44-A45. There may be other conditions, events, circumstances, actions or inactions not described in paragraph 25(a) that may adversely affect the achievement of a quality objective.

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A45-A46. A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk. Professional judgement assists the firm in determining whether a risk is a quality risk, which is based on the firm's consideration of whether there is a reasonable possibility of the risk occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

<i>Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i>	<i>Examples of quality risks that may arise</i>
<ul style="list-style-type: none">The strategic and operational decisions and actions, business processes and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ASQM.	<ul style="list-style-type: none">In the context of governance and leadership, this may give rise to a number of quality risks such as:Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ASQM and may negatively affect the quality of engagements within the scope of this ASQM.Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in the performance of engagements within the scope of this ASQM.
<ul style="list-style-type: none">The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.	<ul style="list-style-type: none">In the context of governance and leadership, this may give rise to a number of quality risks such as:Leadership's responsibilities and accountability for quality are not clearly defined and assigned.The actions and behaviours of leadership that do not promote quality are not questioned.
<ul style="list-style-type: none">The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.	<p>In the context of resources, this may give rise to a number of quality risks including:</p> <ul style="list-style-type: none">Technological resources used by the two merged firms may be incompatible.Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.

A46-A47. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in further quality risks. For example, the firm may implement a resource (e.g., a technological resource) to address a quality risk, and quality risks may arise from the use of such resource.

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A47-A48. The degree to which a risk, individually, or in combination with other risks may adversely affect the achievement of a quality objective(s) may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk, taking into account, for example:

- How the condition, event, circumstance, action or inaction would affect the achievement of the quality objective.
- How frequently the condition, event, circumstance, action or inaction is expected to occur.
- How long it would take after the condition, event, circumstance, action or inaction occurred for it to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action or inaction.
- How long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred.

The assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them.

Design and Implement Responses to Address the Quality Risks (Ref: Para. 16(u), 26)

A48-A49. The nature, timing and extent of the responses are based on the reasons for the assessment given to the quality risks, which is the considered occurrence and effect on the achievement of one or more quality objectives.

A49-A50. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level.

Example of a response designed and implemented by the firm that operates at both the firm and engagement level

The firm establishes policies or procedures for consultation which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur and initiating consultation, and implementing the conclusions from consultation.¹¹

A50-A51. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.

Changes in the Nature and Circumstances of the Firm or its Engagements (Ref: Para. 27)

A51-A52. Scalability example to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary

- In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual(s) responsible for establishing quality

¹¹ See ASA 220, paragraphs 35.

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objectives, identifying and assessing quality risks and designing and implementing responses is able to identify such information in the normal course of their activities.

- In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements. This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm's internal and external environment.

A52-A53. Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with paragraph 42.

A53-A54. The firm may have established quality objectives in addition to those specified by this ASQM. The firm may also identify information that indicates that additional quality objectives already established by the firm are no longer needed, or need to be modified.

Governance and Leadership

Commitment to Quality (Ref: Para. 28(a))

A54-A55. The firm's culture is an important factor in influencing the behaviour of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ASQM. Professional values and attitudes may include:

- Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability.
- A commitment to teamwork.
- Maintaining an open mind to new ideas or different perspectives in the professional environment.
- Pursuit of excellence.
- A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements and placing a focus on continual learning).
- Social responsibility.

A55-A56. The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialisation or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality, for example, the firm may have incentives that are focused on financial and operational priorities that may discourage behaviours that demonstrate a commitment to quality.

Leadership (Ref: Para. 28(b) and 28(c))

A56-A57. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 56.

A57-A58. Although leadership establishes the tone at the top through their actions and behaviours, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrates a commitment to quality.

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Organisational Structure (Ref: Para. 28(d))

~~A58-A59.~~ The organisational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralise processes or activities in a service delivery centre, and engagement teams may include personnel from the firm's service delivery centre who perform specific tasks that are repetitive or specialised in nature.

Resources (Ref: Para. 28(e))

~~A59-A60.~~ The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management is in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used.

~~A60-A61.~~ As resource needs may change over time it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

~~A61-A62.~~ The APESB Code sets out the fundamental principles of ethics that establish the standards of behaviour expected of a member and establishes the Australian Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The APESB Code also specifies the approach that a member is required to apply to comply with the fundamental principles and, when applicable, the Australian Independence Standards. In addition, the APESB Code addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

— In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.

~~A62-A63.~~ Aus .

Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements

- The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
- The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members.

~~A63-A64.~~ Other components may affect or relate to the relevant ethical requirements component.

Examples of relationships between the relevant ethical requirements component and other components

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including:
 - The firm communicating the independence requirements to all personnel and others subject to independence requirements.

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- Personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements.
- As part of the resources component, the firm may:
 - Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
 - Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

[A64-A65.](#) The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, or in the performance of engagements.

Examples of relevant ethical requirements that apply to others

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, the APESB Code includes independence requirements that apply to network firms.
- Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (e.g., a component auditor or a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.
- The principle of confidentiality may apply to the firm's network, other network firms or service providers, when they have access to client information obtained by the firm.

Public Sector Considerations

[A65-A66.](#) In achieving the quality objectives in this ASQM related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.

Acceptance and Continuance of Client Relationships and Specific Engagements

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client
(Ref: Para. 30(a)(i))

[A66-A67.](#) The information obtained about the nature and circumstances of the engagement may include:

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organisational structure, ownership and governance, its business model and how it is financed; and
- The nature of the underlying subject matter and the applicable criteria, for example, in the case of integrated reporting:

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- The underlying subject matter may include social, environmental or health and safety information; and
- The applicable criteria may be performance measures established by a recognised body of experts.

A67-A68. The information obtained to support the firm's judgements about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance.

Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of a client-imposed limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

A68-A69. The firm may obtain the information from a variety of internal and external sources, including:

- In the case of an existing client, information from current or previous engagements, if applicable, or enquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, enquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search.

A69-A70. Information that is obtained during the firm's acceptance and continuance process may often also be relevant to the engagement team when planning and performing the engagement. ~~Professional AUASB~~ standards may specifically require the engagement team to obtain or consider such information. For example, ASA 220¹² requires the engagement partner

¹² See ASA 220, paragraph 23.

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to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

A70-A71. AUASB standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make enquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ASA 300¹³ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The APESB Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of a financial report.

The Firm's Ability to Perform the Engagement (Ref: Para. 30(a)(ii))

A71-A72. The firm's ability to perform the engagement in accordance with ~~professional~~ AUASB standards and applicable legal and regulatory requirements may be affected by:

- The availability of appropriate resources to perform the engagement;
- Having access to information to perform the engagement, or to the persons who provide such information; and
- Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements.

Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement

- The circumstances of the engagement and the reporting deadline.
- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having:
 - Individuals to take overall responsibility for directing and supervising the engagement;
 - Individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements; and
 - Individuals to perform audit procedures on the financial information of a component for purposes of an audit of a group financial report.
- The availability of experts, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in ASQM 2.
- The need for technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data.

¹³ See ASA 300 *Planning an Audit of a Financial Report*, paragraph 13(b).

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- The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

The Firm's Financial and Operational Priorities (Ref: Para. 30(b))

A72-A73. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialisation or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).

A73-A74. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with AUASB standards and applicable legal and regulatory requirements. The APESB Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.

Engagement Performance

Responsibilities of the Engagement Team and Direction, Supervision and Review (Ref: Para. 31(a) and 31(b))

A74-A75. ~~Professional~~ AUASB standards or applicable legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, ASA 220 deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including having responsibility for appropriate direction and supervision of the engagement team and review of their work.

A75-A76. *Examples of direction, supervision and review*

- Direction and supervision of the engagement team may include:
 - Tracking the progress of the engagement;
 - Considering the following with respect to members of the engagement team:
 - ◆ Whether they understand their instructions; and
 - ◆ Whether the work is being carried out in accordance with the planned approach to the engagement;
 - Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
 - Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- A review of work performed may include considering whether:

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- The work has been performed in accordance with the firm's policies or procedures, ~~professional~~ AUASB standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of planned work;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

~~A76.A77.~~ In some circumstances, the firm may use personnel from a service delivery centre in the firm or individuals from a service delivery centre in another network firm to perform procedures on the engagement (i.e., the personnel or other individuals are included in the engagement team). In such circumstances, the firm's policies or procedures may specifically address the direction and supervision of the individuals and review of their work, such as:

- What aspects of the engagement may be assigned to individuals in the service delivery centre;
- How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by individuals in the service delivery centre; and
- The protocols for communication between the engagement team and individuals in the service delivery centre.

~~Aus A77.1~~

Professional Judgement and Professional Scepticism (Ref: Para. 31(c))

~~A77.A78.~~ Professional scepticism supports the quality of judgements made on an assurance engagement and, through these judgements, the overall effectiveness of the engagement team in performing the assurance engagement. Other pronouncements of the AUASB may address the exercise of professional judgement or professional scepticism at the engagement level. For example, ASA 220¹⁴ provides examples of impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate such impediments.

Consultation (Ref: Para. 31(d))

~~A78.A79.~~ Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialised expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.

¹⁴ See ASA 220, paragraphs A34–A36.

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[A79-A80.](#) Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions are to be agreed and implemented.

[A80-A81.](#) ASA 220¹⁵ includes requirements for the engagement partner related to consultation.

Differences of Opinion (Ref: Para. 31(e))

[A81-A82.](#) The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter is to be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation (Ref: Para. 31(f))

[A82-A83.](#) Law, regulation or ~~professional~~ AUASB standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of engagements conducted under the ASAs or ASAEs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

[A83-A84.](#) The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without authorisation to do so, or if it is permanently lost or damaged.

[A84-A85.](#) Law, regulation or ~~professional~~ AUASB standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ASAs or ASAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial report, when applicable.

Resources (Ref: Para. 32)

[A85-A86.](#) Resources for the purposes of the resources component include:

- Human resources.
- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, a methodology or guides.

Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm's human resources, technological resources and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in

¹⁵ See ASA 220, paragraph 35.

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governance and leadership, such as those that address financial and operational priorities, address financial resources.

~~A86-A87.~~ Resources may be internal to the firm, or may be obtained externally from the firm's network, another network firm or service provider. Resources may be used in performing activities within the firm's system of quality management, or in the performance of engagements as part of operating the system of quality management. In circumstances when a resource is obtained from the firm's network or another network firm, paragraphs 48–52 form part of the responses designed and implemented by the firm in achieving the objectives in this component.

Human Resources

Hiring, Developing and Retaining Personnel and Personnel Competence and Capabilities (Ref: Para. 32(a), 32(d))

~~A87-A88.~~ Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.

~~A88-A89.~~ Law, regulation or ~~professional~~ AUASB standards may establish requirements addressing competence and capabilities, such as requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.

~~A89-A90.~~ *Examples of policies or procedures relating to hiring, developing and retaining personnel*

The policies or procedures designed and implemented by the firm relating to hiring, developing and retaining personnel may address:

- Recruiting individuals who have, or are able to develop, appropriate competence.
- Training programs focused on developing the competence of personnel and continuing professional development.
- Evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures.
- Compensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm's system of quality management.

Personnel's Commitment to Quality and Accountability and Recognition for Commitment to Quality (Ref: Para. 32(b))

~~A90-A91.~~ Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.

~~A91-A92.~~ Positive actions or behaviours demonstrated by personnel may be recognised through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

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A92-A93. The manner in which the firm holds personnel accountable for actions or behaviours that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed, may depend on the nature of the action or behaviour, including its severity and frequency of occurrence. Actions the firm may take when personnel demonstrate actions or behaviours that negatively affect quality may include:

- Training or other professional development.
- Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved.
- Disciplinary action, if appropriate.

Individuals Obtained from External Sources (Ref: Para. 32(c))

A93-A94. ~~Professional~~ AUASB standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, ASA 220¹⁶ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.

Engagement Team Members Assigned to Each Engagement (Ref: Para. 32(d))

A94-A95. Engagement team members may be assigned to engagements by:

- The firm, including assigning personnel from a service delivery centre in the firm.
- The firm's network or another network firm when the firm uses individuals from the firm's network or another network firm to perform procedures on the engagement (e.g., a component auditor or a service delivery centre of the network or another network firm).
- A service provider when the firm uses individuals from a service provider to perform procedures on the engagement (e.g., a component auditor from a firm that is not within the firm's network).

A95-A96. [Deleted by the AUASB. Refer Aus A96.1]

Aus A96.1 ASA 220¹⁷ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts ~~and internal auditors who provide direct assistance~~ who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. ASA 600¹⁸ expands on how ASA 220 is to be applied in relation to an audit of a group financial report. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:

- Information that may be obtained by the engagement partner and factors to consider in determining that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm or service provider, have the competence and capabilities to perform the engagement.

¹⁶ See ASA 220, paragraph 25.

¹⁷ See ASA 220, paragraph 26.

¹⁸ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*, paragraph 19.

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- How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm or service provider, may be resolved.

A96-A97. The requirements in paragraphs 48–52 are also applicable when using individuals from the firm's network or another network firm on an engagement, including component auditors (see, for example, paragraph A179).

Technological Resources (Ref: Para. 32(f))

A97-A98. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

A98-A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ASQM are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in the performance of engagements; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ASQM may differ

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorising access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise:
 - Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as:
 - ◆ IT applications used by engagement teams (e.g., engagement software and automated audit tools).

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	<ul style="list-style-type: none">◆ IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements).○ The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.
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A99-A100. The firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:

- The data inputs are complete and appropriate;
- Confidentiality of the data is preserved;
- The IT application operates as designed and achieves the purpose for which it is intended;
- The outputs of the IT application achieve the purpose for which they will be used;
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate;
- The need for specialised skills to utilise the IT application effectively, including the training of individuals who will use the IT application; and
- The need to develop procedures that set out how the IT application operates.

A100-A101. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances when the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in paragraph A100. ASA 220¹⁹ addresses the engagement partner's responsibilities for engagement resources.

Intellectual Resources (Ref: Para. 32(g))

A101-A102. Intellectual resources include the information the firm uses to enable the operation of the system of quality management and promote consistency in the performance of engagements.

Examples of intellectual resources

Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

¹⁹ See ASA 220, paragraphs 25–28.

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~~A102~~-~~A103~~. Intellectual resources may be made available through technological resources, for example, the firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.

Use of Technological and Intellectual Resources (Ref: Para. 32(f)–32(g))

~~A103~~-~~A104~~. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in the performance of engagements, or relating to other aspects of the engagement, such as in archiving the engagement file.
- Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training, for example, the firm may specify the qualifications or expertise needed to use an IT application that analyses data, given that specialised skills may be needed to interpret the results.
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources.
- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

Service Providers (Ref: Para. 16(v), 32(h))

~~A104~~-~~A105~~. In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances when the firm does not have access to the appropriate resources internally. Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.

Examples of resources from a service provider

- Individuals engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters.
- A commercial IT application used to perform audit engagements.
- Individuals performing procedures on the firm's engagements, for example, component auditors from other firms not within the firm's network or individuals engaged to attend a physical inventory count at a remote location.
- An auditor's external expert used by the firm to assist the engagement team in obtaining audit evidence.

~~A105~~-~~A106~~. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, which includes conditions, events, circumstances, actions or inactions relating to service providers. In doing so, the firm may consider the nature of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (e.g., the varying types of other professional services firms that are used), in order to identify and assess quality risks related to the use of such resources.

~~A106~~-~~A107~~. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or in the performance of engagements, the firm may

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obtain information about the service provider and the resource they provide from a number of sources. Matters the firm may consider include:

- The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in paragraph 32(g), such as a quality risk that the service provider does not update the methodology to reflect changes in ~~professional~~ AUASB standards and applicable legal and regulatory requirements.
- The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data).
- The extent to which the resource is used across the firm, how the resource will be used by the firm and whether it is suitable for that purpose.
- The extent of customisation of the resource for the firm.
- The firm's previous use of the service provider.
- The service provider's experience in the industry and reputation in the market.

~~A107-A108.~~ The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively, or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.

Information and Communication (Ref: Para. 33)

~~A108-A109.~~ Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management.

The Firm's Information System (Ref: Para. 33(a))

~~A109-A110.~~ Reliable and relevant information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

~~A110-A111.~~ The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the firm's responses for other components. In addition, digital records may replace or supplement physical records.

Scalability example to demonstrate how the information system may be designed in a less complex firm

Less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.

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Communication Within the Firm (Ref: Para. 33(b), 33(c))

~~A111~~A112. The firm may recognise and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and with one another by establishing communication channels to facilitate communication across the firm.

Examples of communication among the firm, personnel and engagement teams

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.
- The firm communicates changes to the system of quality management to personnel and engagement teams, to the extent that the changes are relevant to their responsibilities and enables personnel and engagement teams to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate to the firm information about:
 - The client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.
 - The operation of the firm's responses (e.g., concerns about the firm's processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the firm's system of quality management.
- Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation.
- Group engagement teams communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.
- The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes.

Communication with External Parties

Communication to or within the Firm's Network and to Service Providers (Ref: Para. 33(d)(i))

~~A112~~A113. In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, a network firm or a service provider that supports the firm in the design, implementation and operation of its system of quality management.

Example of information obtained by the firm from within the firm's network

The firm obtains information from the network or other network firms about clients of other network firms, where there are independence requirements that affect the firm.

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Communication with Others External to the Firm (Ref: Para. 33(d)(ii))

~~A113~~~~A114~~. *Examples of when law, regulation or ~~professional~~ AUASB standards may require the firm to communicate information to external parties*

- The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
- Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.
- Securities law or regulation requires the firm to communicate certain matters to those charged with governance.

~~A114~~~~A115~~. *In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.*

Examples of when the firm may be precluded from communicating information externally

- Privacy or secrecy law or regulation prohibits disclosure of certain information.
- Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality.

Specified Responses (Ref: Para. 34)

~~A115~~~~A116~~. *The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (e.g., personnel's commitment to quality), relevant ethical requirements and governance and leadership. The specified responses alone are not sufficient to achieve the objectives of the system of quality management.*

Relevant Ethical Requirements (Ref: Para. 34(a))

~~A116~~~~A117~~. *Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be addressed. For example, the APESB Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.*

~~A117~~~~A118~~. *Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the APESB Code sets out requirements for the firm in the event of a breach of the APESB Code and includes specific requirements addressing breaches of the Australian Independence Standards, which includes requirements for communication with external parties.*

~~A118~~~~A119~~. *Matters the firm may address relating to breaches of the relevant ethical requirements include:*

- The communication of breaches of the relevant ethical requirements to appropriate personnel;
- The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;

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- The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;
- Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and
- Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.

Complaints and Allegations (Ref: Para. 34(c))

~~A119~~-A120. Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:

- Identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm's commitment to quality; or
- Identifying deficiencies in the system of quality management.

~~A120~~-A121. Complaints and allegations may be made by personnel, or others external to the firm (e.g., clients, component auditors or individuals within the firm's network).

Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: Para. 34(d))

~~A121~~-A122. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:

- Have existed at the time of the firm's decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or
- Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.

Examples of matters addressed in the firm's policies or procedures for circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement

- Undertaking consultation within the firm or with legal counsel.
- Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.
- Discussing with the appropriate level of the client's management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances.
- When it is determined that withdrawal is an appropriate action:
 - Informing the client's management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal.
 - Considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the

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engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

In some circumstances, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions.

A122-A123.

Example of matters addressed in the firm's policies or procedures in circumstances when the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement

- The firm considers the effect of the information on the performance of the engagement.
- The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work.
- The firm assigns more experienced personnel to the engagement.
- The firm determines that an engagement quality review should be performed.

Communication with External Parties (Ref. Para: 34(e))

A123-A124. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable and transparent communication by the firm about the activities that it has undertaken to address quality, and the effectiveness of those activities.

A124-A125. External parties who may use information about the firm's system of quality management, and the extent of their interest in the firm's system of quality management, may vary based on the nature and circumstances of the firm and its engagements.

Examples of external parties who may use information about the firm's system of quality management

- Management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement.
- External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction and in understanding the work of firms.
- Other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) may have requested such information.
- Other users of the firm's engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information.

A125-A126. The information about the system of quality management provided to external parties, including information communicated to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, may address such matters as:

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- The nature and circumstances of the firm, such as the organisational structure, business model, strategy and operating environment.
- The firm's governance and leadership, such as its culture, how it demonstrates a commitment to quality, and assigned roles, responsibilities and authority with respect to the system of quality management.
- How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence.
- Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators.
- The results of the firm's monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them.
- The evaluation undertaken in accordance with paragraphs 53–54 of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved and the conclusion thereon, including the basis for the judgements made in undertaking the evaluation and concluding.
- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes.
- The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms.

Communication with Those Charged with Governance (Ref. Para: 34(e)(i))

~~A126.~~A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

~~A127.~~A128. ASA 260 deals with the auditor's responsibility to communicate with those charged with governance in an audit of a financial report, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate²⁰ and the communication process.²¹ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than listed entities (or when performing other engagements), for example, entities that may have public interest or public accountability characteristics, such as:

- Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and superannuation funds.
- Entities with a high public profile, or whose management or owners have a high public profile.
- Entities with a large number and wide range of stakeholders.

²⁰ See ASA 260 *Communication with Those Charged with Governance*, paragraphs 11–13.

²¹ See ASA 260, paragraphs 18–22.

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Public sector considerations

A128.A129. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of its stakeholders, the nature of the services it provides, and the role and responsibilities of those charged with governance.

Determining When it is Otherwise Appropriate to Communicate with External Parties (Ref. Para: 34(e)(ii))

A129.A130. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgement and may be influenced by matters such as:

- The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken.
- The nature and circumstances of the firm.
- The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates.
- The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated).
- The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.
- Jurisdictional trends.
- The information that is already available to external parties.
- How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial reports and other financial information, or other assurance or related services engagements.
- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication.

The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.

Nature, Timing and Extent and Appropriate Form of Communication with External Parties (Ref. Para: 34(e)(iii))

A130.A131. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.

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- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm's website).

A132. The firm uses professional judgement in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of a financial report of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

- A publication such as a transparency report or audit quality report.
- Targeted written communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).
- Direct conversations and interactions with the external party (e.g., discussions between the engagement team and those charged with governance).
- A webpage.
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video.

Engagements Subject to an Engagement Quality Review

Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))

A131-A133. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:

- Are public interest entities as defined in a particular jurisdiction;
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and superannuation funds);
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))

A132-A134. The firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, as required by paragraph 25(a)(ii), relates to the nature and circumstances of the engagements performed by the firm. In

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designing and implementing responses to address one or more quality risk(s), the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgement, such as:
 - Audits of financial reports for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern.
 - Assurance engagements that require specialised skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in a financial report.
- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgement, such as pro forma financial information to be included in a prospectus.

Those relating to the types of entities for which engagements are undertaken:

- Entities in emerging industries, or for which the firm has no previous experience.
- Entities for which concerns were expressed in communications from securities or prudential regulators.
- Entities other than listed entities that may have public interest or public accountability characteristics, for example:
 - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and superannuation funds for which an engagement quality review is not otherwise required by law or regulation.
 - Entities with a high public profile, or whose management or owners have a high public profile.
 - Entities with a large number and wide range of stakeholders.

[A133-A135](#) The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial reports, the firm's responses may include reviews of the engagement team's procedures

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relating to significant risks, or reviews of certain significant judgements, by personnel who have specialised technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

[A134-A136.](#) In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).

Public sector considerations

[A135-A137.](#) The nature and circumstances of public sector entities (e.g., due to their size and complexity, the range of their stakeholders, or the nature of the services they provide) may give rise to quality risks. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risks. Law or regulation may establish additional reporting requirements for the auditors of public sector entities (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial report). In such cases, the firm may also consider the complexity of such reporting, and its importance to users, in determining whether an engagement quality review is an appropriate response.

Monitoring and Remediation Process (Ref: Para. 35–47)

[A136-A138.](#) In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. For example:

- Given the inherent limitations of a system of quality management, the firm's identification of deficiencies is not unusual and it is an important aspect of the system of quality management, because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continual improvement.
- The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.

Designing and Performing Monitoring Activities (Ref: Para. 37–38)

[A137-A139.](#) The firm's monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.

[A138-A140.](#) Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).

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~~A139-A141.~~ The nature, timing and extent of the monitoring activities may also be affected by other matters, including:

- The size, structure and organisation of the firm.
- The involvement of the firm's network in monitoring activities.
- The resources that the firm intends to use to enable monitoring activities, such as the use of IT applications.

~~A140-A142.~~ When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.

The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))

~~A141-A143.~~ How the firm's risk assessment process is designed (e.g., a centralised or decentralised process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.

~~A142-A144.~~ How the firm's monitoring and remediation process is designed (i.e., the nature, timing and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm) may affect the monitoring activities undertaken by the firm to determine whether the monitoring and remediation process is achieving the intended purpose as described in paragraph 35.

Scalability example to demonstrate the monitoring activities for the monitoring and remediation process

- In a less complex firm, the monitoring activities may be simple, since information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.
- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies.

Changes in the System of Quality Management (Ref: Para. 37(d))

~~A143-A145.~~ Changes in the system of quality management may include:

- Changes to address an identified deficiency in the system of quality management.
- Changes to the quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

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Previous Monitoring Activities (Ref: Para. 37(e))

~~A144.~~A146. The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.

~~A145.~~A147. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.

Other Relevant Information (Ref: Para. 37(f))

~~A146.~~A148. In addition to the sources of information indicated in paragraph 37(f), other relevant information may include:

- Information communicated by the firm's network in accordance with paragraphs 50(c) and 51(b) about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management.
- Information communicated by a service provider about the resources the firm uses in its system of quality management.
- Information from regulators about the entities for whom the firm performs engagements, which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial report).

~~A147.~~A149. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing and extent of the monitoring activities.

~~A148.~~A150. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing and extent of the monitoring activities.

Engagement Inspections (Ref: Para. 38)

~~A149.~~A151. *Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection*

- In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks:
 - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement.
 - The types of entities for which engagements are undertaken, for example:
 - ◆ Entities that are listed.
 - ◆ Entities operating in emerging industries.
 - ◆ Entities operating in industries associated with a high level of complexity or judgement.
 - ◆ Entities operating in an industry that is new to the firm.

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- The tenure and experience of engagement partners.
- The results of previous inspections of completed engagements, including for each engagement partner.
- In relation to other relevant information:
 - Complaints or allegations about an engagement partner.
 - The results of external inspections, including for each engagement partner.
 - The results of the firm's evaluation of each engagement partner's commitment to quality.

A150-A152. The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:

- Which completed engagements to select for inspection;
- Which engagement partners to select for inspection;
- How frequently to select an engagement partner for inspection; or
- Which aspects of the engagement to consider when performing the inspection of completed engagements.

A151-A153. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.

Example of how a firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner

The firm may establish policies or procedures addressing the inspection of completed engagements that:

- Set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial reports once every three years, and for all other engagement partners, once every five years;
- Set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial reports, the engagement(s) selected include an audit engagement;
- Address selecting engagement partners in a manner that is unpredictable; and
- Address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy, for example:
 - The firm may select engagement partners more frequently than the standard period set out in the firm's policy when:
 - ◆ Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners.

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- ◆ The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgement.
- ◆ An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
- ◆ The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
- ◆ The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction.
- The firm may defer the selection of the engagement partner (e.g., deferring for a year beyond the standard period set out in the firm's policy) when:
 - ◆ Engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm's policy; and
 - ◆ The results of the other monitoring activities provide sufficient information about the engagement partner (i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner).

[A152-A154.](#) The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (e.g., the firm's policies and procedures in respect of engagement performance), have been implemented as designed and are operating effectively.

Individuals Performing the Monitoring Activities (Ref: Para. 39(b))

[A153-A155.](#) The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs:

- An inspection of an engagement was:
 - In the case of an audit of a financial report, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or
 - For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.
- Another type of monitoring activity had participated in designing, executing or operating the response being monitored.

[A154-A156.](#) In some circumstances, for example, in the case of a less complex firm, there may not be personnel who have the competence, capabilities, time or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.

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Evaluating Findings and Identifying Deficiencies (Ref: Para. 16(a), 40–41)

~~A155~~A157. The firm accumulates findings from the performance of monitoring activities, external inspections and other relevant sources.

~~A156~~A158. Information accumulated by the firm from the monitoring activities, external inspections and other relevant sources may reveal other observations about the firm's system of quality management, such as:

- Actions, behaviours or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or
- Similar circumstances where no findings were noted (e.g., engagements where no findings were noted, and the engagements have a similar nature to the engagements where findings were noted).

Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.

~~A157~~A159. The firm exercises professional judgement in determining whether findings, individually or in combination with other findings give rise to a deficiency in the system of quality management. In making the judgement, the firm may need to take into account the relative importance of the findings in the context of the quality objectives, quality risks, responses or other aspects of the system of quality management to which they relate. The firm's judgements may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.

~~A158~~A160. *Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency*

Quality Risks and Responses

- If the findings relate to a response:
 - How the response is designed, for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates.
 - The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed.
 - Whether there are other responses that address the same quality risk and whether there are findings for those responses.

Nature of the Findings and Their Pervasiveness

- The nature of the findings. For example, findings related to leadership actions and behaviours may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole.
- Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.

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Extent of Monitoring Activity and Extent of Findings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the expected deviation rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviation rate set by the firm.

~~A159~~A161. Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root cause(s) of an identified deficiency, are part of an iterative and non-linear process.

Examples of how the process of evaluating findings and identifying deficiencies, evaluating identified deficiencies, including investigating the root cause(s) of identified deficiencies, is iterative and non-linear

- In investigating the root cause(s) of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances where there were findings that were not considered a deficiency. As a result, the firm adjusts its evaluation of the other findings and classifies them as a deficiency.
- In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

~~A160~~A162. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.

Evaluating Identified Deficiencies (Ref: Para. 41)

~~A161~~A163. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:

- The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management;
- In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates;
- The root cause(s) of the identified deficiency;
- The frequency with which the matter giving rise to the identified deficiency occurred; and
- The magnitude of the identified deficiency, how quickly it occurred and the duration of time that it existed and had an effect on the system of quality management.

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~~A162-A164.~~ The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

Root Cause of the Identified Deficiencies (Ref: Para. 41(a))

~~A163-A165.~~ The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:

- Evaluate the severity and pervasiveness of the identified deficiency; and
- Appropriately remediate the identified deficiency.

Performing a root cause analysis involves those performing the assessment exercising professional judgement based on the evidence available.

~~A164-A166.~~ The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:

- The complexity and operating characteristics of the firm.
- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities.

Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of a financial report of a listed entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviours regarding quality.
- The possible severity of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance.
- Nature and circumstances of the firm:
 - In the case of a less complex firm with a single location, the firm's procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent.
 - In the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of an identified deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalised procedures for identifying root cause(s).

~~A165-A167.~~ In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to

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which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.

Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies

The firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.

~~A166~~-A168. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.

Example of identifying a root cause(s) that is appropriately specific

The firm may identify that engagement teams performing audits of financial reports are failing to obtain sufficient appropriate audit evidence on accounting estimates where management's assumptions have a high degree of subjectivity. While the firm notes that these engagement teams are not exercising appropriate professional scepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to question individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.

~~A167~~-A169. In addition to investigating the root cause(s) of identified deficiencies, the firm may also investigate the root cause(s) of positive outcomes as doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.

Responding to Identified Deficiencies (Ref: Para. 42)

~~A168~~-A170. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:

- The root cause(s).
- The severity and pervasiveness of the identified deficiency and therefore the urgency with which it needs to be addressed.
- The effectiveness of the remedial actions in addressing the root cause(s), such as whether the firm needs to implement more than one remedial action in order to effectively address the root cause(s), or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions.

~~A169~~-A171. In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.

~~A170~~-A172. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also:

- Consider whether to continue using the resource provided by the service provider.
- Communicate the matter to the service provider.

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The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from recurring with respect to the firm's system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.

Findings About a Particular Engagement (Ref: Para. 45)

~~A171.~~A173. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:

- Consulting with appropriate individuals regarding the appropriate action.
- Discussing the matter with management of the entity or those charged with governance.
- Performing the omitted procedures.

The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and when a deficiency exists, investigating the root cause(s) of the identified deficiency.

Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. 46)

~~A172.~~A174. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual(s) may use the information in multiple ways, for example:

- As a basis for further communications to personnel about the importance of quality.
- To hold individuals accountable for their roles assigned to them.
- To identify key concerns about the system of quality management in a timely manner.

The information also provides a basis for the evaluation of the system of quality management, and conclusion thereon, as required by paragraphs 53–54.

Network Requirements or Network Services (Ref: Para. 48)

~~A173.~~A175. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm's system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks and responses that are common across the network will depend on the firm's arrangements with the network.

Examples of network requirements

- Requirements for the firm to include additional quality objectives or quality risks in the firm's system of quality management that are common across the network firms.
- Requirements for the firm to include responses in the firm's system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership

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roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network developed methodologies for the performance of engagements or IT applications.

- Requirements that the firm be subject to the network's monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network's methodology appropriately), or to the firm's system of quality management in general.

Examples of network services

- Services or resources that are optional for the firm to use in its system of quality management or in the performance of engagements, such as voluntary training programs, use of component auditors or experts from within the network, or use of a service delivery centre established at the network level, or by another network firm or group of network firms.

~~A174.~~A176. The network may establish responsibilities for the firm in implementing the network requirements or network services.

Examples of responsibilities for the firm in implementing network requirements or network services

- The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management.
- The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology.

~~A175.~~A177. The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through enquiries of, or documentation provided by, the network about matters such as:

- The network's governance and leadership.
- The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services.
- How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the ~~professional standards~~ AUASB standards or information that indicates a deficiency in the network requirements or network services.

How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies.

Network Requirements or Network Services in the Firm's System of Quality Management (Ref: Para. 49)

~~A176.~~A178. The characteristics of the network requirements or network services are a condition, event, circumstance, action or inaction in identifying and assessing quality risks.

Example of a network requirement or network service that gives rise to a quality risk

The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This

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may give rise to a quality risk that the IT application does not address matters in law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.

[A177-A179.](#) The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the network firms. The firm may be expected by the network to implement the network requirements, however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.

<i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i>	
Network Requirement or Network Service	How the Firm Adapts or Supplements the Network Requirement or Network Service
The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.	<p>As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the quality risks that are required by the network.</p>
The network requires that the firm design and implement certain responses.	<p>As part of designing and implementing responses, the firm determines:</p> <ul style="list-style-type: none">• Which quality risks the responses address.• How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation).
The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.	The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.

[A178-A180.](#) In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management (Ref: Para. 50(c))

[A179-A181.](#) The results of the network's monitoring activities of the firm's system of quality management may include information such as:

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- A description of the monitoring activities, including their nature, timing and extent;
- Findings, identified deficiencies, and other observations about the firm's system of quality management (e.g., positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management); and
- The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the identified deficiencies and recommended remedial actions.

Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: Para. 51(b))

~~A180.~~A182. The information from the network about the overall results of the network's monitoring activities undertaken across the network firms' systems of quality management may be an aggregation or summary of the information described in paragraph A181, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:

- Be used by the firm:
 - In identifying and assessing quality risks.
 - As part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.
- Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (e.g., common quality objectives, quality risks and responses).

~~A181.~~A183. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm. The network may also gather information from network firms regarding the results of external inspections over network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other network firms or may restrict the specificity of such information.

~~A182.~~A184. In circumstances when the network does not provide the information about the overall results of the network's monitoring activities across the network firms, the firm may take further actions, such as:

- Discussing the matter with the network; and
- Determining the effect on the firm's engagements, and communicating the effect to engagement teams.

Deficiencies in Network Requirements or Network Services Identified by the Firm (Ref: Para. 52)

~~A183.~~A185. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this ASQM regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.

<i>Example of when a network requirement or network service is monitored by both the network and the firm</i>

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A network may undertake monitoring activities at a network level for a common methodology. The firm also monitors the application of the methodology by engagement team members through performing engagement inspections.

~~A184.~~~~A186.~~ In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may:

- Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and
- Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root cause(s), such as when:
 - The network has not taken appropriate remedial actions; or
 - The network's remedial actions will take time to effectively address the identified deficiency.

Evaluating the System of Quality Management (Ref: Para. 53)

~~A185.~~~~A187.~~ The individual(s) assigned ultimate responsibility and accountability for the system of quality management may be assisted by other individuals in performing the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible and accountable for the evaluation.

~~A186.~~~~A188.~~ The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle.

~~A187.~~~~A189.~~ The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individual(s) assigned ultimate responsibility and accountability for the system of quality management in accordance with paragraph 46.

Scalability examples to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained

- In a less complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management.
- In a more complex firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may need to establish processes to collate, summarise and communicate the information needed to evaluate the system of quality management.

Concluding on the System of Quality Management (Ref: Para. 54)

~~A188.~~~~A190.~~ In the context of this ASQM, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:

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- The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management;
- Whether remedial actions have been designed and implemented by the firm, and whether the remedial actions taken up to the time of the evaluation are effective; and
- Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 45.

~~A189-A191.~~ There may be circumstances when identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

~~A190-A192.~~ An identified deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:

- The deficiency affects several components or aspects of the system of quality management.
- The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management.
- The deficiency affects several business units or geographical locations of the firm.
- The deficiency is confined to a business unit or geographical location, but the business unit or location affected is fundamental to the firm overall.
- The deficiency affects a substantial portion of engagements that are of a certain type or nature.

Example of an identified deficiency that may be considered severe but not pervasive

The firm identifies a deficiency in a smaller regional office of the firm. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behaviour of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Not pervasive, because it is limited to the smaller regional office.

~~A191-A193.~~ The individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.

Example of an identified deficiency that may be considered severe and pervasive

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The firm identifies a deficiency in a regional office, which is the largest office of the firm and provides financial, operational and technical support for the entire region. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behaviour of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and
- Pervasive, because the regional office is the largest office and provides support to many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices.

~~A192.~~A194. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

~~A193.~~A195. This ASQM does not require the firm to obtain an independent assurance report on its system of quality management, or preclude the firm from doing so.

Taking Prompt and Appropriate Action and Further Communication (Ref: Para. 55)

~~A194.~~A196. In circumstances when the individual(s) assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 54(b) or 54(c), the prompt and appropriate action taken by the firm may include:

- Taking measures to support the performance of engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams.
- Obtaining legal advice.

~~A195.~~A197. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.

~~A196.~~A198. Examples of circumstances when it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management

- When the firm belongs to a network.
- When other network firms use the work performed by the firm, for example, in the case of a group audit.
- When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.

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- When law or regulation requires the firm to communicate to an oversight authority or a regulatory body.

Performance Evaluations (Ref: Para. 56)

A197-A199. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take into account:

- The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.
- The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.

Scalability examples to demonstrate how the firm may undertake the performance evaluations

- In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm's monitoring activities may provide an indication of the performance of the individual.
- In a more complex firm, the performance evaluations may be undertaken by an independent non-executive member of the firm's governing body, or a special committee overseen by the firm's governing body.

A198-A200. A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual's commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.

Public Sector Considerations

A199-A201. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the results of the performance evaluation, given the nature of the individual's appointment. Nevertheless, performance evaluations may still be undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.

Documentation (Ref: Para. 57–59)

A200-A202. Documentation provides evidence that the firm complies with this ASQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organisational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management. Furthermore, compliance with this ASQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.

A201-A203. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the

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firm's judgements about the form, content and extent of documentation, including how often documentation is updated, may include:

- The complexity of the firm and the number of offices;
- The nature and complexity of the firm's practice and organisation;
- The nature of engagements the firm performs and the nature of the entities for whom engagements are performed;
- The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgements relating to the matter; and
- The frequency and extent of changes in the system of quality management.

In a less complex firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, a less complex firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

[A202-A204.](#) In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the APESB Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.

[A203-A205.](#) The firm is not required to document the consideration of every condition, event, circumstance, action or inaction for each quality objective, or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (i.e., the considered occurrence and effect on the achievement of one or more quality objectives), in order to support the consistent implementation and operation of the responses.

[A204-A206.](#) The documentation may be provided by the network, other network firms, or other structures or organisations within the network.

ASQM 2
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Auditing Standard ASQM 2 *Engagement Quality Reviews*

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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

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PREFACE

Reasons for Issuing ASQM 2

The AUASB issues Auditing Standard ASQM 2 *Engagement Quality Reviews* 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.

Main Features

This Auditing Standard represents the Australian equivalent of ISQM 2 *Engagement Quality Reviews* (December 2020).

The project to address engagement quality reviews originated from the issues identified in the Invitation to Comment (ITC) published in December 2015. This recognised the importance of the engagement quality review and the public interest importance ascribed to it by certain stakeholders. In addition, findings from the ISA Implementation Monitoring project had earlier identified concerns that the requirements in ISA 220 (ASA 220) and ISQC 1 (ASQC 1) regarding engagement quality reviews were not sufficiently robust, and similar concerns were expressed by audit oversight bodies.

The engagements that may require a quality review are incorporated into ASQM 1 and a new standard for engagement quality reviews ISQM 2 was developed. ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

The purpose of the engagement quality review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard 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.

Dated: <TypeHere>

B Edge
Chair - AUASB

Conformity with International Standards on Quality Management

This Auditing Standard conforms with International Standard on Quality Management ISQM 2 *Engagement Quality Reviews* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to, or amended from this Auditing Standard (and do not appear / appear differently in/from the text of the equivalent ISQM 2) are identified with the prefix “Aus”.

The following introductory paragraphs and definitions are additional to or have been amended from ISQM 2:

Paragraph	Summary of Change
Aus 2.1	Replaces ISQM 2 introductory paragraph 2, to introduce ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> .
Aus 2.2	Additional to ISQM 1 to serve as a reminder that it is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations.
Aus 13.1	Replaces ISQM 2 paragraph 13(c) definition of ‘Relevant ethical requirements’. Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> .

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISQM 2 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISQM 2.

AUDITING STANDARD ASQM 2

Engagement Quality Reviews

Application

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other historical financial information;
 - (d) an audit or review other than of historical financial information;
 - (e) other assurance engagements; and
 - (f) related services engagements.

Operative Date

- Aus 0.2 This ASQM is effective for:
- (a) Audits and reviews of a financial report for periods beginning on or after 15 December 2022; and
 - (b) Other assurance and related services engagements beginning on or after 15 December 2022.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Quality Management (ASQM) deals with:
 - (a) The appointment and eligibility of the engagement quality reviewer; and
 - (b) The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
 2. ~~[Deleted by the AUASB. Refer to Aus 2.1 and Aus 2.2] This ISQM ASQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM ASQM 1.⁺ This ISQM ASQM is premised on the basis that the firm is subject to ISQM ASQM 1 or to national requirements that are at least as demanding. This ISQM ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA~~
- Aus 2.1 This ASQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ASQM 1.² This ASQM is premised on

⁺ ~~See Australian International Standard on Quality Management (ISQM/ASQM) 1 (Previously International Australian Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, Statements, or Other Assurance or Related Services Engagements*, paragraph 34(f). See Australian Standard on Quality Management (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*, paragraph 34(f).~~

the basis that the firm is subject to ASQM 1 or to national requirements that are at least as demanding. This ASQM is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.* Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM- (Ref: Para. A2).

Aus 2.2 This ASQM does not address the responsibilities of the assurance practitioner that may exist in legislation, regulation or otherwise in connection with, for example, independence or other assurance related requirements of the *Corporations Act 2001*. Such responsibilities may differ from those established in this ASQM. It is the responsibility of the assurance practitioner to ensure compliance with all relevant legal, regulatory or professional obligations.

2.3. An engagement quality review performed in accordance with this ASQM is a specified response that is designed and implemented by the firm in accordance with ASQM 1.³ The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

Scalability

3.4. The nature, timing and extent of the engagement quality reviewer's procedures required by this ASQM vary depending on the nature and circumstances of the engagement or the entity. For example, the engagement quality reviewer's procedures would likely be less extensive for engagements involving fewer significant judgements made by the engagement team.

The Firm's System of Quality Management and Role of Engagement Quality Reviews

4.5. ASQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.⁴ The specified responses in ASQM 1 include establishing policies or procedures addressing engagement quality reviews in accordance with this ASQM.

5.6. The firm is responsible for designing, implementing and operating the system of quality management. Under ASQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of a financial report, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

- (a) The firm and its personnel fulfill their responsibilities in accordance with AUASB standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁵

6.7. As explained in ASQM 1,⁶ the public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with AUASB standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

³ See ASQM 1, paragraph 34(f).

⁴ See ASQM 1, paragraph 26.

⁵ See ASQM 1, paragraph 14.

⁶ See ASQM 1, paragraph 15.

judgement and, when applicable to the type of engagement, exercising professional scepticism.

~~7.8.~~ An engagement quality review is an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgements is performed in the context of AUASB standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with AUASB standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.

~~8.9.~~ The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement, or for the direction and supervision of the members of the engagement team and the review of their work. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review.

Authority of this ASQM

~~9.10.~~ This ASQM contains the objective for the firm in following this ASQM, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, this ASQM contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ASQM, and definitions. ASQM 1⁷ explains the terms objective, requirements, application and other explanatory material, introductory material, and definitions.

Effective Date

~~10.11.~~ [Deleted by the AUASB. Refer Aus 0.2]

Objective

~~11.12.~~ The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon.

Definitions

~~12.13.~~ For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (a) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- (b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (c) [Deleted by the AUASB. Refer Aus 13.1]

Aus 13.1 ~~Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking the~~

⁷ See ASQM 1, paragraphs 12 and A6–A9.

engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive than relevant ethical requirements as defined in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. (Ref: Para. A12–A15)

Requirements

Applying, and Complying with, Relevant Requirements

- ~~13.~~14. The firm and the engagement quality reviewer shall have an understanding of this ASQM, including the application and other explanatory material, to understand the objective of this ASQM and to properly apply the requirements relevant to them.
- ~~14.~~15. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ASQM, unless the requirement is not relevant in the circumstances of the engagement.
- ~~15.~~16. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, shall take further actions to achieve the objective.

Appointment and Eligibility of Engagement Quality Reviewers

- ~~16.~~17. The firm shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures shall require such individual(s) to appoint the engagement quality reviewer. (Ref: Para. A1–A3)
- ~~17.~~18. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)
- (a) Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A5–A11)
 - (b) Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and (Ref: Para. A12–A15)
 - (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)
- ~~18.~~19. The firm's policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17–A18)
- ~~19.~~20. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:

- (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: Para. A19)
- (b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: Para. A20–A21)

~~20.21.~~ The firm shall establish policies or procedures that:

- (a) Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
- (b) Address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work. (Ref: Para. A22)

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review

~~21.22.~~ The firm shall establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: Para. A23)

~~22.23.~~ When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer shall notify the appropriate individual(s) in the firm, and: (Ref: Para. A24)

- (a) If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review; or
- (b) If the engagement quality review has commenced, discontinue the performance of the engagement quality review.

Performance of the Engagement Quality Review

~~23.24.~~ The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:

- (a) The engagement quality reviewer's responsibilities to perform procedures in accordance with paragraphs 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon;
- (b) The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from dating the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 27 that the engagement quality review is complete; and (Ref: Para. A25–A26)
- (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgement give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A27)

~~24.25.~~ In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A28–A33)

- (a) Read, and obtain an understanding of, information communicated by: (Ref: Para. A34)
 - (i) The engagement team regarding the nature and circumstances of the engagement and the entity; and
 - (ii) The firm related to the firm's monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgements made by the engagement team.
- (b) Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgements made in planning, performing and reporting on the engagement. (Ref: Para. A35–A38)
- (c) Based on the information obtained in (a) and (b), review selected engagement documentation relating to the significant judgements made by the engagement team and evaluate: (Ref: Para. A39–A43)
 - (i) The basis for making those significant judgements, including, when applicable to the type of engagement, the exercise of professional scepticism by the engagement team;
 - (ii) Whether the engagement documentation supports the conclusions reached; and
 - (iii) Whether the conclusions reached are appropriate.
- (d) For audits of a financial report, evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled. (Ref: Para. A44)
- (e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A45)
- (f) For audits of a financial report, evaluate the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A46)
- (g) Review:
 - (i) For audits of a financial report, the financial report and the auditor's report thereon, including, if applicable, the description of the key audit matters; (Ref: Para. A47)
 - (ii) For review engagements, the financial report or financial information and the engagement report thereon; or (Ref: Para. A47)
 - (iii) For other assurance and related services engagements, the engagement report, and when applicable, the subject matter information. (Ref: Para. A48)

25:26. The engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed. (Ref: Para. A49)

Completion of the Engagement Quality Review

~~26:~~27. The engagement quality reviewer shall determine whether the requirements in this ASQM with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If so, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.

Documentation

~~27:~~28. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A50)

~~28:~~29. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 30, and that such documentation be included with the engagement documentation.

~~29:~~30. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes: (Ref: Para. A51–A53)

- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
- (b) An identification of the engagement documentation reviewed;
- (c) The basis for the engagement quality reviewer's determination in accordance with paragraph 27;
- (d) The notifications required in accordance with paragraphs 26 and 27; and
- (e) The date of completion of the engagement quality review.

* * *

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 17)

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
 - The criteria in paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
 - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team.
- A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.
- A3. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of listed entities than for audits of non-listed entities or other engagements, with different individuals responsible for each process.

Eligibility of the Engagement Quality Reviewer (Ref: Para. 18)

- A4. In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual in the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of a network firm, a structure or an organisation within the firm's network, or a service provider. When using such an individual, the provisions in ASQM 1 addressing network requirements or network services or service providers apply.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: Para. 18(a))

- A5. ASQM 1 describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values and attitudes.⁸ Matters that the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example:
- An understanding of AUASB standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to the engagement;
 - Knowledge of the entity's industry;

⁸ See ASQM 1, paragraph A88.

- An understanding of, and experience relevant to, engagements of a similar nature and complexity; and
 - An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.
- A6. The conditions, events, circumstances, actions or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risk(s)⁹ may be an important consideration in the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgements made by the engagement team and the conclusions reached thereon include, for example:
- The nature of the entity.
 - The specialisation and complexity of the industry or regulatory environment in which the entity operates.
 - The extent to which the engagement relates to matters requiring specialised expertise (e.g., with respect to information technology (IT) or specialised areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A19.
- A7. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (e.g., findings from the inspection of engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.
- A8. A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgement in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, where appropriate, challenge significant judgements made, and the exercise of professional scepticism, by the engagement team on a complex, industry-specific accounting or auditing matter.
- Appropriate Authority (Ref: Para. 18(a))
- A9. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.
- A10. The authority of the engagement quality reviewer may be diminished when:
- The culture within the firm promotes respect for authority only of personnel at a higher level of hierarchy within the firm.

⁹ See ASQM 1, paragraph A134.

- The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Public Sector Considerations

- A11. In the public sector, an auditor (e.g., an Auditor General, or other suitably qualified individual appointed on behalf of the Auditor General) may act in a role equivalent to that of the engagement partner with overall responsibility for public sector audits. In such circumstances, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.

Relevant Ethical Requirements (Ref: Para. 13(c), 18(b))

- A12. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply only to individual members, such as an engagement quality reviewer, and not the firm itself.
- A13. Relevant ethical requirements may include specific independence requirements that would apply to individual members, such as an engagement quality reviewer. Relevant ethical requirements may also include provisions that address threats to independence created by long association with an audit or assurance client. The application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 19.

Threats to the objectivity of the engagement quality reviewer

- A14. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:
- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgements made by the engagement team, in particular as the engagement partner or other engagement team member.
 - A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.
 - An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).
- A15. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the APESB Code provides specific guidance, including examples of:
- Circumstances where threats to objectivity may be created when a member is appointed as an engagement quality reviewer;
 - Factors that are relevant in evaluating the level of such threats; and
 - Actions, including safeguards, that might address such threats.

Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: Para. 18(c))

- A16. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality reviewer may need to possess certain qualifications or be licensed to be able to perform the engagement quality review.

Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner (Ref: Para. 19)

- A17. In recurring engagements, the matters on which significant judgements are made often do not vary. Therefore, significant judgements made in prior periods may continue to affect judgements of the engagement team in subsequent periods. The ability of an engagement quality reviewer to perform an objective evaluation of significant judgements is therefore affected when the individual was previously involved with those judgements as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular the self-review threat, to an acceptable level. Accordingly, this ASQM requires the firm to establish policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.
- A18. The firm's policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgements made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgements affecting the group audit engagement.

Circumstances When the Engagement Quality Reviewer Uses Assistants (Ref: Para. 20–21)

- A19. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals with the relevant expertise. For example, highly specialised knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgements made by the engagement team related to those transactions.
- A20. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.
- A21. When the engagement quality reviewer is assisted by an individual external to the firm, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.
- A22. The firm's policies or procedures may include responsibilities of the engagement quality reviewer to:
- Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and
 - Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 22–23)

- A23. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:
- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;
 - Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or
 - Notification from the engagement quality reviewer in accordance with paragraph 23.
- A24. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this ASQM with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances.

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

- A25. ASA 220¹⁰ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:
- Determining that an engagement quality reviewer has been appointed;
 - Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;
 - Discussing significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
 - Not dating the auditor's report until the completion of the engagement quality review.
- A26. ASAE 3000¹¹ also establishes requirements for the engagement partner in relation to the engagement quality review.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: Para. 24(c))

- A27. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgement. The firm's policies or procedures may set out the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team. For example, in these circumstances the firm may require consultation

¹⁰ See Australian Standard on Auditing (ASA) 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 36.

¹¹ See Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 36.

about such significant judgements with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 25–27)

- A28. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasise the importance of the engagement quality reviewer exercising professional judgement in performing the review.
- A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review also may reinforce the exercise of professional judgement and, when applicable to the type of engagement, professional scepticism, by the engagement team in planning and performing the engagement.
- A30. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:
- The reasons for the assessments given to quality risks,¹² for example, engagements performed for entities in emerging industries or with complex transactions.
 - Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process, and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
 - The complexity of the engagement.
 - The nature and size of the entity, including whether the entity is a listed entity.
 - Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
 - Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
 - For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
 - Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.
- A31. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

¹² See ASQM 1, paragraph A49.

Group Audit Considerations

- A32. The performance of an engagement quality review for an audit of a group financial report may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21(a) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgements with key members of the engagement team other than the group engagement team (e.g., those responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.
- A33. In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation or other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 21(a). For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgements related to the group audit have been made at the component level.

Information Communicated by the Engagement Team and the Firm (Ref: Para. 25(a))

- A34. Obtaining an understanding of information communicated by the engagement team and the firm in accordance with paragraph 25(a) may assist the engagement quality reviewer in understanding the significant judgements that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgements made in planning, performing and reporting on the engagement. For example, a deficiency identified by the firm may relate to significant judgements made by other engagement teams for certain accounting estimates for a particular industry. When this is the case, such information may be relevant to the significant judgements made on the engagement with respect to those accounting estimates, and therefore may provide the engagement quality reviewer with a basis for discussions with the engagement team in accordance with paragraph 25(b).

Significant Matters and Significant Judgements (Ref: Para. 25(b)–25(c))

- A35. For audits of a financial report, ASA 220¹³ requires the engagement partner to review audit documentation relating to significant matters¹⁴ and significant judgements, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached.
- A36. For audits of a financial report, ASA 220¹⁵ provides examples of significant judgements that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.
- A37. For engagements other than audits of a financial report, the significant judgements made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an assurance engagement performed in accordance with ASAE 3000, the engagement team's determination of whether the criteria to be applied in the preparation of

¹³ See ASA 220, paragraph 31.

¹⁴ See ASA 230 *Audit Documentation*, paragraph 8(c).

¹⁵ See ASA 220, paragraph A92.

the subject matter information are suitable for the engagement may involve or require significant judgement.

- A38. In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgements would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.
- A39. The information obtained in accordance with paragraphs 25(a) and 25(b), and the review of selected engagement documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgements. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example:
- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgements made by the engagement team;
 - Applying an unbiased view in evaluating responses from the engagement team; and
 - Following up on inconsistencies identified in reviewing engagement documentation, or inconsistent responses by the engagement team to questions relating to the significant judgements made.
- A40. The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgement in selecting additional engagement documentation to be reviewed relating to significant judgements made by the engagement team.
- A41. Discussions about significant judgements with the engagement partner, and if applicable, other members of the engagement team, together with the engagement team's documentation, may assist the engagement quality reviewer in evaluating the exercise of professional scepticism, when applicable to the engagement, by the engagement team in relation to those significant judgements.
- A42. For audits of a financial report, ASA 220¹⁶ provides examples of the impediments to the exercise of professional scepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional scepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level.
- A43. For audits of a financial report, the requirements and relevant application material in ASA 315,¹⁷ ASA 540¹⁸ and other ASAs also provide examples of areas in an audit where the auditor exercises professional scepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional scepticism. Such guidance may also assist the engagement quality reviewer in evaluating the exercise of professional scepticism by the engagement team.

¹⁶ See ASA 220, paragraphs A34-A36.

¹⁷ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, paragraph A238.

¹⁸ See ASA 540 *Auditing Accounting Estimates and Related Disclosures*, paragraph A11.

Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled (Ref: Para. 25(d))

- A44. ASA 220¹⁹ requires the engagement partner, prior to dating the auditor's report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 25(e))

- A45. ASQM 1²⁰ addresses consultation on difficult or contentious matters and differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management.

Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: Para. 25(f))

- A46. ASA 220²¹ requires the engagement partner to determine, prior to dating the auditor's report, that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. ASA 220²² also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer's evaluation of the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate.

Review of a Financial Report and Engagement Reports (Ref: Para. 25(g))

- A47. For audits of a financial report, the engagement quality reviewer's review of the financial report and auditor's report thereon may include consideration of whether the presentation and disclosure of matters relating to the significant judgements made by the engagement team are consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation, and discussions with the engagement team. In reviewing the financial report, the engagement quality reviewer may also become aware of other areas where significant judgements would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures or conclusions. The guidance in this paragraph also applies to review engagements, and the related engagement report.
- A48. For other assurance and related services engagements, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A47 (e.g., whether the presentation or description of matters relating to the significant judgements made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the review).

Unresolved Concerns of the Engagement Quality Reviewer (Ref: Para. 26)

- A49. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s) may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or

¹⁹ See ASA 220, paragraph 21.

²⁰ See ASQM 1, paragraphs 31(d), 31(e) and A79-A82.

²¹ See ASA 220, paragraph 40(a).

²² See ASA 220, paragraph A118.

procedures may also require consultation within or outside the firm (e.g., a professional or regulatory body).

Documentation (Ref: Para. 28–30)

- A50. Paragraphs 57 to 60 of ASQM 1 address the firm's documentation of its system of quality management. An engagement quality review performed in accordance with this ASQM is therefore subject to the documentation requirements in ASQM 1.
- A51. The form, content and extent of the documentation of the engagement quality review may depend on factors such as:
- The nature and complexity of the engagement;
 - The nature of the entity;
 - The nature and complexity of the matters subject to the engagement quality review; and
 - The extent of the engagement documentation reviewed.
- A52. The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions where the engagement quality reviewer was present.
- A53. Paragraph 24(b) requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalised after the date of the engagement report, but before the assembly of the final engagement file. However, firm policies or procedures may specify that the documentation of the engagement quality review needs to be finalised on or before the date of the engagement report.

ASA 220
(March 2021)

Auditing Standard ASA 220

Quality Management for an Audit of a Financial Report and Other Historical Financial Information

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

This Auditing Standard 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

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PREFACE

Reasons for Issuing ASA 220

The AUASB issues Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* 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.

Main Features

This Auditing Standard represents the Australian equivalent of revised ISA 220 *Quality Management for an Audit of Financial Statements* (December 2020) and will replace the current ASA 220 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 220, which have been made to reflect legal and regulatory arrangements and principles and practices that are considered appropriate in the public interest in Australia (including in the use of significant terminology).

This revised Auditing Standard is intended to clarify and strengthen the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

The revised Auditing Standard makes significant changes including:

- Amendments to the engagement team definition to recognise different and evolving engagement team structures;
- Clarifying requirements which are permitted to be assigned to appropriately skilled or suitably experienced members of the engagement team and requirements intended to be fulfilled by the engagement partner;
- A new resources section outlining that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and appropriate actions where insufficient resources are provided by the firm.
- A new standback requirement where prior to dating the auditor's report the engagement partner shall be satisfied that their involvement has been sufficient and appropriate to provide basis for taking overall responsibility for managing and achieving quality at the engagement level.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard 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. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: 10 March 2021

B Edge
Chair – AUASB

Auditing Standard ASA 220

Quality Management for an Audit of a Financial Report and Other Historical Financial Information

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 220 *Quality Management for an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added, or amended in this Auditing Standard (and do not appear in the text of the equivalent ISA or appear differently from the equivalent ISA) are identified with the prefix “Aus”.

The following introductory paragraphs and definitions are additional to, or have been amended from, ISA 220:

Paragraph	Summary of Change
Aus 1.1	Paragraph Aus 1.1 is an additional Australian insertion. The paragraph has been included to remind the auditor that it is their responsibility to ensure compliance with all relevant legal, regulatory or professional obligations such as the <i>Corporations Act 2001</i> .
Aus 12.1	Paragraph Aus 12.1 replaces sub-paragraph 12(d) which has been deleted by the AUASB. The IAASB engagement team definition in sub-paragraph 12(d) contained reference to direct assistance from internal auditors which is prohibited by AUASB Standards.
Aus 12.2	Paragraph Aus 12.2 replaces sub-paragraph 12(h) which has been deleted by the AUASB. The IAASB definition of partner contained reference to “professional services engagement” which is not a term defined by AUASB Standards.
Aus 12.3	Paragraph Aus 12.3 replaces sub-paragraph 12(j) which has been deleted by the AUASB. The IAASB term “professional standards” is not used by the AUASB.
Aus 12.4	Paragraph Aus 12.4 replaces sub-paragraph 12(k) which has been deleted by the AUASB. The AUASB defines relevant ethical requirements in accordance with ASA 102 which is done to give enforceable status to the APESB’s APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> .
Aus 26.1	Paragraph Aus 26.1 replaces paragraph 26 which has been deleted by the AUASB. The ISA requirement contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards.

Auditing Standard ASA 220***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

The following application and other explanatory material is additional to, or amended from, ISA 220:

Paragraph	Summary of Change
Aus A21.1	Paragraph Aus A21.1 replaces paragraph A21 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of references to direct assistance, the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
Aus A31.1	Paragraph Aus A31.1 replaces sub-paragraph A31(b) which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards.
Aus A62.1	Paragraph Aus A62.1 replaces paragraph A62 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards.

This Auditing Standard incorporates terminology and definitions used in Australia. Minor wording and spelling changes, where the intent remains the same, have not been identified with the prefix “Aus”. Where a significant terminology change has occurred, these are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA 220.

AUDITING STANDARD ASA 220

Quality Management for an Audit of a Financial Report and Other Historical Financial Information

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2022.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Auditing (ASA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report and other historical financial information, and the related responsibilities of the engagement partner. This ASA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1, A38)

- Aus 1.1 This ASA does not address the responsibilities for the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the independence or other assurance related requirements of the *Corporations Act 2001*. Such responsibilities may differ from those established in the Australian Auditing Standards. Accordingly, while the auditor may find aspects of the Australian Auditing Standards helpful in such circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory or professional obligations.

The Firm's System of Quality Management and Role of Engagement Teams

- ~~1.2.~~ Under ASQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial reports and other financial information, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that: (Ref: Para. A13–A14)
- (a) The firm and its personnel fulfill their responsibilities in accordance with Australian Auditing Standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

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- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.¹

~~2.3.~~ This ASA is premised on the basis that the firm is subject to the ASQMs or to national requirements that are at least as demanding. (Ref: Para. A2–A3)

~~3.4.~~ The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ASA, for: (Ref: Para. A4–A11)

- (a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm;
- (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures; and
- (c) Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation and operation of the firm's system of quality management.

~~4.5.~~ Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)

~~5.6.~~ The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this standard and other ASAs for each engagement. A quality audit engagement is achieved through planning and performing the engagement and reporting on it in accordance with Australian Auditing Standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and exercising professional scepticism.

~~6.7.~~ In accordance with ASA 200,² the engagement team is required to plan and perform an audit with professional scepticism and to exercise professional judgement. Professional judgement is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints. (Ref: Para. A33–A36)

Scalability

~~7.8.~~ The requirements of this ASA are intended to be applied in the context of the nature and circumstances of each audit. For example:

- (a) When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this ASA are not

¹ See ASQM 1, paragraph 14.

² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs 15–16 and A20–A24.

relevant because they are conditional on the involvement of other members of the engagement team. (Ref: Para. A13–A14)

- (b) When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.

The Engagement Partner’s Responsibilities

~~8.9.~~ The engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ASA. The term “the engagement partner shall take responsibility for...” is used for those requirements that the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, this ASA expressly intends that the requirement or responsibility be fulfilled by the engagement partner and the engagement partner may obtain information from the firm or other members of the engagement team. (Ref: Para. A22–A25)

Effective Date

~~9.10.~~ [Deleted by the AUASB. Refer Aus 0.3]

Objective

~~10.11.~~ The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:

- (a) The auditor has fulfilled the auditor’s responsibilities, and has conducted the audit, in accordance with ~~professional standards~~ Australian Auditing Standards and applicable legal and regulatory requirements; and
- (b) The auditor’s report issued is appropriate in the circumstances.

Definitions

~~11.12.~~ For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (a) Engagement partner³ – The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (b) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- (c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (d) [Deleted by the AUASB. Refer Aus 12.1]

Aus 12.1 Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an

³ “Engagement partner,” “partner,” and “firm” is to be read as referring to their public sector equivalents where relevant.

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auditor's external expert⁴ and internal auditors who provide direct assistance on an engagement.⁵ (Ref: Para. A15–A25)

- (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, assurance practitioners, or public sector equivalent. (Ref: Para. A26)
- (f) Network firm – A firm or entity that belongs to the firm's network. (Ref: Para. A27)
- (g) Network – A larger structure: (Ref: Para. A27)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

~~(h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement. [Deleted by the AUASB. Refer Aus 12.2]~~

Aus 12.2 Partner – Any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement.

~~(h)(i)~~ Personnel – Partners and staff in the firm.

~~(j) Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements. [Deleted by the AUASB. Refer Aus 12.3]~~

Aus 12.3 Australian Auditing Standards means the suite of auditing standards issued by the AUASB, comprising:

- Auditing Standards made under section 336 of the *Corporations Act 2001*;
- *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
- *ASA 810 Engagements to Report on Summary Financial Statements*.

~~(k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to audits of financial statements, together with national requirements that are more restrictive. [Deleted by the AUASB. Refer Aus 12.4]~~

Aus 12.4 Relevant ethical requirements mean relevant ethical requirements as defined in *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁴ See ASA 620 *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert".

⁵ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. [Footnote deleted by the AUASB.]

~~(j)~~(l) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s):

- (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
- (ii) Procedures are actions to implement policies.

~~(j)~~(m) Staff – Professionals, other than partners, including any experts the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

~~12.~~13. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A28–A37)

~~13.~~14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members, including emphasising: (Ref: Para. A30–A34)

- (a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
- (b) The importance of professional ethics, values and attitudes to the members of the engagement team;
- (c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
- (d) The importance of each engagement team member exercising professional scepticism throughout the audit engagement.

~~14.~~15. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of this ASA to other members of the engagement team to assist the engagement partner in complying with the requirements of this ASA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. 9, A37)

Relevant Ethical Requirements, Including Those Related to Independence

~~15.~~16. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A38–A42, A48)

~~16.~~17. The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A23–A25, A40–A44)

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- (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
- (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
- (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.⁶

~~17.18.~~ If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A43–A44)

~~18.19.~~ The engagement partner shall remain alert throughout the audit engagement, through observation and making enquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A45)

~~19.20.~~ If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A46)

~~20.21.~~ Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A38 and A47)

Acceptance and Continuance of Client Relationships and Audit Engagements

~~21.22.~~ The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: Para. A49–A52, A58)

~~22.23.~~ The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ASAs and complying with the requirements of this ASA. (Ref: Para. A53–A56)

~~23.24.~~ If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A57)

Engagement Resources

~~24.25.~~ The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A59–A70, A73–A74, A79)

~~26.~~ [Deleted by the AUASB. Refer Aus 26.1]

⁶ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

Aus 26.1 The engagement partner shall determine that members of the engagement team, and any auditor's external experts ~~and internal auditors who provide direct assistance who~~ are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62, A71–A74)

25.27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A75–A78)

26.28. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A63–A69)

Engagement Performance

Direction, Supervision and Review

27.29. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A80)

28.30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A81–A89, A94–A97)

- (a) Planned⁷ and performed in accordance with the firm's policies or procedures, ~~professional standards~~ Australian Auditing Standards and applicable legal and regulatory requirements; and
- (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

29.31. The engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A90–A93)

- (a) Significant matters;⁸
- (b) Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- (c) Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities.

30.32. On or before the date of the auditor's report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A90–A94)

31.33. Prior to dating the auditor's report, the engagement partner shall review the financial report and the auditor's report, including, if applicable, the description of the key audit matters⁹ and

⁷ See ASA 300 *Planning an Audit of a Financial Report*, paragraph 11.

⁸ See ASA 230 *Audit Documentation*, paragraph 8(c).

⁹ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹⁰

32:34. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A98)

Consultation

33:35. The engagement partner shall: (Ref: Para. A99–A102)

- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and
 - (ii) Other matters that, in the engagement partner's professional judgement, require consultation;
- (b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
- (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- (d) Determine that conclusions agreed have been implemented.

Engagement Quality Review

34:36. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A103)

- (a) Determine that an engagement quality reviewer has been appointed;
- (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;
- (c) Discuss significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- (d) Not date the auditor's report until the completion of the engagement quality review. (Ref: Para. A104–A106)

Differences of Opinion

35:37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: Para. A107–A108)

36:38. The engagement partner shall:

¹⁰ See ASA 700 *Forming an Opinion and Reporting on a Financial Report* or ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

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- (a) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;
- (b) Determine that conclusions reached are documented and implemented; and
- (c) Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

37-39. The engagement partner shall take responsibility for: (Ref: Para. A109–A112)

- (a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
- (b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
- (c) Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

Taking Overall Responsibility for Managing and Achieving Quality

38-40. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A113–A116)

- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
- (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ASA.

Documentation

39-41. In applying ASA 230,¹¹ the auditor shall include in the audit documentation: (Ref: Para. A117–A120)

- (a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
 - (ii) The acceptance and continuance of the client relationship and audit engagement.
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.

¹¹ See ASA 230, paragraphs 8–11 and A6.

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- (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

* * *

Application and Other Explanatory Material

Scope of this ASA (Ref: Para. 1)

- A1. This ASA applies to all audits of a financial report and other historical financial information, including audits of a group financial report. ASA 600¹² deals with special considerations that apply to an audit of a group financial report and when component auditors are involved. ASA 600, adapted as necessary in the circumstances, may also be useful in an audit of a financial report when the engagement team includes individuals from another firm. For example, ASA 600 may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2–9)

- A2. ASQM 1 deals with a firm's responsibilities for designing, implementing and operating its system of quality management.
- A3. Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management. National requirements that deal with the firm's responsibilities to design, implement and operate a system of quality management are at least as demanding as ASQM 1 when they address the requirements of ASQM 1 and impose obligations on the firm to achieve the objective of ASQM 1.

The Engagement Team's Responsibilities Relating to the Firm's System of Quality Management (Ref: Para. 4)

- A4. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with ASQM 1, the firm is responsible for communicating information enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).
- A5. Firm-level responses may include policies or procedures established by a network, or by other firms, structures or organisations within the same network (network requirements or network services are described further in ASQM 1 within the "Network Requirements or Network Services" section).¹³ The requirements of this ASA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under ASQM 1, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management.¹⁴
- A6. Some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ASA. For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ASA include:

¹² See ASA 600 *Special Considerations-Audits of a Group Financial Report(Including the Work of Component Auditors)*.

¹³ See ASQM 1, paragraph 49(b).

¹⁴ See ASQM 1, paragraph 49(a).

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- Personnel recruitment and professional training processes;
 - The information technology (IT) applications that support the firm's monitoring of independence;
 - The development of IT applications that support the acceptance and continuance of client relationships and audit engagements; and
 - The development of audit methodologies and related implementation tools and guidance.
- A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm's policies or procedures, at the engagement level to meet the objective of this ASA.¹⁵
- A8. The engagement team's determination of whether engagement level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this ASA, the engagement team's understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.
- A9. The relative balance of the engagement team's efforts to comply with the requirements of this ASA (i.e., between implementing the firm's responses and designing and implementing engagement specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team's actions in complying with the engagement performance requirements of this ASA may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).
- A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this ASA, unless:
- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
 - Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring activities, external inspections or other relevant sources, indicates that the firm's policies or procedures are not operating effectively).
- A11. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39(c) as such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member

¹⁵ ASA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A70 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 6)

A12. Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ASA 315¹⁶ provides information that may be relevant to complying with the requirements of this ASA. Such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
- The nature, timing and extent of review of the work performed by members of the team based on the assessed risks of material misstatement; or
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Scalability (Ref: Para. 2, 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner, on behalf of the firm, to design many of the responses to the firm's quality risks, as doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.

A14. The requirements relating to direction, supervision and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

***Engagement Team* (Ref: Para. 12(d))**

A15. The engagement team may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organised in groups by the activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures¹⁷ on the audit engagement is a member of the engagement team.

A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the

¹⁶ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

¹⁷ See ASA 500 *Audit Evidence*, paragraph A10.

audit.¹⁸ Audit procedures comprise risk assessment procedures¹⁹ and further audit procedures.²⁰ As explained in ASA 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and enquiry, often performed in some combination.²¹ Other ASAs may also include specific procedures to obtain audit evidence, for example, ASA 520.²²

A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from:

- (a) A network firm; or
- (b) A firm that is not a network firm, or another service provider.²³

For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.

A18. Engagement teams may also include individuals from service delivery centres who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialised in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centres may be established by the firm, the network, or by other firms, structures or organisations within the same network. For example, a centralised function may be used to facilitate external confirmation procedures.

A19. Engagement teams may include individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.

A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.

A21. [Deleted by the AUASB. Refer Aus A21.1]

Aus A21.1 ~~An internal auditor providing direct assistance and an auditor's external expert whose work is used in the engagement are not a members of the engagement team.²⁴ ISA 610 (Revised) 2013 and ASA 620 provides requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert, respectively. Compliance with these ASAs requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance and perform audit procedures on the work of an auditor's expert.~~

¹⁸ See ASA 200, paragraph A30.

¹⁹ ASA 315 provides requirements related to risk assessment procedures.

²⁰ ASA 330 *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²¹ See ASA 500, paragraphs A14–A25.

²² See ASA 520 *Analytical Procedures*.

²³ See ASQM 1, paragraph 16(v).

²⁴ See ASA 620, paragraphs 12–13 and ASA 610, paragraphs 21–25.

The Engagement Partner's Responsibilities (Ref: Para. 9, 12(d))

A21-A22. When this ASA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfil the requirement (e.g., information to make the required decision or judgement). For example, the engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement. To make a judgement on whether the competence and capabilities of the engagement team is appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 9, 12(d),17)

A22-A23. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. As engagement team members from another firm are neither partners nor staff of the engagement partner's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement partner's firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement partner's firm. Accordingly, if the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures in respect of the work of those individuals.

A23-A24. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:

- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and therefore the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 19 and A38 of ASA 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training in respect of the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A24-A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm's related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the

financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial report and subject to consultation²⁵ under the group auditor's policies or procedures, the component auditor is able to alert the group engagement team about the matter.

Firm (Ref: Para. 12(e))

A25-A26. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ASA.

“Network” and “Network Firm” (Ref: Para. 12(f)–12(g))

A26-A27. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ASA. The APESB Code* also provides guidance in relation to the terms “network” and “network firm.” Networks and the other network firms may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ASA in relation to networks also apply to any structures or organisations that do not form part of the firm, but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A27-A28. ASQM 1 requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement partner's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this ASA, the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (e.g., leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.

Scalability

A28-A29. The nature and extent of the actions of the engagement partner to demonstrate the firm's commitment to quality may depend on a variety of factors including the size, structure, geographical dispersion and complexity of the firm and the engagement team, and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A29-A30. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of the members of the engagement team, and the review of their work in complying with the requirements of this ASA; and
- Varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

²⁵ See paragraph 35.

* See The Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code).

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Communication

~~A30.~~A31. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this ASA, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

(a) The firm, (e.g., individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management);

(b) ~~[Deleted by the AUASB. Refer Aus A31.1]~~

Aus A31.1 Others involved in the audit (e.g., ~~internal auditors who provide direct assistance~~an auditor's external expert²⁶~~or an auditor's external expert~~²⁷); and

~~(b)(c)~~ Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

~~A31.~~A32. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the appropriate means of effective communication with the members of the engagement team. For example, to support appropriate direction, supervision and review, the firm may use IT applications to facilitate the communication between the members of the engagement team when they are performing work across different geographical locations.

Professional Scepticism (Ref: Para. 7)

~~A32.~~A33. The engagement partner is responsible for emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ASA 300, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

~~A33.~~A34. Impediments to the exercise of professional scepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialised skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.
- Tight deadlines, which may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analysing complex information effectively.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the

²⁶ See ASA 610, paragraph A41.

²⁷ See ASA 620, paragraphs 11(c) and A30.

ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions.

- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A34-A35. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement team in complying with the requirements of this ASA, may include:

- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

A35-A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgement) and emphasising the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.

- Involving members of the engagement team with specialised skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit.
- Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
 - Complex or subjective areas of the audit;
 - Areas that pose risks to achieving quality on the audit engagement;
 - Areas with a fraud risk; and
 - Identified or suspected non-compliance with laws or regulations.
- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
 - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 15)

A36-A37. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

Relevant Ethical Requirements (Ref: Para. 1, 16–21)

A37-A38. ASA 200²⁸ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of listed entities. ASA 600 includes additional requirements and

²⁸ See ASA 200, paragraphs 14 and A16–A19.

guidance to those in this ASA regarding communications about relevant ethical requirements with component auditors.

A38-A39. Based on the nature and circumstances of the audit engagement, certain law, regulation or aspects of relevant ethical requirements, such as those pertaining to non-compliance with laws or regulations, may be relevant to the engagement, for example laws or regulations dealing with money laundering, corruption, or bribery.

A39-A40. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may:

- Communicate the independence requirements to engagement teams.
- Provide training for engagement teams on relevant ethical requirements.
- Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.
- Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., ASQM 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements.
- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to:
 - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

A40-A41. The engagement partner may take into account the information, communication, and resources described in paragraph A40 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A41-A42. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
- Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements (Ref: Para. 17–18)

[A42-A43.](#) In accordance with ASQM 1, the firm’s responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

[A43-A44.](#) Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the APESB Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with ~~professional standards~~ Australian Auditing Standards.²⁹

Breaches of Relevant Ethical Requirements (Ref: Para. 19)

[A44-A45.](#) In accordance with ASQM 1, the firm is required to establish policies or procedures for identifying, communicating, evaluating and reporting of any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

Taking Appropriate Action (Ref: Para. 20)

[A45-A46.](#) Appropriate actions may include, for example:

- Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor’s Report (Ref: Para. 21)

[A46-A47.](#) ASA 700 requires that the auditor’s report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.³⁰ Performing the procedures required by paragraphs 16–21 of this ASA provides the basis for these statements in the auditor’s report.

Considerations Specific to Public Sector Entities

[A47-A48.](#) Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 16. This may

²⁹ See APESB Code, paragraph 330.3 A2.

³⁰ See ASA 700, paragraph 28(c).

include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 22–24)

~~A48-A49.~~ ASQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

~~A49-A50.~~ Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether sufficient and appropriate resources are available to perform the engagement;
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement; and
- Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.

~~A50-A51.~~ Under ASQM 1, for acceptance and continuance decisions, the firm is required to make judgements about the firm's ability to perform the engagement in accordance with ~~professional standards~~ Australian Auditing Standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

~~A51-A52.~~ If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

~~A52-A53.~~ Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ASA and making informed decisions about appropriate courses of action. Such information may include:

- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
- The entity's timetable for reporting, such as at interim and final stages;
- In relation to group audits, the nature of the control relationships between the parent and its components; and
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources

required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A53-A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ASAs, as well as this ASA, for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ASA 210;³¹
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ASA 315 (Revised 2019) and ASA 240;³²
- Understanding the group, its components and their environments, in the case of an audit of a group financial report in accordance with ASA 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ASA 620; and
- The entity's governance structure in accordance with ASA 260³³ and ASA 265.³⁴

A54-A55. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgement, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APESB Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

A55-A56. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

A56-A57. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (e.g., the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Public Sector Entities (Ref: Para. 22–24)

A57-A58. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and

³¹ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 9.

³² See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

³³ See ASA 260 *Communication with Those Charged with Governance*.

³⁴ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

engagements as set out in paragraphs 22–24 and A49–A57 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 25–28)

~~A58-A59.~~ Under ASQM 1, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

~~A59-A60.~~ Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial report of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁵ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

~~A60-A61.~~ A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

~~A62.~~ ~~[Deleted by AUASB. Refer Aus A63.1]~~

~~Aus A62.1~~ Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor's external expert ~~and individuals from within the entity's internal audit function who provide direct assistance on the audit.~~

Technological Resources

~~A61-A63.~~ The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

~~A62-A64.~~ The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.

³⁵ See ASA 600, paragraph 3.

A63-A65. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.

A64-A66. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:

- The engagement team to have appropriate competence and capabilities to use the IT application.
- Testing the operation and security of the IT application.
- Specific documentation to be included in the audit file.

A65-A67. The engagement partner may exercise professional judgement in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:

- Use and security of the IT application complies with the firm's policies or procedures.
- The IT application operates as intended.
- Personnel have the competence and capabilities required to use the IT application.

Intellectual Resources

A66-A68. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.

A67-A69. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of ~~professional standards~~ Australian Auditing Standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

A68-A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A69-A71. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of ~~professional standards~~ Australian Auditing Standards and applicable legal and regulatory requirements.
- Expertise in specialised areas of accounting or auditing.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional scepticism and professional judgement.
- Understanding of the firm's policies or procedures.

~~A70-A72.~~ Internal auditors and an auditor's external expert are not members of the engagement team. ASA 610³⁶ and ASA 620³⁷ include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

~~A71-A73.~~ In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

~~A72-A74.~~ Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;
- Facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,³⁸ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Facilitating communication among members of the engagement team, for example, co-ordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

~~A73-A75.~~ ASQM 1 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognises and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.

³⁶ See ASA 610, paragraph 15.

³⁷ See ASA 620, paragraph 9.

³⁸ See ASA 300, paragraph 9.

ASQM 1 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

[A74-A76.](#) In an audit of a group financial report, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.

[A75-A77.](#) The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ASA and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

[A76-A78.](#) If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A94).
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 25–28)

[A77-A79.](#) In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Scalability (Ref: Para. 29)

[A78-A80.](#) When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the

engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision and Review (Ref: Para. 30)

[A79-A81.](#) Under ASQM 1, the firm is required to establish a quality objective that addresses the nature, timing and extent of the direction and supervision of engagement teams and review of their work. ASQM 1 also requires that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.

[A80-A82.](#) Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement specific responses.

[A81-A83.](#) The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ASA, and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.

[A82-A84.](#) Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 30.

Direction

[A83-A85.](#) Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
- Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism when gathering and evaluating audit evidence (see paragraph A35).
- Fulfilling relevant ethical requirements.
- The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.
- The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

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- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A84-A86. Supervision may include matters such as:

- Tracking the progress of the audit engagement, which includes monitoring:
 - The progress against the audit plan;
 - Whether the objective of work performed has been achieved; and
 - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A85-A87. Review of the engagement team's work provides support for the conclusion that the requirements of this ASA have been addressed.

A86-A88. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, ~~professional standards~~ Australian Auditing Standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- The objectives of the audit procedures have been achieved.

A87-A89. The firm's policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (e.g., review of each individual working paper or selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

The Engagement Partner's Review (Ref: Para. 30–34)

A88-A90. As required by ASA 230, the engagement partner documents the date and extent of the review.³⁹

A89-A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation.

A90-A92. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgements. Significant judgements in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
 - Personnel using expertise in a specialised area of accounting or auditing;
 - The use of personnel from service delivery centres.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.

³⁹ See ASA 230, paragraph 9(c).

- In group audit situations:
 - The proposed overall group audit strategy and group audit plan;
 - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
 - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A91-A93. The engagement partner exercises professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Nature, Timing and Extent

A92-A94. The nature, timing and extent of the direction, supervision and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards Australian Auditing Standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include that:

- Work planned to be performed at an interim date is to be directed, supervised and reviewed at the same time as the performance of the procedures rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A93-A95. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.

- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centres and the review of their work may:
 - Be more formalised and structured than when members of the engagement team are all situated in the same location; or
 - Use IT to facilitate the communication between the members of the engagement team.

[A94-A96.](#) Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk of material misstatement at the financial report level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

[A95-A97.](#) In accordance with paragraph 30(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities (Ref: Para. 34)

[A96-A98.](#) The engagement partner uses professional judgement in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: Para. 35)

[A97-A99.](#) ASQM 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:

Auditing Standard ASA 220

Quality Management for an Audit of a Financial Report and Other Historical Financial Information

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with laws or regulations.

A98-A100. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A99-A101. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies or commercial organisations that provide relevant quality control services.

A100-A102. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.⁴⁰

Engagement Quality Review (Ref: Para. 36)

A101-A103. ASQM 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with ASQM 2,⁴¹ and requiring an engagement quality review for certain types of engagements.⁴² ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: Para. 36(d))

A102-A104. ASA 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial report.⁴³ If applicable to the audit engagement, ASQM 2 and this ASA require that the engagement partner be precluded from dating the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.⁴⁴

A103-A105. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving

⁴⁰ See ASA 701, paragraphs 9 and A14.

⁴¹ See ASQM 2 *Engagement Quality Reviews*.

⁴² See ASQM 1, paragraph 34(f).

⁴³ See ASA 700, paragraph 49.

⁴⁴ See ASQM 2, paragraph 26.

matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

~~A104.~~A106. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for co-ordinating requests from the engagement quality reviewer to another member of the engagement team.

Differences of Opinion (Ref: Para. 37–38)

~~A105.~~A107. ASQM 1 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. ASQM 1 also requires that differences of opinion are brought to the attention of the firm and resolved.

~~A106.~~A108. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:

- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: Para. 39)

~~A107.~~A109. ASQM 1 sets out requirements for the firm's monitoring and remediation process. ASQM 1 requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities.⁴⁵ Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgement and professional scepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

~~A108.~~A110. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or inspection results of previous audits of the entity.

~~A109.~~A111. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the audit where deficiencies have been identified.

⁴⁵ See ASQM 1, paragraph 47.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

~~A110-A112.~~ An identified deficiency in the firm's system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards Australian Auditing Standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 40)

~~A111-A113.~~ ASQM 1 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. ASQM 1 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

~~A112-A114.~~ Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this ASA, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

~~A113-A115.~~ Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of those responses to those risks.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work.

~~A114-A116.~~ If the engagement partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Updating and changing the audit plan;
- Re-evaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 41)

~~A115~~A117. In accordance with ASA 230,⁴⁶ audit documentation provides evidence that the audit complies with the ASAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

~~A116~~A118. Documentation of the performance of the requirements of this ASA, including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner's communications and other actions in respect of culture and expected behaviours that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

~~A117~~A119. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

~~A118~~A120. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

⁴⁶ See ASA 230, paragraph A7.

ASA 2021-1
(March 2021)

Auditing Standard 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 Auditing Standard

This Auditing Standard 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

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PREFACE

Reasons for Issuing ASA 2021-1

The AUASB issues Auditing Standard 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.

Main Features

This Auditing Standard makes amendments to the requirements and/or application and other explanatory material and/or appendices of the following Auditing Standards:

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019)
ASA 200	<i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i> (Issued October 2009 and amended to June 2020)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to May 2017)
ASA 230	<i>Audit Documentation</i> (Issued October 2009 and amended to December 2018)
ASA 250	<i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (Issued May 2017 and amended to June 2020)
ASA 260	<i>Communication With Those Charged with Governance</i> (Issued December 2015 and amended to June 2020)
ASA 300	<i>Planning an Audit of a Financial Report</i> (Issued October 2009 and amended to December 2015)
ASA 315	<i>Identifying and Assessing the Risks of Material Misstatement</i> (Issued February 2020)
ASA 500	<i>Audit Evidence</i> (Issued October 2009 and amended to December 2018)
ASA 540	<i>Auditing Accounting Estimates and Related Disclosures</i> (Issued December 2018)
ASA 600	<i>Special Considerations-Audits of a Group Financial Report (Including the Work of Component Auditors)</i> (Issued October 2009 and amended to June 2020)
ASA 610	<i>Using the Work of Internal Auditors</i> (Issued November 2013)
ASA 620	<i>Using the Work of an Auditor's Expert</i> (Issued October 2009 and amended to June 2020)

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ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to June 2020)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Issued December 2015 and amended to December 2018)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to June 2020)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews* and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*. 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 IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2021-1 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

B Edge
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC). Rather, the IAASB issues a Conforming Amendments Pronouncement, *Conforming Amendments to ISAs and Related Material Arising from the Quality Management Projects*, ASA 2021-1 conforms to this Pronouncement.

AUDITING STANDARD ASA 2021-1

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2022.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments arise from consequential and conforming changes arising from the issuance 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*, ASQM 2 *Engagement Quality Reviews* and ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (Issued December 2019)
 - (b) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Issued October 2009 and amended to June 2020)
 - (c) ASA 210 *Agreeing the Terms of Audit Engagements* (Issued October 2009 and amended to May 2017)
 - (d) ASA 230 *Audit Documentation* (Issued October 2009 and amended to December 2018)
 - (e) ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* (Issued May 2017 and amended to June 2020)
 - (f) ASA 260 *Communication With Those Charged with Governance* (Issued December 2015 and amended to June 2020)

- (g) ASA 300 *Planning an Audit of a Financial Report* (Issued October 2009 and amended to December 2015)
- (h) ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (Issued February 2020)
- (i) ASA 500 *Audit Evidence* (Issued October 2009 and amended to December 2018)
- (j) ASA 540 *Auditing Accounting Estimates and Related Disclosures* (Issued December 2018)
- (k) ASA 600 *Special Considerations-Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued October 2009 and amended to June 2020)
- (l) ASA 610 *Using the Work of Internal Auditors* (Issued November 2013)
- (m) ASA 620 *Using the Work of an Auditor's Expert* (Issued October 2009 and amended to June 2020)
- (n) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (Issued December 2015 and amended to June 2020)
- (o) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (Issued December 2015 and amended to December 2018)
- (p) ASA 720 *The Auditor's Responsibilities Relating to Other Information* (Issued December 2015 and amended to June 2020)

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

7. This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to ASA 102

8. Existing fourth paragraph of “*Preface*” is amended to read as follows:

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) ~~in November 2018~~, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

9. Existing fifth paragraph of “*Preface*” is amended to read as follows:

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality ~~control~~management in compliance with ASQCM 1 *Quality ~~Control~~Management for Firms that Perform Audits ~~and~~or Reviews of Financial Reports and Other Financial Information, or Other Assurance Engagements ~~and~~or Related Services Engagements* by ~~1 January 2010~~15 December 2022.

10. Existing first paragraph of “*Main Features*” is amended to read as follows:

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality ~~control~~reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

11. Existing second paragraph of “*Conformity with International Standards on Auditing*” is amended to read as follows:

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQCM 1 *Quality ~~Control~~Management for Firms that Perform Audits ~~and~~or Reviews of Financial Statements, ~~and~~or Other Assurance ~~and~~or Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality ~~Control~~Management for an Audit of Financial Statements*, as issued by the IAASB, as listed in the following table:

...

12. Existing paragraph 1 is amended to read as follows:

This Auditing Standard applies to:

- (a) ...
- (e) a firm required to comply with ASQCM 1 *Quality ~~Control~~Management for Firms that Perform Audits ~~and~~or Reviews of Financial Reports and Other Financial Information, or Other Assurance Engagements ~~and~~or Related Services Engagements*.

13. Existing paragraph 3 is amended to read as follows:

This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality ~~control~~reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

14. Existing paragraph 4 is amended to read as follows:

The objective of the auditor, assurance practitioner, engagement quality ~~control~~reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

15. Existing paragraph 5 is amended to read as follows:

For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (a) Assurance practitioner means assurance practitioner as defined in ASQCM 1.

- (b) ...
- (c) Engagement quality ~~control~~-reviewer means engagement quality ~~control~~-reviewer as defined in ASQCM 1.
- (d) Firm means firm as defined in ASQCM 1.
- (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality ~~control~~-reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited in November 2018, the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

16. Existing paragraph 6 is amended to read as follows:

The auditor, assurance practitioner, engagement quality ~~control~~-reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

17. Existing paragraph A1 is amended to read as follows:

The auditor, assurance practitioner, engagement quality ~~control~~-reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited in November 2018, which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.

18. Existing paragraph A2 is amended to read as follows:

APES 110 establishes the fundamental principles of ethics which are:

- (a) ...

The fundamental principles of ethics establish the standard of behaviour expected of the auditor, assurance practitioner, engagement quality ~~control~~-reviewer, and firm, when performing audits, reviews and other assurance engagements.

19. Existing paragraph A4 is amended to read as follows:

APES 110 specifies *Independence Standards*, which set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. The auditor, assurance practitioner, engagement quality ~~control~~-reviewer, and firm are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements.

20. Existing paragraph A7 is amended to read as follows:

The definition of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards including terms defined in ASQCM 1, ASA 200 and ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*.

In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQCM 1, ASA 200 and ASA 220.

Amendments to ASA 200

21. Existing paragraph 14 is amended to read as follows:

The auditor shall comply with relevant ethical requirements, including those ~~pertain~~ing~~related~~ to independence, relating to a financial report audit engagement. (Ref: Para. A16–A19)

22. Existing paragraph A19 is amended to read as follows and footnotes 12 and 13 are inserted:

ASQCM 1⁹ deals with the firm's responsibilities to ~~establish~~design, implement and maintain its ~~operate~~a system of quality control for audit engagements.¹⁰ ~~ASQC 1 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with~~ASQC 1 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with ~~their responsibilities in accordance with AUASB Standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, ASQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those pertaining~~ASQC 1 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with ~~related to independence.~~¹¹ ~~ASA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence~~¹². ~~These include remaining alert, through observation and making enquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have breached relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.~~¹³ ~~ASA 220 recognises that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise. ASA 220 also describes when the engagement team may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.~~¹³

23. As a result of the footnotes insertion and deletion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

24. Existing footnote 9 in paragraph A19 is amended to read as follows:

See ASQCM 1 *Quality ~~Control~~Management for Firms that Perform Audits ~~and~~ Reviews of Financial Reports and Other Financial Information, ~~or~~ Other Assurance ~~Engagements and~~ Related Services Engagements.*

25. Existing footnote 10 in paragraph A19 is amended to read as follows:

See ASA 220 *Quality ~~Control~~Management for an Audit of a Financial Report and Other Historical Financial Information, paragraph 23.*

26. Existing footnote 11 in paragraph A19 is amended to read as follows:

See ASQCM 1, paragraphs ~~20–25~~29.

27. Existing footnote 15 in paragraph A27 is amended to read as follows:

¹² See ASA 220, paragraphs 16–21.

¹³ See ASA 220, paragraph A10.

See ASA 220, paragraph 4835.

28. Existing paragraph A30 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹⁷) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement—a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

29. Existing footnote 17 in paragraph A30 is amended to read as follows:

See ASA 315 *Identifying and Assessing the Risks of Material Misstatement* ~~through Understanding the Entity and Its Environment~~, paragraph 916.

Amendments to ASA 210

30. Existing footnote 1 in paragraph 1 is amended to read as follows:

See ASA 220 *Quality Control* ~~Management~~ for an Audit of a Financial Report and Other Historical Financial Information.

31. Existing paragraph A1 is amended to read as follows:

ASQM 1⁷ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.⁸ The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far as they are within the control of the auditor are dealt with in ASA 220.⁸ This Auditing Standard deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

32. Existing footnote 8 in paragraph A1 is amended to read as follows:

See ASA 220, paragraphs 91416-21.

Amendments to ASA 230

33. Existing paragraph 3 is amended to read as follows:

Audit documentation serves a number of additional purposes, including the following:

⁷ See 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*, paragraph 30.

- ...
- Enabling the conduct of engagement quality control reviews,³ other types of engagement reviews⁴ and monitoring activities under the firm's system of quality management and inspections in accordance with ASQC 1.^{5,6}
- ...

34. Existing footnote 2 in paragraph 3 is amended to read as follows:

See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs 15-17 ~~29-34~~.

35. Existing paragraph A7 is amended to read as follows:

Audit documentation provides evidence that the audit complies with the Australian Auditing Standards. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- ...
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - ...
 - Similarly, that the engagement partner has taken responsibility for the direction, and supervision and performance of the audit in compliance with engagement team and the Australian Auditing Standards review of their work⁵ may be evidenced in a number of ways within the audit documentation. This may include documentation of that evidences the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in the engagement team discussions required by ASA 315.⁵

36. Existing paragraph A13 is amended to read as follows:

ASA 220 ~~contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.⁸ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

37. Existing footnote 8 in paragraph A13 is amended to read as follows:

See ASA 220, paragraphs ~~17-29~~ 34.

38. Existing paragraph A20 is amended to read as follows:

Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial report to be amended or the auditor to modify the opinion in

³ See ASQM 2 *Engagement Quality Reviews*.

⁴ See 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*, paragraph A135.

⁵ See ASA 220, paragraph 29.

the auditor's report.¹² The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ASA 220;¹³ ~~with the engagement partner taking final responsibility for the changes.~~

39. Existing footnote 13 in paragraph A20 is amended to read as follows:

See ASA 220, paragraphs ~~46~~29-34.

40. Existing paragraph A21 is amended to read as follows:

~~ASQCM 1 requires firms' systems of quality management to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement reports, policies and procedures for the timely completion of the assembly of audit files.¹⁴ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.¹⁵~~

41. Existing footnotes 14 and 15 in paragraph A21 are amended to read as follows:

¹⁴ See ASQCM 1, paragraph ~~45~~31(f).

¹⁵ See ASQCM 1, paragraph ~~A54~~A83.

42. Existing paragraph A23 is amended to read as follows:

~~ASQCM 1 requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance and policies and procedures for the retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or AUASB Standards.¹⁶ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report on the group financial reports, when applicable.¹⁷~~

43. Existing footnotes 16 and 17 in paragraph A23 are amended to read as follows:

¹⁶ See ASQCM 1, paragraph ~~47~~31(f).

¹⁷ See ASQCM 1, paragraph ~~A61~~A85.

44. Existing paragraph A24 is amended to read as follows:

An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities~~ or external ~~parties inspections~~.

45. Existing footnote * in paragraph A24 is deleted.

46. Existing Appendix 1 of this Auditing Standard is amended to read as follows:

Specific Audit Documentation Requirements in Other Australian Auditing Standards

This appendix identifies paragraphs in other Australian Auditing Standards that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ...
- ~~ASA 220 *Quality Control*~~Management for an Audit of a Financial Report and Other Historical Financial Information – paragraphs ~~24-25~~41

- ...

Amendments to ASA 250

47. Existing paragraph A25 is amended to read as follows:

In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial report. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph A9A55 of ASA 220¹⁴ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

48. Existing footnote 14 in paragraph A25 is amended to read as follows:

See ASA 220, *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*.

Amendments to ASA 260

49. Existing paragraph A28 is amended to read as follows:

To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality ~~control~~ reviewer, if one has been appointed, ~~in accordance with ASA 220.~~²³

50. As a result of the footnote deletion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

51. Existing paragraph A29 is amended to read as follows:

The auditor is required to comply with relevant ethical requirements, including those ~~pertaining to~~ related to independence, relating to financial report audit engagements.²⁴

52. Existing Appendix 1 of this Auditing Standard is amended to read as follows:

Specific Requirements in ASQCM 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ASQCM 1²⁸ and other Australian Auditing Standards that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ASQCM 1 *Quality ~~Control~~ Management for Firms that Perform Audits ~~and~~ Reviews of Financial Reports and Other Financial Information, ~~and~~ Other Assurance ~~and~~ Related Services Engagements* - paragraph 30(a) ~~34(c)~~

- ...

53. Existing footnote 28 in Appendix 1 is amended to read as follows:

See ASQCM 1 *Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Reports and other Financial Information, and/or Other Assurance and/or Related Services Engagements*.

Amendments to ASA 300

54. Existing paragraph 2 and its heading are amended to read as follows:

The Role and Timing of Planning

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate quality management at the engagement level in accordance with ASA 220, in conjunction with adequate planning in accordance with this ASA, benefits the audit of a financial report in several ways, including the following: (Ref: Para. A1-A3)

- ...

55. Existing paragraph 6 is amended to read as follows:

The auditor shall undertake the following activities at the beginning of the current audit engagement:

- (a) Performing procedures required by ASA 220 regarding the acceptance and continuance of the client relationship and the specific audit engagement;¹
- (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ASA 220;² and
- (c) ...

56. Existing footnotes 1 and 2 in paragraph 6 are amended to read as follows:

¹ See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs 12–13 and 22–24.

² See ASA 220, paragraphs 9–11 and 16–21.

57. Existing paragraph 8 is amended to read as follows:

In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ASA 220 and:

- (a) ...

58. The following footnote 4, is inserted to paragraph 8 of this Auditing Standard, following the wording “*Ascertain the nature, timing and extent of resources necessary to perform the engagement.*”

See ASA 220, paragraph 25.

59. As a result of the footnote insertion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

60. Existing paragraph 9 is amended to read as follows:

The auditor shall develop an audit plan that shall include a description of:

- (a) ~~The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)~~
 - (ab) The nature, timing and extent of planned risk assessment procedures, as determined under ASA 315.⁴
 - (bc) ~~The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ASA 330.⁵~~
 - (ed) Other planned audit procedures that are required to be carried out so that the engagement complies with the Australian Auditing Standards. (Ref: Para. A12–A14)
61. Existing paragraph 11 is deleted:
~~The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A15–A17)~~
62. Existing paragraph 12 is amended to read as follows:
 The auditor shall include in the audit documentation:⁶
- (a) ...
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,⁷ and the reasons for such changes. (Ref: Para. A18–A21)
63. Existing paragraph 13 is amended to read as follows:
 The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by ASA 220 regarding the acceptance of the client relationships and the specific audit engagements;⁷ and
 - (b) ...
64. Existing footnote 7 in paragraph 13 is amended to read as follows:
 See ASA 220, paragraphs 42–43~~22–24~~.
65. The following paragraph A1 is inserted before the sub-heading “*The Role and Timing of Planning*”:
ASA 220 deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial reports, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ASA 220 is relevant to this ASA. For example, in accordance with ASA 220, the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ASA.
66. As a result of the insertion of the paragraph above, subsequent paragraphs of this Auditing Standard are re-numbered and references to these paragraphs are updated accordingly.

⁷ See ASA 220, paragraphs 30 and A91–A92.

67. Existing paragraph A1 is amended to read as follows:

The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ASA 220⁸ describes how such techniques and tools may support the engagement team in managing the quality of the engagement.

68. Existing paragraph A3 is amended to read as follows:

The auditor may decide to discuss elements of planning with the entity's management, or those charged with governance, to ~~facilitate the conduct and management of the audit engagement~~help the auditor manage and achieve quality at the engagement level (for example, to co-ordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management, or those charged with governance, may compromise the effectiveness of the audit by making the audit procedures too predictable.

69. Existing paragraph A5 is amended to read as follows:

Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~manage and achieve quality at the engagement level in accordance with ASA 220.

70. Existing paragraph A6 is amended to read as follows:

Performing these preliminary engagement activities enables the auditor to plan an audit engagement ~~for which~~in order to, for example:

- ~~The auditor maintains~~Maintain the necessary independence and ability to perform the engagement.
- ~~There~~Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- ~~There~~Determine that there is no misunderstanding with the client as to the terms of the engagement.

71. Existing paragraph A7 is amended to read as follows and footnote * will be placed following the wording "*relevant ethical requirements*":

~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur.~~ Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

⁸ See ASA 220, paragraphs A73–A74.

72. Existing paragraph A8 is amended to read as follows:

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, may include such matters as:

- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas, ~~such as. For example, the use of~~ deployment of ~~appropriately experienced team members for high risk areas or the involvement of~~ appropriately experienced team members for high risk areas or the involvement of experts ~~onto address complex matters;~~
- The amount of resources to ~~allocate~~ be allocated to specific audit areas, ~~such as. For example, the number of team members assigned to observe~~ attend the physical inventory count at ~~material~~ multiple locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- ...
- How such resources are ~~managed, directed, and supervised, such as or used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.~~

73. The following paragraph A9 is inserted following existing paragraph A8 of this Auditing Standard:

ASA 220 contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

74. As a result of the insertion of the paragraph above, subsequent paragraphs of this Auditing Standard are re-numbered and references to these paragraphs are updated accordingly.

75. Existing paragraph A16 is amended to read as follows:

ASA 220 deals with the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~
- ~~The capabilities and competence of the individual team members performing the audit work.~~

~~ASA 220 contains further guidance on the direction, supervision and review of audit work.~~¹⁰

76. Existing footnote 10 in paragraph A16 is amended to read as follows:

See ASA 220, paragraphs ~~15-17~~ 29-31.

77. Existing paragraph A17 is deleted and subsequent paragraphs of this Auditing Standard are re-numbered and references to these paragraphs are updated accordingly.

78. Existing paragraph A18 is amended to read as follows:

The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit and in managing quality at the engagement level and a means~~ to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

79. The following paragraph A21 is inserted following existing paragraph A20 of this Auditing Standard:

Documentation of the direction and supervision of engagement team members and the review of their work in accordance with ASA 220 may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

80. As a result of the insertion of the paragraph above, subsequent paragraphs of this Auditing Standard are re-numbered and references to these paragraphs are updated accordingly.

81. Existing paragraph A22 is amended to read as follows:

The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- ...
- ~~Other procedures required~~ responses designed and implemented by the firm's system of quality control ~~firm~~ for initial audit engagements (~~for example, e.g., the firm's system of quality control~~ management may include responses that require the involvement of another partner or senior individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

82. Existing Appendix 1 is amended to read as follows:

CONSIDERATIONS IN ESTABLISHING THE OVERALL AUDIT STRATEGY

This appendix provides examples of matters the auditor may consider in ~~establishing the overall audit strategy~~ managing quality at the engagement level. Many of these matters will also influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other Auditing Standards, not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

...

Nature, Timing and Extent of Resources

- The ~~selection~~ human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team ~~(including, where necessary, the engagement quality control reviewer)~~ and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).

- ...

Amendments to ASA 315

83. Existing footnote 25 in paragraph A38 is amended to read as follows:

See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~1222-24~~.

84. Existing paragraph A69 is amended to read as follows:

The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with sufficient relevant knowledge and experience the appropriate competence and capabilities.³³

85. Existing footnote 33 in paragraph A69 is amended to read as follows:

See ASA 220, paragraphs ~~1425-28~~.

86. Existing footnote 56 in paragraph A218 is amended to read as follows:

See ASA 220, paragraphs ~~1732~~ and ~~A19A87-A89~~.

Amendments to ASA 500

87. Existing paragraph A5 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit)⁹ or a firm's quality control procedures for client acceptance and continuance through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

88. Existing paragraph A30 is amended to read as follows:

As noted in paragraph A5, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, a firm's quality control procedures for client acceptance and continuance and through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The

Commented [SWE1]: Note for AUASB members, the yellow highlighted words will not be seen in ASA 500 compiled as this is yet to be done however these words are consistent with approved Auditing Standard ASA 2020-1.

quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Amendments to ASA 540

89. Existing footnote 39 in paragraph A61 is amended to read as follows:

See ASA 220 *Quality ~~Control~~Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~14~~25-26 and ASA 300 *Planning an Audit of a Financial Report*, paragraph 8(e).

Amendments to ASA 600

90. Existing paragraph 4 is amended to read as follows:

In accordance with ASA 220,¹ the group engagement partner is required to ~~determine~~be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction and supervision of members of the group engagement team and performance of the group audit engagement~~review of their work~~.¹

91. Existing footnote 1 in paragraph 4 is amended to read as follows:

See ASA 220 *Quality ~~Control~~Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~14 and 15~~25-26.

92. As a result of the footnote insertion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

Amendments to ASA 610

93. Existing paragraph A11 is amended to read as follows:

Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- ...
- Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as those policies and procedures in ASQC 1⁴⁶~~ that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

94. As a result of the footnote deletion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

Amendments to ASA 620

95. Existing footnote 1 in paragraph 2 is amended to read as follows:

96. See ASA 220 *Quality ~~Control~~Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~A10, A20-A22~~A19.

¹ See ASA 220, paragraphs 29-31.

97. Existing paragraph 8 is amended to read as follows:

The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)

(a) ...

(e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11-A13)

98. Existing paragraph A6 is amended to read as follows:

If the preparation of the financial report involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit that financial report. The engagement partner is required to determine ~~be satisfied~~ that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁶ The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

99. Existing footnote 5 in paragraph A6 is amended to read as follows:

See ASA 220, paragraphs 14~~25-28~~.

100. Existing footnote 7 in paragraph A7 is amended to read as follows:

See ASA 220, paragraphs A24~~A99-A102~~.

101. Existing paragraph A10 is amended to read as follows:

The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

• ...

• The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

102. Existing paragraph A11 and its sub-heading are amended to read as follows:

The Auditor's Firm's System of Quality Control Policies and Procedures Management (Ref: Para. 8(e))

An auditor's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with ASQM I.^{9,10} ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, and is subject to the firm's policies or procedures for network requirements and network services in accordance with ASQM I. In some instances, the auditor's internal expert of a network firm may be subject to which may share common quality control management policies and/or procedures as with the auditor's firm, given that they are part of the same network.

103. Existing footnotes 9 and 10 in paragraph A11 are amended to read as follows:

⁹ See ASQCM 1 *Quality Control Management for Firms that Perform Audits and/or Reviews of Financial Reports and Other Financial Information, and/or Other Assurance or Related Services Engagements*, paragraph 12(f)16(w).

¹⁰ See ASA 220, paragraphs 2 and A43.

104. Existing paragraph A12 is amended to read as follows:

ASQM 1 requires the firm to address the use of resources from a service provider, which includes the use of an external expert.¹¹ An auditor's external expert is not a member of the engagement team and may not be subject to quality control policies and procedures in accordance with ASQM 1.¹² In some jurisdictions, however, the firm's policies or procedures under its system of quality management.¹² Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external expert.¹³ In some cases, relevant ethical requirements or law or regulation may require that an auditor's external expert be:

- Treated as a member of the engagement team (i.e., the external expert, and may therefore be subject to relevant ethical requirements, including those pertaining related to independence); or
- Subject to, and other professional requirements, as determined by that law or regulation.

105. As a result of the footnotes insertion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

106. Existing paragraph A13 is amended to read as follows:

Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.¹⁴ The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as As described in ASA 220, quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.¹⁴ For example, the auditor may be able to depend on the firm's related policies or procedures in respect of:

- ...
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those pertaining relating to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training and other firm processes, such as protocols for scoping the work of auditor's internal experts, may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- ...

¹¹ See ASQM 1, paragraph 32.

¹² See ASQM 1, paragraph 16(f).

¹³ See ASQM 1, paragraph 29(b).

¹⁴ See ASA 220, paragraph A4.

~~Such reliance~~ Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in ASA 220.¹⁵ Depending on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this Auditing Standard.

107. Existing paragraph A15 is amended to read as follows:

Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- ...
- The auditor's firm's system of quality control policies and procedures management (see paragraphs A11-A13).

108. Existing paragraph A26 is amended to read as follows:

When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- ...
- The policies ~~and/or~~ procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures to which that expert is subject~~ firm's system of quality management may include particular policies ~~and/or~~ procedures ~~in relation~~ relating to ~~that~~ the expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies ~~and/or~~ procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

Amendments to ASA 700

109. Existing paragraph A36 is amended to read as follows:

Law or regulation, Australian Auditing Standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those ~~pertaini~~ng related to independence, that applied to the audit of the financial report.

110. Existing paragraph Aus A61.1 is amended to read as follows:

~~ASQC 1³⁶ requires that~~ The objective of the firm in ASQM 1³⁶ is to design, implement and operate a system of quality management that provides the firm with ~~establish policies and procedures to provide reasonable assurance that engagements are performed~~.

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and-
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

¹⁵ See ASA 220, paragraphs 4(b) and A10.

³⁶ See 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*, paragraph 14.

Notwithstanding the objective of these ASQCM 1 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report.

Amendments to ASA 701

111. Existing paragraph A15 is amended to read as follows:

Various Australian Auditing Standards require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ...
- ASA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,²¹ and other matters that in the engagement partner's professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality control-reviewer.²²

112. Existing footnotes 21 and 22 in paragraph A15 are amended to read as follows:

²¹ See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 4835.

²² See ASA 220, paragraph 4936.

113. Existing paragraph A63 is amended to read as follows:

The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control-reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

Amendments to ASA 720

114. Existing paragraph A24 is amended to read as follows:

In accordance with ASA 220,¹⁰ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement direction and supervision of the members of the engagement team and the review of their work,¹⁰ and determine that the nature, timing and extent of direction, supervision and review is planned and performed in compliance with the firm's policies or procedures, Australian Auditing Standards and applicable legal and regulatory requirements.¹¹ In the context of this Auditing Standard, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- ...

¹⁰ See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs 29–30.

¹¹ See ASA 220, paragraph 30(a).

115. As a result of the footnotes insertion above, subsequent footnotes of this Auditing Standard are re-numbered and references to these footnotes are updated accordingly.

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

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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 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.

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.

ASQM 2
(March 2021)

Explanatory Statement

ASQM 2 Engagement Quality Reviews

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 2

The AUASB issues Auditing Standard ASQM 2 *Engagement Quality Reviews* 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 Quality Management ISQM 2 *Engagement Quality Reviews*.

Purpose of Auditing Standard ASQ 2 *Engagement Quality Reviews*

The purpose of the Auditing Standard represents the Australian equivalent of ISQM 2 *Engagement Quality Reviews* (December 2020).

Main Features

The project to address engagement quality reviews originated from the issues identified in the Invitation to Comment (ITC) published in December 2015. This recognised the importance of the engagement quality review and the public interest importance ascribed to it by certain stakeholders. In addition, findings from the ISA Implementation Monitoring project had earlier identified concerns that the requirements in ISA 220 (ASA 220) and ISQC 1 (ASQC 1) regarding engagement quality reviews were not sufficiently robust, and similar concerns were expressed by audit oversight bodies.

The engagements that may require a quality review are incorporated into ASQM 1 and a new standard for engagement quality reviews ISQM 2 was developed. ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

Operative Date

ASQM 2 *Engagement Quality Reviews* is effective for:

- (a) Audits and reviews of a financial report for periods beginning on or after 15 December 2022; and
- (b) Other assurance and related services engagements beginning on or after 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 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.

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 2, along with an associated Australian Explanatory Memorandum. ED-ISQM 2 was exposed within Australia with 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 2 Engagement Quality Reviews*. 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 2 *Engagement Quality Reviews***

This Legislative Instrument is 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 2

The purpose of ASQM 2 is for the engagement quality reviewer to evaluate the significant judgments made by the engagement team.

Main Features

ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

Human Rights Implications

This Legislative Instrument does not engage any of the applicable rights or freedoms due to it being compatible with human rights and therefore does not raise any human rights issues.

Conclusion

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

ASA 220
(March 2021)

Explanatory Statement

ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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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 ASA

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* 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 2011*, 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. The 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.

This Auditing Standard conforms with ISA 220 *Quality Management for an Audit of Financial Statements*.

Purpose of Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material dealing with the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner.

Main Features

This revised Auditing Standard is intended to clarify and strengthen the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

The revised Auditing Standard makes significant changes including:

- Amendments to the engagement team definition to recognise different and evolving engagement team structures;
- Clarifying requirements which are permitted to be assigned to appropriately skilled or suitably experienced members of the engagement team and requirements intended to be fulfilled by the engagement partner;
- A new resources section outlining that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and appropriate actions where insufficient resources are provided by the firm.
- A new standback requirement where prior to dating the auditor's report the engagement partner shall be satisfied that their involvement has been sufficient and appropriate to provide basis for taking overall responsibility for managing and achieving quality at the engagement level.

Operative Date

ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* is operative for financial reporting periods commencing on or after 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 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.

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 ISA 220 *Explanatory Memorandum ISA 220 Quality Management at the Engagement Level* was issued on 26 March 2019 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 Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*. 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 ASA *Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

This Legislative Instrument is 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 ASA 220

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material dealing with the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner.

Main Features

This revised Auditing Standard is intended to clarify and strengthen the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

The revised Auditing Standard makes significant changes including:

- Amendments to the engagement team definition to recognise different and evolving engagement team structures;
- Clarifying requirements which are permitted to be assigned to appropriately skilled or suitably experienced members of the engagements and requirements intended to be fulfilled by the engagement partner;
- A new resources section outlining that the engagement partner is responsible for determining that there are sufficient and appropriate resources assigned or made available on a timely basis and appropriate actions where insufficient resources are provided by the firm.
- A new standback requirement where prior to dating the auditor's report the engagement partner shall be satisfied that their involvement has been sufficient and appropriate to provide basis for taking overall responsibility for managing and achieving quality at the engagement level.

Human Rights Implications

This 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.

Basis for Conclusions

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

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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This Basis for Conclusions 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

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Basis for Conclusions 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*

Basis for Conclusions 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* has been prepared by the Technical Staff of the Auditing and Assurance Standards Board (AUASB) to provide the background and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASQM 1.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

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*

This Basis for Conclusions has been prepared by the Technical Staff of the AUASB to provide the background and rationale for the development and approval 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*, by the AUASB. The Basis of Conclusions relates to, but does not form part of ASQM 1, and is not a substitute for reading the Standard.

Background

1. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's *Strategic Direction*, the AUASB's policy is to adopt the International Auditing and Assurance Standards Board (IAASB) ISAs, unless there is a compelling reason not to do so. In addition the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so, and are made with a public interest focus. Refer paragraph 11 of this Basis of Conclusions document for further detail on compelling reason amendments.
2. The IAASB issued ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and conforming and consequential amendments in December 2020.
3. The IAASB's project to update ISQM 1 had an overall objective to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.
4. The IAASB released an exposure draft of proposed ISQM 1 in February 2019.
5. In March 2019 the AUASB exposed the IAASB exposure drafts, to gather feedback from Australian stakeholders to inform its submission to the IAASB on proposed ISQM 1. The AUASB received comment letters from 3 stakeholders and held roundtables in Sydney, Melbourne, and Brisbane which were attended by over 50 stakeholders representing assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
6. Based on the feedback received the AUASB provided a submission to the IAASB in July 2019. Refer to [AUASB's full submission](#).
7. The AUASB monitored the development of ISQM 1 to ensure that the issues included in the submission to the IAASB were appropriately addressed. Further details regarding the development of ISQM 1 and how the IAASB addressed feedback on their exposure draft can be found in [ISQM 1 Basis for Conclusions](#) on the IAASB's website.

Scope

8. This Basis for Conclusions applies to ASQM 1 primarily, but is also relevant to ASA 2021-1 which contains the consequential and conforming amendments to:

- *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*
- *ASA 210 Agreeing the Terms of Audit Engagements*
- *ASA 230 Audit Documentation*
- *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*
- *ASA 260 Communication with Those Charged with Governance*
- *ASA 300 Planning an Audit of a Financial Report*
- *ASA 315 Identifying and Assessing the Risks of Material Misstatement*
- *ASA 500 Audit Evidence*
- *ASA 540 Auditing Accounting Estimates and Related Disclosures*
- *ASA 600 Special Considerations – Audits of a Group Financial Report*
- *ASA 610 Using the Work of Internal Auditors*
- *ASA 620 Using the Work of an Auditor's Expert*
- *ASA 700 Forming an Opinion and Reporting on a Financial Report*
- *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report*
- *ASA 720 The Auditor's Responsibilities Relating to Other Information*

Major Issues raised by Respondents on Exposure

9. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards (refer paragraph 1).
10. The AUASB received feedback from respondents on the Australian exposure of ISQM 1 with the major issues included in the submission to the IAASB relating to:
 - the overall length, complexity and level of prescriptiveness of the standard;
 - the level of granularity around the Risk Assessment Process; and
 - the scalability of the standard to audits of entities across different market segments and industries, in particular audits of small and medium entities.

The AUASB included these issues in its submission to the IAASB. Appendix 1 details all major feedback received from Australian stakeholders which was included in the AUASB's submission to the IAASB and how the issues have been addressed in the final ISQM 1.

Compelling reasons assessment

11. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to

Basis for Conclusions 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*

paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia.

12. In considering ASQM 1, while the AUASB acknowledged that ASQM 1 is still long and complex, and there are potentially a number of challenging implementation issues, the AUASB determined that the significant matters raised in its submission to the IAASB, as well as those identified through review of subsequent drafts of the standard, have been addressed in the final standard (ISQM 1).
13. The AUASB however concluded that there were several non-substantive Australian compelling reason amendments to make to the international equivalent version of the standard. Such amendments are prefixed in ASQM 1 as AUS paragraphs and exist different reasons as summarised in the tables below.

The following introductory paragraphs and definitions are additional to or have been amended from ISQM 1:

	Summary of Change
1	Paragraph Aus 4.1 replaces ISQM 1 introductory paragraph 4. The purpose of the amendment is to introduce ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.
2	Paragraph Aus 4.2 is additional to ISQM 1 paragraph Aus 4.1, and has been included to serve as a reminder that it is the responsibility of the firm to ensure compliance with all relevant legal, regulatory or professional obligations. This change has been made to conform with the Australian regulatory environment and statutory requirements.
3	Paragraph Aus 10.1 replaces ISQM 1 paragraph 10 to remove the example of a reference to Compilation Engagements. In Australia, the APESB is the entity that issues the Compilation Engagement standard, accordingly reference to such a standard being issued by the AUASB is not appropriate. This change has been made to conform with the Australian regulatory environment and statutory requirements.
4	Paragraphs Aus 16.1, Aus 16.2 and Aus 16.5 are additional to ISQM 1 in order to include the definitions of 'Assurance engagement', 'Assurance practitioner' and 'Other financial information', within the legislative instrument of ASQM 1. This change has been made to conform with the Australian regulatory environment and statutory requirements.
5	Paragraph Aus 16.3 is additional to ISQM 1 to include the definition of 'Date of report'. This change has been made in line with an existing principle and practice that is considered appropriate in maintaining audit quality in Australia.
6	Paragraph Aus 16.4 replaces ISQM 1 paragraph 16(f) definition of 'Engagement team', to remove the reference to direct assistance of internal audit which is prohibited in Australia, consistent with ASA 610 <i>Using the Work of Internal Auditors</i> . This change has been made in line with an existing principle and practice that is considered appropriate in maintaining audit quality in Australia.
7	Paragraph Aus 16.5 is additional to ISQM 1 to include the definition of 'Other financial information'. Consistent with ASA 100 <i>Preamble to AUASB Standards</i> , although Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, as appropriate, to the audit of other financial

Basis for Conclusions 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*

	Summary of Change
	information. This change has been made to conform with the Australian regulatory environment and statutory requirements.
8	Paragraph Aus 16.6 replaces ISQM 1 paragraph 16(m) definition of ‘Partner’, which references the term ‘professional services engagements’. The term ‘professional services engagements’ is not defined within Australia and has been replaced with the words audit, review, other assurance engagement or related services engagement. This change has been made to conform with the Australian regulatory environment and statutory requirements.
9	Paragraph Aus 16.7 replaces ISQM paragraph 16(p) definition of ‘Professional standards’. The AUASB Preface defines the term AUASB Standards. This change has been made to conform with the Australian regulatory environment and statutory requirements.
10	Paragraph Aus 16.8 replaces ISQM 1 paragraph 16(t) definition of ‘Relevant ethical requirements’. Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.

The following application and other explanatory material is additional to or amended from ISQM 1:

Paragraph	Summary of Change
1	Paragraph Aus A9.1 replaces ISQM 1 paragraph A9 so as to remove the reference to the IAASB Handbook for which the AUASB does not have a corresponding equivalent. This change has been made to conform with the Australian regulatory environment and statutory requirements.
2	Paragraph Aus A96.1 replaces ISQM 1 paragraph A96 to remove the reference to direct assistance of internal audit which is prohibited in Australia, consistent with ASA 610 <i>Using the Work of Internal Auditors</i> . This change has been made in line with an existing principle and practice that is considered appropriate in maintaining audit quality in Australia.

14. Additionally, the AUASB decided to not carry forward several Australian amendments to application and explanatory material from extant ASQC 1. The nature of the amendments and the reasoning for the AUASB’s decision is outlined in the table below.

Nature of Australian amendments	Reason for AUASB decision
Public Sector specific application material and other explanatory material.	The AUASB discussed that Auditor-Generals are to have due regard to the AUASB Standards, however they are not compelled to follow them. Additionally, the AUASB does not ordinarily set sector specific standards, but rather where appropriate, sector specific guidance may be developed. The AUASB is currently undertaking a separate public sector project whereby public sector guidance will be addressed. On this basis, separate public section application material paragraphs not considered necessary.

<i>Corporations Act 2001</i> specific references	<p>The AUASB determined that there would be an overall specific reference to legal and regulatory requirements in the introductory section of ISQM 1, refer Aus A4.2. The firm or the auditor is required to consider all relevant legislation when designing their system of quality management.</p> <p>Additionally, ASQC 1 references to the <i>Corporations Act 2001</i> are not within the requirements of ASQC 1 and impact application material only, as such these references could be seen as ‘nice to have’ but not compelling.</p>
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15. The IAASB has committed to providing implementation support materials including a first time through guide to assist practitioners with the adoption of ISQM 1. The AUASB will monitor all IAASB implementation support materials to consider if further implementation support is required locally to address implementation issues.
16. Appendix 1 details all major feedback received from Australian stakeholders which was included in the AUASB’s submission to the IAASB and how the issues have been addressed in the final ISQM 1. Further detail on ~~the~~ how the IAASB have addressed comments on their exposure draft is included in the [IAASB’s Basis for Conclusion](#).

Conclusion

17. The AUASB voted to approve and issue ASQM 1 on 10 March 2021.
18. In reaching its conclusions the AUASB considered:
- all stakeholder feedback;
 - the IAASB’s due process and consideration as to whether ISQM 1 should be re-exposed;
 - that the amendments made to the standard by the IAASB since exposure, were in response to ED submissions, and have not changed the fundamental approach and principles on which the standard is based, and it was not necessary to re-expose the standard.

* * *

Appendix 1

How more significant issues raised in the AUASB submission to the IAASB have been addressed

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
1	Concerns with complexity, prescriptiveness, repetitiveness of information and general length of the standard.	<p>(a) To aid with the complexity, structure and length of the standard, ISQM - 1 has been restructured so that:</p> <ul style="list-style-type: none"> (i) The Risk Assessment Process is now near the front of the requirements, before the governance and leadership component. This has also facilitated a reduction in the introduction section. (ii) The system of quality management at the beginning of the requirements section, has a link into governance and leadership to emphasise the importance of this component and that governance and leadership is a pre-requisite to setting up a System of Quality Management. <p>(b) Refocussed components on the quality objectives by removing duplication between objectives and responses and repurposing responses as objectives where possible and relocating responses to a discrete section 'specified responses' where possible – refer 2a below.</p> <p>(c) Drafting and presentation</p> <ul style="list-style-type: none"> (i) Example boxes have been used, with specific signposting to scalable examples. The boxed examples do not create new requirements, they are illustrative only. The examples address less and more complex examples demonstrating the scaling-up and scaling-down of the standard. (ii) As part of the IAASB's Less Complex Entity (LCE) project, there is an ISA focused workstream, the objective of which is to enable more consistent and effective use of the ISAs through a focus on how the ISAs are written and presented. As part of this workstream the LCE working group would develop and consult on drafting principles and guidelines. It would then be determined how to take these principles forward (i.e. on which standards). (iii) Duplicate information removed e.g.: explanations in the introduction, appendix, repetitive Application Material. (iv) Removal of Application Material that may only be relevant for a first time through with a separate first

Basis for Conclusions 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*

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>time through guide expected to be issued by the IAASB.</p> <p>(d) Simplified Risk Assessment Process – refer point 2 below.</p> <p>(e) Clarifying the framework for evaluating findings and identifying deficiencies including a new definition of findings and reducing the complexity of the definition of deficiency – refer point 3 below.</p>
2	<p>Concerns with the level of granularity around the Risk Assessment Process (RAP), particularly the granular and prescriptive approach to quality objectives and responses in the components. Additionally, the AUASB raised concerns regarding the requirement to always establish additional quality objectives over and above the objectives in the standard. Furthermore, the AUASB raised concerns that the pre-determined required responses may not be applicable where a firm has no associated risk.</p>	<p>(f) Refined quality objectives and responses by component to be outcome based incorporating some previous responses to quality objectives. This results in a reduction in prescribed responses to quality risks – essentially up to the firm to determine their responses to achieve their quality objectives. Responses that have not been combined with an objective have been moved to separate section ‘specified responses’ (paragraph 34/ASQM 1). The specified responses include responses to address: independence, investigating and resolving complaints, acceptance and continuance, communication with those charged with governance of listed entities and engagement quality review in accordance with ASQM 2, all other required responses have been included within the quality objective.</p> <p>(g) Included the conditions, events, circumstances, actions or inactions that the firm needs to understand in identifying and assessing quality risks, which are focused on the nature and circumstances of the firm and the engagements performed by the firm (see paragraph 25/ASQM 1). In doing so, included examples in the application material to demonstrate how conditions, events, circumstances, actions or inactions may give rise to quality risks (see paragraph A46/ASQM 1). The intent of these revisions is to promote proactivity, scalability (upwards and downwards) and tailoring the system of quality management to the firm’s circumstances. The intent is also to assist firms in “thinking through” what quality risks may arise and support a more robust risk identification and assessment process. The standard recognises that not all conditions, events, circumstances will give rise to quality risks. Paragraphs A46 and A48 describes that the firm exercises professional judgment in determining whether a risk is a quality risk.</p> <p>(h) Amended the definition of quality risk to include the threshold for identifying quality risks:</p>

Basis for Conclusions 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*

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>Quality risks – A risk that has a reasonable possibility of:</p> <p>(i) Occurring; and</p> <p>(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p> <p>(i) Clarified that quality objectives beyond those set out in the standard may not always been required, however the objectives set out in the standard are all required (refer paragraph 24, A43). Additionally, paragraph 27 clarifies that the firm sets policies or procedures designed to identify information about changes in the nature and circumstances of the firm or its engagements that may indicate that quality risks and responses set out in the standard may be modified.</p>
3	<p>Concerns in relation to monitoring and remediation included:</p> <ul style="list-style-type: none"> ○ The differences between findings and deficiencies was unclear with findings not being defined. ○ The requirement to inspect completed files was supported, but the AUASB considered that the requirement and application material could be more principles focused. ○ Lack of clarity around when root-cause analysis is required and the lack of ‘flexing’ of such analysis. ○ The seemingly disproportional requirements in relation to monitoring and remediation and the associated disproportional documentation requirements. The AUASB considered that the granularity of the requirements may be onerous on SMPs, especially sole practitioners. 	<p>(a) The definition of Deficiency (paragraph 16(a)) has been clarified by explaining the threshold for a deficiency for each aspect of the system of quality management with examples of deficiencies provided in the application material.</p> <p>(b) Amended the definition of findings to more clearly distinguish between a finding and a deficiency. The intent of introducing the term ‘findings’ is to explain the filtering process the firm would follow to identify deficiencies, so that they can be remediated. The definition ‘findings’ needs to scope the information to facilitate that filtering process. At the time of the ED – findings were broad enough to focus on both positive and negative, but respondents to the ED raised concerns as to how findings then were evaluated to determine whether a deficiency exists. Furthermore, other information that is accumulated from the performance of monitoring activities, external inspections and other relevant sources that does not indicate that a deficiency exists (such as positive outcomes) form part of the firm’s information and communication component and may be used by the firm in multiple ways in the context of the system of quality management. The ISQM 1 Taskforce is of the view that this other information is important, however it does not need to be comingled with the concept of findings. Application material, paragraph A157 has been added to emphasise the point that information accumulated from the performance of monitoring activities, external inspections and other relevant sources may be broader than just findings, i.e., it may include positive outcomes or opportunities for the firm</p>

Basis for Conclusions 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*

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>to improve, or further enhance, the system of quality management.</p> <p>(c) The requirement in relation to selection of completed engagements for inspections has been revised and supplemented with application material to focus on a risk based selection and taking into account that the selection is affected by the nature, timing and extent of other monitoring activities undertaken by the firm – thereby providing improved flexibility for firms in determining the appropriate cycle for the inspection of completed engagements. Additionally, in order to improve the focus on the selection of engagements based on risks, there is additional application material paragraph A153 giving examples of how the firm may apply a cyclical basis for inspections – including flexing the period between selections up or down.</p> <p>(d) The IAASB is of the view that monitoring and remediation is fundamental to Quality Management of a Firm. While there are many requirements, there are no requirements that would not apply to all firms regardless of size – however these requirements could be scaled/flexed. There are a few areas where scalability and flexibility are demonstrated in the monitoring and remediation section and this relates to:</p> <ul style="list-style-type: none"> • Flexibility demonstrated by way of examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner (A153) • Inclusion of new application material paragraph A156 which explains that firms may use service providers to perform monitoring activities – this was added to respond to application of this section of the standard for smaller firms. • An example demonstrating how monitoring the design of the monitoring and remediation process may be done in a less complex firm (A144).
4	Overall comments from the AUASB in the submission on ED-ISQM 1 supported the proposals addressing service providers in ISQM 1, but recommended that the term ‘service provider’ is more clearly defined within ISQM 1, with examples provided to assist practitioners identify not only who is a service provider	<p>(a) Service Provider is now defined in paragraph 16(v)</p> <p>(b) Paragraph A105 provides examples of resources from a service provider.</p> <p>(c) One of the factors the firm considers when identifying an assessing quality risks is the resources of a firm including service providers (paragraph 25(a)(i)(d). Service providers have been included under the resources component and is no longer a stand-alone section of the standard. The standard (A105-A108) recognises that the nature, timing and extent of the</p>

Basis for Conclusions 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*

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
	captured under ISQM 1, but also to provide clarity as to who is outside the definition.	firm's responses to address service providers depends on the assessed quality risks identified by the firm i.e. not all resources from service providers will necessitate a response.
5	The AUASB was supportive of guidance around the quality objective of appropriate communications with external parties , however the AUASB was concerned that transparency reports would be a requirement of the standard.	Adjusted the requirement addressing communication externally by: <ul style="list-style-type: none"> • Explicitly requiring firms to communicate with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality engagements (see paragraph 34(e)). • Removing the reference in the requirement to transparency reports, in order to promote innovation and the most effective means of communication (the reference to transparency reports has been retained in application material to highlight that it may be a form of communication). • Enhanced the application material setting out the factors the firm considers in determining when it is appropriate to communicate with external parties, and if so, the nature, timing and extent and appropriate form of such communication (see paragraphs A125, A126, A129 and A131).
6	In the submission on ED-ISQM 1, the AUASB raised a concern in relation to an annual evaluation of the system of quality management , noting that an annual evaluation could be onerous particularly for SMPs or sole practitioners' system of quality management is likely to be less	The ISQM 1 taskforce is of the view that a cyclical evaluation would not achieve the intended purpose of the requirement, i.e., that leadership is aware and conscious of the effectiveness of their system of quality management. An annual evaluation had strong support from IAASB members. The taskforce notes that the way leadership of a small or medium practice may evaluate the system of quality management is likely to be less complex, and this has been emphasised in the example given in the application material paragraph A188. <ul style="list-style-type: none"> (a) Including that the evaluation is taken at a point in time – application material A187 has been included to provide examples of the point in time when the evaluation may be undertaken. (b) Application material A189 has been added to explain the matters that may be considered by leadership in concluding on the system of quality management including: severity and pervasiveness of identified deficiencies, whether the deficiencies have been remediated (or how being addressed), whether the effect of the deficiencies have been corrected. It is

Basis for Conclusions 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*

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>intended that leadership considers the combination of these matters.</p> <p>Additionally, in relation to the system of quality management, the standard now clarifies/emphasises:</p> <ul style="list-style-type: none"> • that the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles (see paragraph A33) • that roles related to the system of quality management should be assigned to individuals who have the appropriate influence and authority within the firm (see paragraphs 21 and A34), and added application material to explain that the individuals assigned responsibilities may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities (see paragraph A35). • that the individuals assigned operational responsibility for the system of quality management need to have an appropriate understanding of the firm's strategic decisions and actions and have experience with the firm's business operations, so that the role is not perceived as a compliance function (see paragraph A38)
7	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the scalability of the standard.	<p>(a) In applying a risk-based approach, firm takes into account nature and circumstances of the firm and engagements performed (i.e. complexity and formality of system will vary);</p> <p>(b) Signposting scalability examples in application material;</p> <p>(c) With the examples in the application material, including examples that address less complex and more complex firms to demonstrate the 'scaling up' and 'scaling down'.</p>
8	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the extent of documentation that may be required by the standard.	<p>(a) Application material paragraph A202 enhances the emphasis in the standard on the need for professional judgement in determining documentation. A202 describes factors that may affect the firm's judgements about the form, content and extent of documentation including how often documentation is updated.</p> <p>(b) A204 clarifies that the firm is not required to document every factor that was considered in identifying and assessing quality risks.</p>

Basis for Conclusions **Auditing Standard ASQM 2** *Engagement Quality Reviews*

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

This Basis for Conclusions 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

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Basis for Conclusions ASQM 2 Engagement Quality Reviews has been prepared by the Technical Staff of the Auditing and Assurance Standards Board (AUASB) to provide the background and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASQM 2.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

ASQM 2 Engagement Quality Reviews

This Basis for Conclusions has been prepared by the Technical Staff of the AUASB to provide the background and rationale for the development and approval of ASQM 2 Engagement Quality Reviews, by the AUASB. The Basis of Conclusions relates to, but does not form part of ASQM 2, and is not a substitute for reading the Standard.

Background

1. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's *Strategic Direction*, the AUASB's policy is to adopt the International Auditing and Assurance Standards Board (IAASB) ISAs, unless there is a compelling reason not to do so. In addition the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so, and are made with a public interest focus. Refer paragraph 11 of this Basis of Conclusions document for further detail on compelling reason amendments.
2. The IAASB issued ISQM 2 *Engagement Quality Reviews* and conforming and consequential amendments in December 2020.
3. The IAASB's project to develop ISQM 2 had an overall objective to separate the engagements that may require a quality review into ISQM 1 and develop a separate standard ISQM 2 to address the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review. The purpose of the engagement quality review is to evaluate the significant judgments made by the engagement team.
4. The IAASB released an exposure draft of proposed ISQM 2 in February 2019.
5. In March 2019 the AUASB exposed the IAASB exposure drafts, to gather feedback from Australian stakeholders to inform its submission to the IAASB on proposed ISQM 2. The AUASB received comment letters **from 3 stakeholders** and held roundtables in Sydney, Melbourne, and Brisbane which were attended by over 50 stakeholders representing assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
6. Based on the feedback received the AUASB provided a submission to the IAASB in July 2019. Refer to [AUASB's full submission](#).
7. The AUASB monitored the development of ISQM 2 to ensure that the issues included in the submission to the IAASB were appropriately addressed. Further details regarding the development of ISQM 2 and how the IAASB addressed feedback on their exposure draft can be found in [ISQM 2 Basis for Conclusions](#) on the IAASB's website.

Scope

8. This Basis for Conclusions applies to ASQM 2 primarily, but is also relevant to ASA 2021-2 which contains the consequential and conforming amendments to:
 - *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*
 - *ASA 210 Agreeing the Terms of Audit Engagements*
 - *ASA 230 Audit Documentation*

- *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*
- *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*
- *ASA 260 Communication with Those Charged with Governance*
- *ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance*
- *ASA 300 Planning an Audit of a Financial Report*
- *ASA 320 Materiality in Planning and Performing an Audit*
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- *ASA 505 External Confirmations*
- *ASA 520 Analytical Procedures*
- *ASA 530 Audit Sampling*
- *ASA 540 Auditing Accounting Estimates and Related Disclosures*
- *ASA 550 Related Parties*
- *ASA 570 Going Concern*
- *ASA 600 Special Considerations – Audits of a Group Financial Report*
- *ASA 610 Using the Work of Internal Auditors*
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- *ASA 720 The Auditor's Responsibilities Relating to Other Information*
- *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*

Major Issues raised by Respondents on Exposure

9. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards (refer paragraph 1).
10. The AUASB received feedback from respondents on the Australian exposure of ISQM 2 with the major issues included in the submission to the IAASB relating to:

- guidance regarding a “cooling off” period should reside in the IESBA Code; and
- the inclusion of a “stand back” requirement in ISQM 2.

The AUASB included these issues in its submission to the IAASB. Appendix 1 details all major feedback received from Australian stakeholders which was included in the AUASB’s submission to the IAASB and how the issues have been addressed in the final ISQM 2.

Compelling reasons assessment

11. The adoption of international standards and any changes to adopted standards are governed by the AUASB’s policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate “compelling reasons” tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia.
12. In considering ASQM 2, the AUASB determined that the majority of the significant matters raised in its submission to the IAASB, as well as those identified through review of subsequent drafts of the standard, have been addressed in the final standard (ISQM 2).
13. The AUASB however concluded that there were several non-substantive Australian compelling reason amendments to make to the international equivalent version of the standard. Such amendments are prefixed in ASQM 2 as AUS paragraphs and exist for different reasons as summarised in the tables below.

The following introductory paragraphs and definitions are additional to or have been amended from ISQM 2

	Summary of Change
1	Paragraph Aus 2.1 replaces ISQM 2 introductory paragraph 2. The purpose of the amendment is to introduce ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.
2	Paragraph Aus 2.2 is additional to ISQM 2 paragraph Aus 2.2, and has been included to serve as a reminder that it is the responsibility of the assurance practitioner to ensure compliance with all relevant legal, regulatory or professional obligations. This change has been made to conform with the Australian regulatory environment and statutory requirements.
3	Paragraph Aus 13.1 replaces ISQM 1 paragraph 13(c) definition of ‘Relevant ethical requirements’. Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.

14. The IAASB has committed to providing implementation support materials including a first time through guide to assist practitioners with the adoption of ISQM 2. The AUASB will monitor all IAASB implementation support materials to consider if further implementation support is required locally to address implementation issues.
15. Appendix 1 details all major feedback received from Australian stakeholders which was included in the AUASB’s submission to the IAASB and how the issues have been addressed in

the final ISQM 2. Further detail on the how the IAASB have addressed comments on their exposure draft is included in the [IAASB's Basis for Conclusion](#).

Conclusion

16. The AUASB voted to approve and issue ASQM 2 on 10 March 2021.
17. In reaching its conclusions the AUASB considered:
 - all stakeholder feedback;
 - the IAASB's due process and consideration as to whether ISQM 2 should be re-exposed;
 - that the amendments made to the standard by the IAASB since exposure, were in response to ED submissions, and have not changed the fundamental approach and principles on which the standard is based, and it was not necessary to re-expose the standard.

* * *

Appendix 1

HOW MORE SIGNIFICANT ISSUES RAISED IN THE AUASB SUBMISSION TO THE IAASB HAVE BEEN ADDRESSED

	<i>AUASB Issue</i>	<i>Changes made to ISQM 2</i>
1	Concerns were raised with the ‘cooling off’ period and related application material being retained in ISQM 2 and not residing primarily in the IESBA Code as it is linked to Independence which is dealt with in the Code.	The IAASB has retained a requirement in paragraph 19 relating to the two year ‘cooling off’ period or a longer period if required by relevant ethical requirements in ISQM 2 and related application material in paragraphs A17-A18. The IAASB did however commit to working with IESBA on this matter to ensure consistency between the standard and the Code.
2	Concerns were raised with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures specifying the EQR identify instead of evaluate may extend the role of the EQR beyond what is intended?	The suggested changes to the wording in the requirement in paragraph 25 from identify to evaluate were made in paragraphs 25(c) and 25(f) of the standard.
3	Concerns were raised in relation to the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional scepticism? Consideration of additional application guidance to make it clear how this is appropriately documented in the audit file.	Paragraph A40 has been included in the final standard to endeavour to address this matter: A40 The firm’s policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.
4	Concerns were raised with the requirements of ISQM 2 being appropriate for all engagements to which the standard will apply through ISQM 1 e.g. other assurance and related services engagements and not just audits of a financial report? An example of this may be the “cooling-off periods”.	The IAASB has not specifically dealt with this matter in ISQM 2 as the requirement to include a wide range of engagements under ISQM 1 is dealt with in paragraph 34(f)(ii) of that standard - Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). No further application material on this matter has been included in ISQM 2. See AUASB Issue 1 above for further comments.
5	Concerns were raised with the requirement for an engagement	The “stand back” requirement has been retained in ISQM 2. The IAASB noted that the stand back provision represents

Basis for Conclusions ASQM 2 Engagement Quality Reviews

	<i>AUASB Issue</i>	<i>Changes made to ISQM 2</i>
	quality reviewers overall conclusion and whether this adds value to the performance of the engagement quality review as a whole. The AUASB is supportive of the second limb of the requirement being that the EQR shall notify the engagement partner that the EQR is complete.	good practice and is consistent with the more recently revised ISAs, and as such has been retained as a requirement in relation to the role of the EQR in ISQM 2.

Basis for Conclusions

ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

This Basis for Conclusions 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

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Basis for Conclusions ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 220.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, and is not a substitute for reading the Standard.

Background

1. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's Strategic Direction, the AUASB's policy is to adopt the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), unless there is a compelling reason not to do so. In addition, the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so, and are made with a public interest focus. Refer paragraph 10 of this Basis of Conclusions document for further detail on compelling reason amendments.
2. The IAASB issued ISA 220 *Quality Management for an Audit of Financial Statements* in December 2020.
3. In December 2016, the IAASB approved a combined project proposal to address the revision of ISQC 1¹, ISA 220² and ISA 600³. The project proposal combined the topics of quality control and group audits due to the interaction of the issues affecting these standards, while the timing of the projects took into account the degree of interaction between the various projects of the IAASB.
4. The IAASB objective in revising ISA 220 was to strengthen aspects of quality management for individual engagements by focussing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.
5. The IAASB released an exposure draft of proposed ISA 220 in February 2019 and in March 2019 the AUASB exposed the IAASB exposure draft to gather feedback from Australian stakeholders to inform its submission to the IAASB.
6. The AUASB received comment letters from 4 stakeholders and held roundtables in Sydney, Melbourne and Brisbane which were attended by over 50 stakeholders representing assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
7. Based on the feedback received, the AUASB provided a submission to the IAASB in July 2019. Refer to the [AUASB's full submission](#).
8. The AUASB monitored the development of ISA 220 to ensure that the issues included in the submission to the IAASB were appropriately addressed. Further details regarding the develop

¹ ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement*.

² ISA 220 *Quality Control for an Audit of Financial Statements*.

³ ISA 600 *Special Considerations—Audits of Group Financial Statements*.

of ISA 220 and how the IAASB addressed feedback on their exposure draft can be found in the [ISA 220 Basis for Conclusions](#) on the IAASB's website.

Scope

9. This Basis for Conclusions applies to ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Major Issues raised by Respondents on Exposure

10. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards (refer paragraph 1).
11. The AUASB received feedback from respondents on the Australian exposure of ISA 220 with the major issues included in the submission to the IAASB relating to:
- (a) The inconsistency between the engagement team definition in ISA 220 and proposed ISQM 1;
 - (b) The broader definition of engagement team and the practicality of meeting the requirements of proposed ISA 220; and
 - (c) The engagement partner being solely responsible for meeting all the requirements of the standard and whether certain requirements may be performed by other members of the engagement team or the firm's systems could be relied upon.

The AUASB included these issues in its submission to the IAASB. Appendix 1 details all major feedback received from Australian stakeholders included in the AUASB's submission to the IAASB and how those matters have been addressed in the final ISA 220.

Compelling reasons assessment

12. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia.
13. The AUASB has made a number of compelling reason amendments upon adoption of ISA 220 in Australia as ASA 220. Such amendments are prefixed in ASA 220 as AUS paragraphs, the reasons for their insertion is summarised in the tables below.

The following AUS paragraphs have been included in ASA 220:

	Summary of Change
1	Paragraph Aus 1.1 is an additional Australian insertion. The paragraph has been included to remind the auditor that it is their responsibility to ensure compliance with all relevant legal, regulatory or professional obligations such as the <i>Corporations Act 2001</i> . This change has been made to conform with the Australian regulatory environment and statutory requirements.

	Summary of Change
2	Paragraph Aus 12.1 replaces sub-paragraph 12(d) which has been deleted by the AUASB. The IAASB engagement team definition in sub-paragraph 12(d) contained reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "... and auditors who provide direct assistance on an engagement" the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
3	Paragraph Aus 12.2 replaces sub-paragraph 12(h) which has been deleted by the AUASB. The IAASB definition of partner contained reference to "professional services engagement" which is not a term defined by AUASB Standards. The term has been replaced by an explicit reference to the types of engagements that are performed under the AUASB Standards, "audit, review, other assurance or related services engagement". This change is a significant terminology change and has been made to conform with principles and practices considered appropriate in Australia.
4	Paragraph Aus 12.3 replaces sub-paragraph 12(j) which has been deleted by the AUASB. The IAASB term "professional standards" is not used by the AUASB. The term has been replaced by a definition of Australian Auditing Standards which covers both auditing standards and ethical requirements through ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> . This change has been made to conform with the Australian regulatory environment.
5	Paragraph Aus 12.4 replaces sub-paragraph 12(k) which has been deleted by the AUASB. The AUASB defines relevant ethical requirements in accordance with ASA 102 which is done to give enforceable status to the APESB's APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> . This change has been made to conform with the Australian regulatory environment.
6	Paragraph Aus 26.1 replaces paragraph 26 which has been deleted by the AUASB. The ISA requirement contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "...and internal auditors who provide direct assistance..." the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
7	Paragraph Aus A21.1 replaces paragraph A21 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of references to direct assistance, the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
8	Paragraph Aus A31.1 replaces sub-paragraph A31(b) which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of the removal of "...internal auditors who provide direct assistance or ..." the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.
9	Paragraph Aus A62.1 replaces paragraph A62 which has been deleted by the AUASB. The ISA paragraph contained a reference to direct assistance from internal auditors which is prohibited by AUASB Standards. With the exception of

	Summary of Change
	the removal of "...and individuals from within the entity's internal audit function who provide direct assistance on the audit" the paragraph is consistent with the ISA equivalent. This change has been made to conform with the Australian regulatory environment.

14. Additionally, the AUASB decided to not carry forward several Australian amendments to application and explanatory material from extant ASA 220. The nature of the amendments and the rationale for the AUASB's decision is outlined in the table below.

Nature of Australian amendments	Reason for AUASB decision
<i>Corporations Act 2001</i> specific references	The AUASB determined that there would be an overall reference to legal and regulatory requirements in the introductory section of ASA 220 rather than references spread throughout the standard, refer Aus 1.1. The inserted paragraph states that ASA 220 does not address the responsibilities for the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the independence or other assurance related requirements of the <i>Corporations Act 2001</i> .
Compliance with relevant ethical requirements	In line with the proposed approach to ASQM 1, references to relevant ethical requirements will not be deleted and referenced purely to ASA 102 as there are a number of helpful references to specific sections of the code throughout the standard.

15. The IAASB has committed to providing implementation support materials including a first time through guide to assist practitioners with the adoption of ISQM 1. The AUASB will monitor all IAASB implementation support materials to consider if further implementation support is required locally to address implementation issues.
16. Appendix 1 details all major feedback received from Australian stakeholders included in the AUASB's submission to the IAASB and how the issues have been addressed in the final ISA 220. Further detail on how the IAASB have addressed global comments on their exposure draft is included in the [ISA 220 Basis for Conclusions](#).

Conclusion

17. The AUASB voted to approve and issue ASA 220 on 10 March 2021.
18. In reaching its conclusions the AUASB considered:
- (a) all stakeholder feedback;
 - (b) the IAASB's due process and consideration as to whether ISA 220 should be re-exposed;
 - (c) whether the amendments made to the standard by the IAASB since exposure were in response to submissions from stakeholders on the exposure draft, have not changed the fundamental approach and principles on which the standard is based, and did not require the re-expose of the standard.

* * *

Appendix 1

How more significant issues raised in the AUASB submission to the IAASB have been addressed in the final ISA 220

Matter #	AUASB Issue	Addressed in final ISA 220
1	<p>Monitoring and reviewing work of assignees</p> <p>The AUASB raised that it may be difficult to practically meet the requirements in paragraphs 11-13 on a larger audit engagement (such as a multinational or group audit), particularly allowing for the broader Engagement Team definition now contained in the proposed standard.</p>	<p>The IAASB has addressed this through:</p> <ul style="list-style-type: none"> - amending the “engagement team” definition and reworking the related application material. This included removing reference to “individuals engaged by the firm or a network firm” from the engagement team definition; - amending paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - clarifying the nature, timing and extent of direction, supervision and review in more complex engagements, including differences between what is required for individuals outside of the firm’s network.
2	<p>Guidance Direction and Supervision</p> <p>The AUASB raised that the broader engagement team definition may cause problems for the engagement partner in meeting the proposed direction, supervision and review requirements.</p>	<p>The IAASB has addressed this through:</p> <ul style="list-style-type: none"> - amending the “engagement team” definition and reworking the related application material. This included removing reference to “individuals engaged by the firm or a network firm” from the engagement team definition; - amending paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - revising the terms used to differentiate between requirements which must be performed by the engagement partner and those that are permitted to be assigned to appropriately skilled or suitably experienced members of the engagement team.

Basis for Conclusions ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

Matter #	AUASB Issue	Addressed in final ISA 220
3	<p>Ambiguity of definitions across the QM suite in relation to Engagement Team</p> <p>The AUASB raised that the definition of engagement team may be interpreted differently under ISA 220 and ISQM 1 due to the different application and explanatory material that applied to the definition in ISA 220 not being replicated in ISQM 1.</p>	The IAASB has addressed this through Members of each of the Taskforces working together to ensure alignment between the QM standards. The engagement team definitions are consistent between ISQM 1 and ISA 220 with the exception of application material which in the case of ISQM 1 links to ISA 220 for additional guidance in applying the definition in the context of an audit.
4	<p>Engagement Partner's role</p> <p>The AUASB raised that situations where there are multiple partners on an engagement should be dealt with as part of proposed revisions to ISA 220.</p>	The IAASB has not addressed this as part of ISA 220 but has an on-going signing partner project to address where there are multiple partners on an engagement.
5	<p>Reliance on Firm's System</p> <p>The AUASB raised that the removal of the introductory paragraph contained in extant ISA 220 that "Engagement teams are entitled to rely on the firm's system of quality control process, unless information provided by the firm or other parties suggests otherwise" in combination with other changes to specify requirements that must be performed by the engagement partner, could result in a duplication of effort between the firm and engagement partner.</p>	The IAASB considered the feedback and additional application material was included in the final ISA 220 addressing this. Additionally, the IAASB clarified for paragraphs that must be fulfilled by the engagement partner, the engagement partner may rely on information from the firm or engagement team members to fulfill the requirement.
6	<p>Roles of EP and EQR</p> <p>The AUASB raised whether an appropriate balance had been achieved between the role of the engagement partner under ISA 220 and the role of the EQR under ISQM 2. The level of work expected of the EQR in some areas appeared to be at the same level as an EP and, in the view of the AUASB, was not in line with the objectives and proportionate responsibilities of an EQR.</p>	The IAASB considered whether the responsibilities of the engagement partner were appropriate in light of the responsibilities specified for the engagement quality reviewer in ISQM 2. The IAASB noted that the requirements for an engagement partner go much further because the full suite of ISAs are directed at "the auditor", the definition of which includes the engagement partner.
8	<p>Review of Technology</p> <p>The AUASB raised that ISA 220 could better consider the impact of new and emerging technology on all aspects of the engagement partner's responsibilities.</p>	<p>The IAASB noted that the balance between respondents supporting the material on technological resources and those asking for more guidance indicated that an appropriate balance had been achieved overall. However, in response to the specific requests, the IAASB included additional application material on:</p> <ul style="list-style-type: none"> - The use of technological tools by engagement team members from another firm (see paragraph A65 of ASA 220); and - Actions that need to be taken by the engagement team when using IT

Basis for Conclusions ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

Matter #	AUASB Issue	Addressed in final ISA 220
		applications that are not firm-approved (see paragraphs A66–A67 of ASA 220).
9	Professional Scepticism The AUASB raised that the objective of ED paragraph 7 was unclear and appeared to lead engagement team members to question or ‘second guess’ their colleagues and/or the firm in meeting the requirements of the standard. The AUASB that paragraph 7, and other appropriate areas of ISA 220, could more clearly emphasise how the engagement partner is responsible for establishing an environment that supports the exercise of professional scepticism and setting an appropriate ‘tone from the top’ across the engagement team.	The IAASB has addressed this through: <ul style="list-style-type: none">- Redrafting of paragraph 7;- significant redrafting of paragraph A27, although no new impediments to scepticism included; and- proposed future consideration by the ISA 220 Task Force of examples to be included as part of implementation material for the standard.



AUASB Agenda Paper

Project:	Less Complex Entities	Meeting:	March 2021
Topic:	ISA for LCE	Agenda Item:	5.1
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	Decision-Making:	For Discussion and AUASB input
ATG Staff:	Rene Herman	Project Status:	Early in project – first read of draft ED
AUASB Sponsor:	TBA		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Paper is to **update the AUASB and receive input from the AUASB on the ISA for LCE project at a higher-level principles discussion.**
- 2 The hyperlinks to IAASB papers are included in this document for ease of reference, owing to the timing of these papers. At this early stage of the ISA for LCE Project it is not expected that AUASB members will have read all of the ISA for LCE.
- 3 At the March 2021 IAASB meeting the IAASB will be asked to provide input into the principles of drafting as well as input into the first draft standard which has been included as a hyperlink [[here](#)]. If any AUASB members have specific feedback on the proposed ISA for LCE standard beyond the matters raised in this Agenda Paper they are encouraged to provide it to the AUASB Technical Team directly.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any comments around the principles using in drafting the ISA for LCE described in paragraph 6 below? The AUASB is asked specifically for views around: Definitions and Essential explanatory material.	N/A

AUASB Agenda Paper

Question 2	Does the AUASB have any comments on the applicability of the standard as described in paragraph 7 below?	N/A
Question 3	Does the AUASB have any comments on the additional matters described in paragraph 8 below? The AUASB is specifically asked for their views on the auditor's report and maintenance of the ISA for LCE.	N/A

Background

- 4 The IAASBs outreach has indicated that many of the challenges and issues that LCEs face are also applicable to all audits. In balancing the needs of all its stakeholders, as well as the time needed to develop changes to address the issues and challenges within the broader suite of ISAs, the IAASB agreed to two workstreams: one to develop a ISA for LCE focused on audits of LCEs, and the other to address issues related to complexity, understandability, scalability and proportionality in the ISAs more broadly. This Agenda Paper deals with the ISA for LCE stream.

Previous Discussions on Topic

- 5 In September 2019, the AUASB made a [submission](#) into the [IAASB's Discussion Paper Audits of Less Complex Entities: Exploring the Possible Options to Address the Challenges in Applying the ISAs](#).
- 6 At the December 2020 AUASB meeting, the ATG outlined to the AUASB the LCE project proposal that was being put to the IAASB for approval at the December 2020 IAASB meeting. In December 2020 the IAASB approved the LCE project proposal and agreed to the following:
- Mixed views regarding a standalone standard, with no direct reference back to the ISAs if a matter was not covered by the separate standard verses keeping the standard simpler and allowing reference back to the ISAs where needed.
 - The separate standard would probably narrow in scope, for example the Board agreed not to include group audits in the exposure draft, but rather set out the impact on the separate standard and ask for stakeholder views on this in the explanatory memorandum accompanying the exposure draft.
 - The applicability of the standard would scope out listed entities and further consideration would be given about extending the exclusion to other entities including those that are considered to be PIEs.
 - It was encouraged that the decision about whether the standard could be used or not be left to individual jurisdictions (i.e., law or regulation would be used to impose limitations for its use).
 - Support for presenting the separate standard using the flow of the audit.
 - Mixed views around how definitions were referred to the in the standard.
 - Supporting of aligning the standard with the core ISA requirements that were appropriate for an LCE audit. However, there were mixed views about whether the requirements of the draft separate standard should fully align with the wording as in the ISAs, or whether they should be rearticulated as appropriate for an LCE audit.
 - The Board generally supported the ISAs that were proposed to not be included (i.e., ISA 610, parts of ISA 501 and ISA 701).

Matters for Discussion

- 7 The ISA for LCE has continued to be developed on the following basis:
- The ISA for LCE will contain **all the requirements** relevant to an audit of an LCE within one standard. These requirements are based on ‘core’ requirements within the International Standards on Auditing (ISAs) that would be applicable in the circumstances of an audit of an LCE.
 - The standard will be a **stand-alone standard** with no linkage or ‘fallback’ to the suite of ISAs. The exceptions are:
 - ISA 701 (reporting key audit matters (KAMs)), it is the view of the Task Force that there may be situations where the auditor of an LCE voluntarily reports KAMs in the auditor’s report. In such situations, a conditional requirement has been added to state that if key audit matters are reported in the auditor’s report, all the requirements of ISA 701 will need to be complied with. Because this is a reporting standard, the use of ISA 701 does not change or impact the underlying compliance with ISA for LCE.
 - ISQM 2: If an engagement quality review is required by the policies or procedures that are in accordance with ISQM 1 – the standard references ISQM 2.
 - For purposes on the ISA for LCE, the **definitions** contained in the ISAs, as compiled in the *Glossary of Terms* (the Glossary) apply. Within the standard, if a word or term is defined or described in the glossary, it is underlined on its first use in a Part.
 - The **standard will be divided into “Parts”** which sets out the relevant requirements for the various components within an audit. There is expected to be minimal application material.
 - Part 1 sets out the fundamental concepts and overarching principles.
 - Part 2 sets out the auditor’s and engagement partner’s obligations and responsibilities for quality management in an audit of an LCE.
 - Part 3 sets out the general requirements relating to audit evidence, communication and documentation, as well as the overall objective of the audit. The concepts and principles within this part are to be applied throughout the audit.
 - Parts 4 to 9, which **follows the flow of an audit engagement**, set out the detailed requirements for the audit. Each of these Parts includes specific communication and documentation requirements as necessary.
 - Each Part includes:
 - Non-authoritative introductory material in a box that sets out the content and scope of that Part.
 - Objective(s), which link the requirements and the overall objective of the audit.
 - Requirements to be met, except where the requirement is conditional, and the condition does not exist. Requirements are expressed using “shall.”
 - **Essential explanatory material (EEM)**, designed to provide further explanation relevant to a sub-section or a specific requirement. EEM will only be provided when it is deemed to provide crucial support to the appropriate application of the concept or requirement(s). There are two types of essential explanatory material: general introductory EEM that explains the context of the section that follows and EEM specific to the requirement directly above it. Additionally, Selecting EEM paragraphs for inclusion has been based on the

judgment of the Task Force. Within the ISAs, all the paragraphs with “considerations specific for small entities” have been considered and included as appropriate. **To facilitate AUASB discussion on this matter, and without having to refer to the draft ISA for LCEs, the ATG have attached at Appendix 1 to this Agenda Paper a few examples of EEM that have been extracted from the draft ISA for LCE.**

Question 1 for the AUASB: Does the AUASB have any comments around the principles described above? The AUASB is asked specifically for views around: Definitions and Essential explanatory material.

8 *Who will be able to use the ISA for LCE (applicability / scope)?*

The Task Force considered the IASB’s approach to applicability of the IFRS for SMEs, i.e., using the concept of “public accountability” to scope for which entities the standard is appropriate. On balance, the Task Force agreed to not introduce an additional concept into the IAASB’s literature because this may cause further confusion with the concepts currently used (and also in light of the work being undertaken by the IESBA on the definition of public interest entities (PIEs) and the impact that may have on the IAASB’s standards).

Part A to the standard will explain the applicability of the standard (i.e., the types of audits for which it will be appropriate). For now, the ISA FOR LCE will not be used if:

- (a) Laws or regulations restrict or prohibit the use of the ISA for LCE.
- (b) The entity that is a listed entity.
- (c) The audit is an audit of group financial statements.
- (d) The audit is judged not to be an audit of a less complex entity, Part A to the standard provides examples of characteristics of an entity that is not complex:
 - Business activities and governance structure that is not complex
 - An information system that is less complex
 - The financial statements only include ‘basic accounting estimates’ – there is essential application material that describes when *an accounting estimate is likely to be considered a ‘basic accounting estimate’ and the standard will contain an appendix which lists the types of basic accounting estimates that could be encountered in the audit of a less complex entity.* This distinguisher of a ‘basis accounting estimate’ is seen to be similar to how the IASB dealt with matters of complexity in the IFRS for SMEs, in particular how the distinction is made with regard to financial instruments. The IFRS for SMEs distinguishes ‘basic financial instruments’ and sets out extensive guidance about what these are.

The auditor will be required to document the professional judgments made in determining that the ISA for LCE is appropriate for the nature and circumstances of the entity being audited.

Important to note is (a) above whereby, individual jurisdictions will be able to add further exclusions for using the standard for that particular jurisdiction.

Question 2 for the AUASB: Does the AUASB have any comments on the applicability of the standard?

9 *Other Matters for AUASB comment:*

- a) **Name of the standard:** *International Standard on Auditing for Financial Statements of Less Complex Entities* (ISA for LCE)
- b) **Maintenance of the ISA for LCE** - propose amendments to the ISA for LCE periodically, but not more frequently than once every three years. Until the ISA for LCE is amended, changes made or proposed to the ISAs do not apply to the ISA for LCE.
- c) The auditor's report will identify that the audit was conducted in accordance with the ISA for LCE. The ISA for LCE will contain **one example of a 'clean opinion'**, the taskforce intends there to be an accompanying reporting 'support guide' to provide guidance and examples on modifications to the auditor's report. This support guide will be exposed along with the standard. In addition, each jurisdiction or firms can also develop example auditor's reports as needed. The Task Force has also considered the presentation of the auditor's report and how this could be made more appropriate for the circumstances of an LCE (and its expected users). Accordingly, the example report now only contains the opinion and the basis for the auditor's opinion. All other matters described in the auditor's report have been moved to the appendix to the auditor's report (with management's and the auditor's responsibilities presented first).
- d) The standard will contain **various appendices** (fraud risk factors for LCEs, assertions that may be used in the audit, examples of 'basic accounting estimates', example engagement letter, example management representation letter, example 'clean' auditor's report).
- e) The LCE taskforce has prepared detailed **'mapping' documents** that illustrate the ISA requirements and how they have, or have not, been included within the draft ISA for LCE. The 'mapping' documents use 'alignment principles' for each requirement to help explain why an ISA requirement has not been included or changed. These alignment principles have been applied to every requirement in the ISAs and include an explanation about:
 - Whether the requirement is relevant in the circumstances of an audit of an LCE, and if not, why not.
 - If applicable, why the requirement has been changed to make it more relevant to the circumstances of an LCE.
 - Whether any changes made for the purpose of the ISA for LCE would still result in requirements meeting the objectives for each Part and therefore that the auditor's procedures would still enable the objectives to be met and reasonable assurance to be achieved.
- f) Other comments/considerations?

Question 3 for the AUASB: Does the AUASB have any comments on matters 8(a)-8(f) above? The AUASB is specifically asked for their views on the auditor's report and maintenance of the ISA for LCE.

Collaboration with NZAuASB and other standard setters

- 9 At this stage of the project, as this is the first read of the draft standard, the AUASB is yet to discuss the content of the standard with other NSSs including the NZAuASB.

Way Forward

- 10 The IAASB is working towards a June 2021 Exposure Draft of the ISA for LCE, with a final standard approval target date of December 2022.
- 11 The AUASB technical group will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.
- 12 Possible further discussion at April 2021 AUASB meeting.

APPENDIX 1

EXTRACTS FROM DRAFT ISA FOR LCE – TO DEMONSTRATE THE USE OF ESSENTIAL EXPLANATORY MATERIAL

EEM is always included in a blue box in highlighted text.

Extracts from Fundamental Concepts and General Principles for Performing the Audit

Sufficient Appropriate Audit Evidence

- 1.1.1. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion.

Sufficiency is the measure of the quantity of audit evidence, and is affected by the auditor's risks of material misstatement (the higher the assessed risks, the more evidence is likely to be required) and also the quality of the evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate if it is of poor quality. Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.

Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

- 1.1.2. Professional skepticism involves performing procedures in a way that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that is contradictory.

Professional skepticism is necessary to the critical assessment of audit evidence, and the auditor remains alert to, for example:

- *Audit evidence that contradicts other audit evidence obtained.*
- *Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.*
- *Conditions that may indicate possible fraud.*
- *Circumstances that suggest the need for audit procedures in addition to those required by this standard.*

- 1.1.3. The auditor shall exercise professional judgment in planning and performing the audit.

The exercise of professional judgment in any particular case is based on the facts and circumstances that are known to the auditor up to the date of the auditor's report, and decisions made by auditors whose training, knowledge and experience are appropriate to achieve reasonable professional judgments (i.e., the professional judgment reached reflects a competent application of auditing and accounting principles and is appropriate in the circumstances). Professional judgment needs to be appropriately documented in accordance with the requirements of the ISA for LCE

Extracts from Fundamental Concepts and General Principles for Performing the Audit

Assessing Inherent Risk

3.1.1. For identified risks of material misstatement, the auditor shall assess:

- (a) The risks of material misstatement at the financial statement level. In doing so, the auditor shall determine whether such risks affect risks at the assertion level, and evaluate the nature and extent of their pervasive effect on the financial statements; and
- (b) Inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement, and taking into account the inherent risk factors, including estimation uncertainty for the entity's accounting estimates.

The assessed inherent risk relating to a particular risk of material misstatement at the assertion level represents a judgment within a range, from lower to higher, on the spectrum of inherent risk.

In assessing inherent risk, the auditor uses professional judgment in determining the significance of the combination of the likelihood and magnitude of a misstatement on the spectrum of inherent risk. The judgment about where in the range inherent risk is assessed may vary based on the nature, size and complexity of the entity, and takes into account the assessed likelihood and magnitude of the misstatement and inherent risk factors.

In considering the likelihood of a misstatement, the auditor considers the possibility that a misstatement may occur, based on consideration of the inherent risk factors. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to size, nature or circumstances).

Significant Risks

3.1.2. The auditor shall determine whether any of the assessed risks of material misstatement are, in the auditor's professional judgment, a significant risk.

The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk as set out below. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed.



AUASB Agenda Paper

Project:	Audit Evidence	Meeting:	10 March 2021
Topic:	Project Input	Agenda Item:	5.2.0
Strategic Objective:	International Influence	Decision-Making:	For Discussion
ATG Staff:	Tim Austin	Project Status:	In Progress
AUASB Sponsor:	Noel Harding		

Action Required and Decisions to be Made

- The purpose of this Agenda Item is to update the AUASB on significant developments in the IAASB's Audit Evidence project since the last update at the December 2020 AUASB Meeting and to request AUASB Member feedback to the questions below.
- With the approval of the project proposal at the December 2020 IAASB Meeting, the Audit Evidence Task Force (AETF) is seeking feedback from the IAASB on a number of proposals. As part of the papers for this IAASB Meeting, the Audit Evidence Working Group has provided:
 - Illustrative drafting related to definitions and requirements; and
 - Illustrative drafting reflecting possible application material.Whilst illustrative drafting has been included as part of the papers, the AETF is not seeking IAASB comments on drafting at this stage however, drafting feedback can be provided to IAASB Staff.
- At the March 2021 IAASB Meeting, the IAASB is being asked to:**
 - Respond to 9 questions covering five matters:**
 - Definition of audit evidence and the meaning of audit procedures.**
 - Information intended to be used as audit evidence.**
 - Sufficient and appropriate audit evidence and the persuasiveness of audit evidence.**
 - Designing and performing audit procedures to obtain sufficient and appropriate audit evidence.**
 - Modernising ISA 500 through incorporating technology.**
- In line with the AUASB International Strategy, AUASB members are being asked to provide their views matters Error! Reference source not found.-9 to inform the Australian IAASB Member.**
- A link to all IAASB papers is provided [\[here\]](#).
- Where AUASB Members would like to read about a matter outlined in this paper in further detail the diagram included as Agenda Item 5.2.1 will direct AUASB Members to the appropriate paragraphs in the IAASB Papers.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	<p>Do AUASB Members have a view on the:</p> <p>(a) AETF's proposed categorisation of audit procedures into audit procedures to obtain sufficient appropriate audit evidence and other procedures required to comply with the standards; and</p> <p>(b) recommendation that ISA 500 only deal with audit procedures designed to obtain sufficient and appropriate audit evidence?</p>	The ATG considers that categorisation of audit procedures may over complicate the standard and require specifically identifying and categorising requirements throughout the standards to determine which requirements are subject to ISA 500.
Question 2	Do AUASB Members agree with the AETF's view that information needs to be subjected to audit procedures to become audit evidence and the initial redrafting of the audit evidence definition?	The ATG supports the view that information needs to be subjected to audit procedure to become audit evidence.
Question 3	Do AUASB Members have a view on the revised relevance and reliability factors?	The ATG supports the proposed approach to assessing relevance and reliability but considers that such fundamental concepts could be moved into the definitions/requirements of the standard.
Question 4	Do AUASB Members view the AETF's categorisation of information sources responsive to the feedback at the previous meeting regarding internal and external information?	The ATG in principle supports that sources of information are not simply internal or external with this approach and that this may be a way of responding to this. The AETF will need to ensure that the application material described in paragraph 21 clearly links with the source of information to ensure that the work effort required changes with the source.
Question 5	Do AUASB Members have a view on the AETF's approach to availability, accessibility and understandability of information intended to be used as audit evidence?	The ATG supports the inclusion of material to address this in ISA 500.
Question 6	Do AUASB Members have a view on the proposed changes to the terms appropriateness and sufficiency and the approach to explaining that sufficient appropriate audit evidence is assessed on a spectrum (persuasiveness)?	The ATG supports the changes to the description of appropriateness and suitability but considers that emphasising that sufficiency and appropriateness is to be assessed on a spectrum in the application material may not be the most appropriate way of highlighting the importance of the concept.

Question No.	Question for the Board	ATG Recommendation Overview
Question 7	Do AUASB Members have a view on the AETF's proposals to amend "audit procedures" in ISA 500 to modernise the descriptions and clarify that the list of audit procedures is not intended to be definitive?	Due to the impact on the "engagement team" definition, the ATG views that changes to the audit procedures application material will need to be considered carefully in conjunction with standards which use the term "engagement team" and the potential impact of the proposed categorisation of audit procedures (see paragraph 15) proposed by the AETF.
Question 8	Do AUASB Members have a view on the AETF's proposed approach to incorporate technology into ISA 500 through application and other explanatory material only?	The ATG supports keeping the requirements of the standard principles based and including specific technology matters as part of application and other explanatory material.
Question 9	Do AUASB Members consider example E4 addresses whether procedures can be both a risk assessment and response?	The ATG considers the example appropriate but notes that a number of other proposed examples are technology specific and may become outdated.

Background

- 7 At the December 2020 IAASB Meeting, the Audit Evidence Task Force (AETF) presented to the IAASB a draft ISA 500 project proposal for discussion and approval. The project proposal was approved by the IAASB with several changes which included:
- (a) Additional emphasis on the development of a principles-based standard to ensure the standard is applicable to a wide range of circumstances and remains fit for purpose;
 - (b) Clarifying that the scope of the project is limited to ISA 500 but there may be a need to relocate requirements from extant ISA 500 to other standards;
 - (c) Specifically recognising that the IAASB will explore how material in revised ISA 220¹ relating to professional scepticism may be drawn upon; and
 - (d) Clarifying that future activities will include consideration of the work of the IAASB's Fraud Working Group, the Less Complex Entities Working Group and the Complexity, Understandability, Scalability and Proportionality Working Group.
- 8 The approved project proposal can be found [\[here\]](#).
- 9 In addition to the draft project proposal, the IAASB was asked for its initial views on four areas considered fundamental to the project covering the:
- (a) Purpose and scope of ISA 500;
 - (b) Concept and evaluation of sufficient and appropriate audit evidence, including the concept of persuasiveness;

¹ ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* paragraphs A35–A36.

- (c) Distinction between sources of information in ISA 500; and
 - (d) Varying degree of work effort in considering information to be used as audit evidence.
- 10 The AUASB provided its feedback on both the project proposal and the fundamental areas to the Australian IAASB Member.

Previous Discussions on Topic

- 11 The AUASB has been tracking the progress of the Audit Evidence information gathering and the development of the project proposal. This tracking is reflected in the following AUASB meeting papers:
- (c) 6 March 2019 (Agenda Item 7.4.0) – Update to AUASB on AICPA audit evidence standard.
 - (d) 26 June 2019 (Agenda Item 2.3.0) – Feedback on list of issues including prioritisation.
 - (e) 10 June 2020 (Agenda Item 8.3.0) – Verbal update on project progression.
 - (f) 1 and 4 December 2020 (Agenda Item 14.2.0) – IAASB project plan review.

Matters for Discussion and ATG Recommendations

- 12 The Matters for Discussion in this paper have been broken up into:
- (a) Consideration of the IAASB Audit Evidence matters for comment:
 - (i) Definition of audit evidence and meaning of audit procedures;
 - (ii) Information intended to be used as audit evidence;
 - (iii) Sufficient appropriate audit evidence and the persuasiveness of audit evidence;
 - (iv) Designing and performing audit procedures to obtain sufficient appropriate audit evidence; and
 - (v) Modernising ISA 500 through incorporating technology.
- 13 This Agenda Paper is intended to provide a high level summary of the AETF's approach to ISA 500 and what will be presented at the upcoming IAASB March 2021 meeting. As outlined in paragraph 6, for more information on specific matters see Agenda Item 5.2.1 which is a reference document for the IAASB Papers related to Audit Evidence.

A. Consideration of IAASB matters

Definition of audit evidence and meaning of audit procedures

- 14 The IAASB paper discusses two key matters in this section:
- (a) The meaning of audit procedures: and
 - (b) whether information needs to be subjected to audit procedures to become audit evidence.
- 15 The AETF's considers there are several categories of audit procedures used to obtain sufficient appropriate audit evidence throughout the suite of standards and these audit procedures can be categorised as:
- (a) Audit procedures to obtain sufficient appropriate audit evidence such as:
 - (i) Risk assessment procedures;
 - (ii) Further audit procedures;
 - (iii) Other audit procedures that are required by the ISAs to obtain sufficient appropriate audit evidence which are neither risk assessment or further audit procedures such as subsequent events; and
 - (iv) Audit procedures to consider the *relevance* and *reliability* of information intended to be used as audit evidence.
 - (b) Other procedures that are required to comply with the requirements of the ISAs.
- 16 The AETF has proposed limiting ISA 500 to only deal with audit procedures to obtain sufficient appropriate audit evidence (procedures outlined in paragraph 15(a)).

17 In considering whether information needs to be subject to audit procedures to become audit evidence, the AETF's view is that audit evidence is the output of an audit procedure and that the term "information to be used as audit evidence" should be used to describe the input to audit procedures. Information to be used as audit evidence, is at a minimum, considered and evaluated for relevance and reliability before becoming audit evidence.

18 To align with the above views, the AETF proposes revising the definition of audit evidence to read as:

Proposed audit evidence definition

Information, which has been subject to audit procedures, used by that enables the auditor in arriving to draw at the conclusions that form the basis for on which the auditor's opinion and report is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

19 The ATG supports the view that information needs to be subjected to audit procedure to become audit evidence, however, the ATG considers that categorisation of audit procedures may over complicate the standard and require specifically identifying and categorising requirements throughout the standards to determine which requirements are subject to ISA 500.

Questions

1. Do AUASB Members have a view on the:
 - a) AETF's proposed categorisation of audit procedures into audit procedures to obtain sufficient appropriate audit evidence and other procedures required to comply with the standards; and
 - b) recommendation that ISA 500 only deal with audit procedures designed to obtain sufficient and appropriate audit evidence?
2. Do AUASB Members agree with the AETF's view that information needs to be subjected to audit procedures to become audit evidence and the initial redrafting of the audit evidence definition?

Information to be used as audit evidence

- 20 At the previous discussion on ISA 500, the AETF presented attributes of relevance and reliability beyond those in extant ISA 500. Whilst the IAASB was broadly supportive of the approach it cautioned that auditors may interpret that all attributes need to be considered for all information to be used as audit evidence and that there needs to be a spectrum of work effort in considering such information.
- 21 In response to the IAASB's feedback the AETF has removed factors from the consideration of relevance and reliability that were seen to potentially duplicate other factors or over complicate the standard². Additionally, the AETF has proposed application material to ISA 500 which outlines that there is a degree to which information needs to have each of the attributes of relevance and reliability and that the assessment is on a spectrum³.
- 22 The ATG supports the proposed approach to assessing relevance and reliability but considers that such fundamental concepts could be moved into the definitions/requirements of the standard.
- 23 At the previous discussion on ISA 500, the IAASB raised that the distinction between sources of information should be retained. This was in line with feedback from AUASB Members that the distinction between internal and external information should not be lost as being required to apply the same work effort to both may create an unnecessary burden.

² See IAASB Agenda Item 2-A paragraphs C6 and C7.

³ See IAASB Agenda Item 2-A paragraphs C8 and C9.

- 24 The AETF agreed with the IAASB's comments but noted that sources of information have expanded beyond simply external and internal. To respond to this, the AETF proposes four categories of sources of information to be described in ISA 500:
- (a) An internal information source – management or others internal to the entity that provide information.
 - (b) An external information source – an external individual or organisation that provides information that has been used by the entity in preparing the financial statements, or from which the auditor has obtained information, when such information is suitable for use by a broad range of users.
 - (c) Another source external to the entity – an external individual or organisation from whom the auditor has obtained information, and the information is specific to the entity, or is not suitable for use by a broad range of users. This includes an auditor's expert.
 - (d) The auditor, including the firm – the auditor may independently develop or further process information to generate information intended to be used as audit evidence.
- 25 The ATG in principle supports the view that sources of information are not simply internal or external and that introducing further distinctions may be a way of responding to this. The AETF will need to ensure that the application material described in paragraph 21 clearly links with the source of information to ensure that the work effort required changes with the source.
- 26 The AETF has also proposed developing application material to address:
- (a) Where information is not available or understandable, that information is not subject to the further relevance and reliability considerations.
 - (b) Where information that is not available or understandable, or there are restrictions on access to information are not justifications for the auditor to be satisfied with less than persuasive audit evidence. The application material will emphasize the auditor's actions when the auditor is unable to obtain sufficient appropriate audit evidence.

Questions

- 3. Do AUASB Members have a view on the revised relevance and reliability factors?
- 4. Do AUASB Members view the AETF's categorisation of information sources responsive to the feedback at the previous meeting regarding internal and external information?
- 5. Do AUASB Members have a view on the AETF's approach to availability, accessibility and understandability of information intended to be used as audit evidence?

Sufficient appropriate audit evidence and the persuasiveness of audit evidence

- 27 At the December 2020 IAASB meeting, the AETF proposed introducing the concept of persuasiveness when concluding whether sufficient appropriate audit evidence has been obtained. The IAASB supported the introduction of the concept of persuasiveness but raised that it would be impracticable to define persuasiveness. The AETF considers that ISA 500 should focus on explaining how to consider whether the audit evidence is sufficient and appropriate through explaining the factors that influence the sufficiency and appropriateness of audit evidence.
- 28 The AETF has identified three categories of factors that, in their view, affect the auditor's consideration of the sufficiency and appropriateness of audit evidence:
- (a) Category 1 – The assessed risks of material misstatement, including the nature of the risk of material misstatement, the relevant assertion(s), and the reasons for the assessment, and the results of audit procedures performed, including whether any instances of fraud or error were identified.
 - (b) Category 2 – The information to be used as audit evidence.
 - (c) Category 3 – The effectiveness of the audit procedures and whether the audit procedures have been appropriately applied.
- 29 Considering these categories, the AETF views that:

- (a) Appropriateness is about the suitability of the audit evidence, which is affected by:
 - (i) The information to be used as audit evidence, including the relevance and reliability of information (category 2); and
 - (ii) The effectiveness of the audit procedure and whether the audit procedures have been appropriately applied (category 3).
- (b) Sufficiency of audit evidence is affected by:
 - (i) Whether the audit evidence is appropriate; and
 - (ii) In the view of the degree of the appropriateness of the audit evidence, whether it is sufficient in the context of the assessed risks of material misstatement, and the results of the audit procedure performed to persuade the auditor in drawing conclusions (category 1).

- 30 The AETF proposes amending the definitions of appropriateness (of audit evidence) and sufficiency (of audit evidence) to read as below, as well as application material to explain the factors for each⁴:

Proposed appropriateness (of audit evidence) definition

Appropriateness (of audit evidence) – The measure of the suitability quality of audit evidence; ~~that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

Proposed appropriateness (of audit evidence) definition

Sufficiency (of appropriate audit evidence) – The measure of the persuasiveness quantity of appropriate audit evidence in enabling the auditor to draw conclusions that form the basis for the auditor's opinion and report. ~~The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~

- 31 The ATG supports the changes to the description of appropriateness and suitability but considers that emphasising that sufficiency and appropriateness is to be assessed on a spectrum in the application material may not be the most appropriate way of highlighting the importance of the concept.

Questions

6. Do AUASB Members have a view on the proposed changes to the terms appropriateness and sufficiency and the approach to explaining that sufficient appropriate audit evidence is assessed on a spectrum (persuasiveness)?

Designing and performing audit procedures to obtain sufficient appropriate audit evidence

- 32 The AETF considered whether paragraph 6 of extant ISA 500 was still relevant and appropriate. The paragraph required the auditor to design and perform audit procedures appropriate in the circumstances of the audit.
- 33 Inline with the proposed changes to the nature of the standard to be principles based, the AETF does not consider that paragraph 6 is relevant or appropriate as the design and performance of audit procedures are dealt with sufficiently throughout other standards, for example ISA 330 which requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risk of misstatement at the assertion level.
- 34 The AETF proposes revising paragraph 6 to read as:

⁴ See IAASB Agenda Item 2-A paragraphs D1 and D2.

ISA 500 paragraph 6

The auditor shall consider whether the design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence.

- 35 Additionally, the AETG also considered the appropriateness of the list of audit procedures contained in the application material of ISA 500. The audit procedures in the application material include inspection, observation, external confirmation, recalculation, reperformance, analytical procedures and inquiry.
- 36 The AETG has proposed amendments to the application material to modernise the audit procedures and proposes including further examples (similar to examples in ISA 315) as well as making it clear that the audit procedures listed in the standard are not exhaustive and that other audit procedures may be performed⁵.
- 37 The ATG considers that the amendments to paragraph 6 of ISA 500 are appropriate in the context of the amended purpose of the standard. Due to the impact on the “engagement team” definition, the ATG views that changes to the audit procedures application material will need to be considered carefully in conjunction with standards which use the term “engagement team” and the potential impact of the proposed categorisation of audit procedures (see paragraph 15) proposed by the AETF.

Questions

7. Do AUASB Members have a view on the AETF’s proposals to amend “audit procedures” in ISA 500 to modernise the descriptions and clarify that the list of audit procedures is not intended to be definitive?

Modernising ISA 500 through incorporating technology

- 38 To keep the proposed ISA 500 requirements principles based, the AETF has focused on amending application material to better reflect technology throughout the standard. The proposed changes include:
- (a) References in the applicable material to information in digital form.
 - (b) Application material highlighting the auditor’s use of automated tools and techniques to perform audit procedures.
 - (c) Examples or references to information in digital form or the client’s use of technology.
- 39 A specific outcome of the project is addressing whether procedures can be both a risk assessment and response. In response to this, the AETF has proposed a number of examples to be included in the application material of the standard. Below is one example:

Example E4

In identifying and assessing the risks of material misstatement regarding revenue, the auditor performs analytical procedures using automated tools and techniques, in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement.

In performing those procedures, the auditor is also able to obtain audit evidence about the occurrence of revenue. Specifically, the auditor’s risk assessment procedures provide evidence about transactions that do meet certain criteria, such as transactions with authorized customers, transactions with matching shipping documents, and transactions with normal delivery.

- 40 The ATG considers that keeping the requirements principles based and dealing with technology in the application and other explanatory material appropriate. The ATG views that example E4 is

⁵ See IAASB Agenda Item 2-A paragraphs E1 and E14.

appropriate but notes that other examples which are more specific to certain technologies may become outdated requiring IAASB action in the future.

Questions

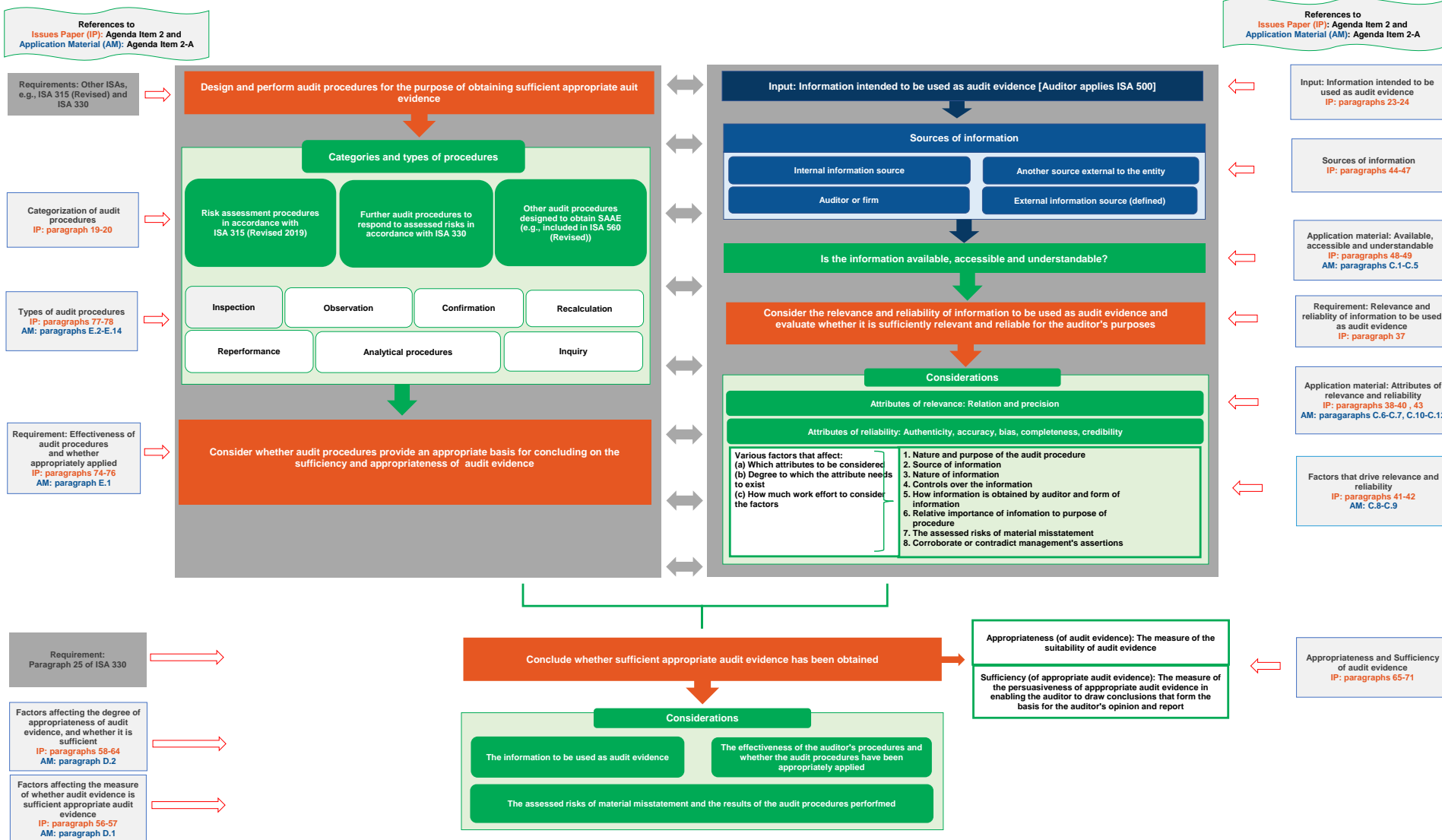
8. Do AUASB Members have a view on the AETF's proposed approach to incorporate technology into ISA 500 through application and other explanatory material only?
9. Do AUASB Members consider example E4 addresses whether procedures can be both a risk assessment and response?

Next steps/Way Forward

- 41 The ATG will provide the response to the questions in this paper to the Australian IAASB Member and will continue to monitor the project and provide updates to the AUASB.
- 42 The AETF plans to present a full draft of ISA 500 at the June 2021 IAASB meeting. After the March 2021 IAASB meeting, the AETF plans to address matters not considered as part of the upcoming meeting including:
 - (a) ISA 500 introductory materials;
 - (b) The objective of ISA 500;
 - (c) The use of the terms "information" and "data" in the ISAs and any differences in their respective meaning;
 - (d) Professional scepticism;
 - (e) The auditor's responsibilities related to the authenticity of information to be used as audit evidence.
 - (f) The work effort related to the evaluation of information to be used as audit evidence (e.g. "evaluate" vs "consider"); and
 - (g) Technology (including the overreliance on technology).
- 43 The targeted date for an exposure draft is March 2022.

Agenda Item 2-B
For Reference

Audit Evidence - Visual Illustration of Key Proposed Aspects Related to ISA 500 and the Interrelationship of the Aspects





AUASB Agenda Paper

Project:	ISA 600 Group Audits	Meeting:	March 2021
Topic:	Comments from ED process and drafting amendments to ED-IDA 600	Agenda Item:	5.3
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	Decision-Making:	To update the AUASB
ATG Staff:	Rene Herman	Project Status:	Early in the process of reviewing comments from ED and drafting amendments to ED-IDA 600
AUASB Sponsor:	Rodney Piltz		

Action Required and Decisions to be Made

The purpose of this Agenda Paper is to **provide the AUASB with a high level overview** of some of the key themes identified (on certain areas) by the ISA 600 Task Force from the comments on the Exposure Draft of Proposed ISA 600; and to provide the AUASB with a summary of the proposals of the Task Force. There is one general question for the AUASB that the AUASB technical group seeks AUASB input on.

ATG Questions for the Board

Question No.	Question for the Board
Question 1	<p>Does the AUASB have any comments on paragraphs 6-11 of this Agenda Item? The AUASB to particularly note the ATG comments on paragraphs:</p> <ul style="list-style-type: none">• 9 of this Agenda Item in relation to communication of corrected misstatements;• 11 of this Agenda Item in relation to examples where component auditor's documentation may be included in the group auditor's file.

Background

1. In April 2020, the IAASB issued Exposure Draft ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, with comments due by 2 October 2020.
2. At the 26 May 2020 AUASB meeting, the AUASB approved Phase 1 of the ISA 600 project plan – to conduct outreach and respond to the IAASB ED-ISA 600.

3. After outreach, webinars, roundtables and AUASB discussion on this topic, on 2 October 2020 the AUASB made their [submission to the IAASB on ED-ISA 600](#).
4. At the December 2020 IAASB meeting, the IAASB commenced discussions on the responses to ED-ISA 600, these discussions continue at the March 2021 IAASB meeting with proposals put forward by the Taskforce to the IAASB.

Matters for Discussion

5. The IAASB received 82 responses to the ED, the Task Force has selected 6 themes for continued or new discussion with the IAASB at this upcoming March 2021 IAASB meeting:
 - The scope and applicability of ED-600, including the definitions of group financial statements and the description of the term consolidation process (the 'entry point' into ED-600) [refer paragraph 6 below];
 - The revised definition of component [refer paragraph 7 below];
 - The risk-based approach, including the involvement of component auditors in identifying, assessing and responding to the risks of material misstatement of the group financial statements [refer paragraph 8 below];
 - Interactions between the group auditor and the component auditor [refer paragraph 9 below];
 - Materiality and aggregation risk [refer paragraph 10 below]
 - Documentation [refer paragraph 11 below].
6. Scope and Applicability

Extracts from AUASB submission to IAASB

The AUASB generally supported the scope and applicability of ED ISA 600, including the definition of group financial statements and the linkage to a consolidation process. However, the AUASB recommended that the scope and application of the standard be clarified and that the introductory paragraphs be strengthened in this regard. The AUASB recommended the following enhancements to the introductory paragraphs:

- The **definition of "group financial statements"** could be further enhanced by directly incorporating the "consolidation process" definition which is a key element to the entry point into the standard.
- ED ISA 600 scopes in some **very simple group structures** for example a single entity with branches for which no component auditors are used. While the AUASB understands that the underlying ISAs are applicable and ED ISA 600 is special considerations only, there is expected to be an extensive amount of documentation to effectively demonstrate that the special considerations of ED ISA 600 are largely not applicable. The AUASB recommends that for single entity structures, the auditor exercises professional judgement in determining whether ED ISA 600 applies. The IAASB could determine the factors to be considered in exercising professional judgement including considerations such as inherent risk factors, commonality of controls and centralisation of activities.
- The title of ED ISA 600 refers to 'group financial statements', with there being a common understanding of the use of the term 'group' and 'consolidation process', there is a risk that practitioners do not realise that they are working with a group engagement under ISA 600. To aid in the clarity of the applicability of ED ISA 600, the AUASB recommends that the introductory section of the proposed standard should specifically call out that ED ISA 600 includes such single entities in certain circumstances.

- Extant ISA 600 applies, as appropriate, when the auditor involves **other auditors in the audit of financial reports that are not group financial reports**. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location. Recently approved ISA 220 Quality Management for an Audit of Financial Statements (ISA 220 Revised), application material paragraph A1 indicates that this may still be the case under the recently approved new standards. The AUASB recommends that the introductory section to ED ISA 600 demonstrates this link to ISA 220 Revised as this linkage is not currently clear.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- Entry point into the standard clearer and upfront in the introduction, including a point to emphasises that the term ‘consolidation process’ isn’t only the financial reporting concept of such a process;
- Description of consolidation process now linked into/included in the definition of group financial statements;
- Clarification that branches or divisions are within the scope of ISA 600 (same as extant) including for simple structures. Recognising in application material that not all the requirements of the standard may be applicable in simple structures for example requirements related to component auditors may not be applicable. The AUASB suggestion that professional judgment may be appropriate for these simple structures was considered by the Taskforce but rejected on the basis that the exercise of professional judgement in this situation would be contrary to the desire of respondents for ‘brighter lines’ and exercise of professional judgement here could lead to inconsistent application in practice;
- Upfront reference to ISA 220 to provide greater clarity that ISA 600 may be applied where appropriate when the auditor involves other auditors in the audit of financial reports that are not group financial reports (similar to extant ISA 600 and already facilitated in paragraph A1 of Revised ISA 220).

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward and addresses many of the matters raised by the AUASB. The changes relate largely to the introductory material of the standard.

7. Definition of component

Extracts from AUASB submission to IAASB

The AUASB supported the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit but highlighted that the “auditor view” definition of a component may lead to some practical implementation challenges.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- The term ‘auditor view’ is no longer being used in the standard, rather there is an upfront recognition that ISA 600 provides flexibility for the group auditor to determine components based on the group auditors understanding of the group and its environment.

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward – the principle has not changed from ED.

8. Risk Based approach

Extracts from AUASB submission to IAASB

While the AUASB strongly supported a risk-based approach to ISA 600, the AUASB raised the following substantive issues in relation to risk-based approach:

- While the AUASB largely supports that the decision of the nature and extent of the involvement of component auditors should be determined by the group engagement team based on an assessment of risk, the AUASB highlights that component auditors may not hold a sense of accountability and responsibility towards the group auditor and that this may impact on the auditors exercise of professional scepticism in the audit work assigned to them.
- The standard may diminish the importance and role of component auditors, with too great a focus on the group auditor. The AUASB noted that ED ISA 600 does not sufficiently recognise that, for groups that are complex and large that may need localised knowledge and specialisation, high levels of involvement by component auditors is of critical importance to audit quality.
- In responding to the assessed risk of material misstatement, the group engagement team may decide to use one or multiple approaches to gather audit evidence. When the group engagement team uses component auditors, the engagement team may request the component auditor to design and perform further audit procedures on the entire financial information of the component. The AUASB considers that the meaning of 'Design and perform further audit procedures on the entire financial information of the component' is not sufficiently clear. The AUASB recommends that the IAASB clarify whether this approach is meant to be a full-scope reasonable assurance engagement.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- The introductory section links the use of component auditors to ISA 220 and recognises upfront the importance of component auditors in that they may have greater experience and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit.
- Included **additional requirement** and application material on the **special considerations in setting the overall group audit strategy** including the determination of the components at which audit work will be done and the extent to which component auditors will be used. The associated application material includes:
 - matters that may influence the groups determination of components at which work needs to be performed, including the nature and amount of assets, liabilities and transactions at a business unit (this may address comments raised by respondents about the removal of the concept of significant components and that financial significance may drive the determination of components at which audit work may be performed);
 - factors that may influence the group auditor's determination on whether to involve component auditors. Having these factors and highlighting the importance of having component auditors involved, helps in addressing concerns raised by respondents about the strong focus on the group auditor's responsibility and a top-down approach to the group audit that may undermine the important role of the component auditor.
- Additional application material to better explain what needs to be done to identify and assess the risks of material misstatement of the group financial statements – tighter linkages to ISA 315.
- **Enhanced the requirement in relation to responding to the assessed risk of material misstatement** by highlighting that determining the components at which to perform further

audit procedures, and the nature, timing and extent of the work to be performed at those components forms part of the group auditor's responsibility for the nature, timing and extent of further audit procedures to be performed.

- Additional application material supporting the enhanced requirement explaining how the group auditor in responding to the risk of material misstatement could approach the group audit i.e. performing further audit procedures centrally, at component level or a combination; as well as describing factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally or at the component level
- Additionally, ED-ISA 600 contained three approaches for assigning further audit procedures to component auditors (e.g., design and perform further audit procedures on the entire financial information of the component, design and perform further audit procedures on one or more classes of transactions, account balances or disclosures or perform specific further audit procedures). Respondents (including the AUASB) noted that it was not clear when to use each of the approaches. In response, the Task Force is suggesting:
 - For each approach, a description as to when the approach could be used to assign procedures to component auditors.
 - Examples added for each approach to further clarify when the approach could be used to assign further procedures to component auditors.
 - Sub-headings were added to clarify the structure of this section.

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward. There is little change to the requirements of the standard but significant additional and enhanced application material.

9. Interactions between group auditor and component auditor

Extracts from AUASB submission to IAASB

The AUASB had no comments on this topic and considered that the interactions between the group engagement team and component auditors throughout the different phases of the group audit to be clear and appropriate. Other respondents had several comments in this area and the taskforce is proposing several amendments to the IAASB.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- To address comments from respondents about the perceived top-down nature of communications, the Task Force is **revising the communications requirement to include expectations about the nature, timing and extent of communications**, including revised application material to provide greater clarity about the timing and form of communications and to emphasise the two-way nature of the communications
- Clarification through application material and examples that there are some matters may need to be communicated timely throughout the course of the engagement not only at the end.
- Expansion of the requirement to not only report uncorrected misstatements but also corrected misstatements with additional guidance about such communications.
- Application material to clarify that the form and content of the deliverables from the component auditor are influenced by the scope of the audit work requested by the group auditor.

- Application material explaining that although component auditor's overall findings, conclusions or opinion may provide audit evidence to support the work performed by the component auditor, such information typically is not sufficient on its own but rather an overall summary memorandum or report from the component auditor, including the component auditor's overall findings, conclusions or opinion, is considered in connection with the group auditor's evaluation as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion.
- Revised application material to provide additional factors for the group auditor to consider when determining the nature, timing and extent of the review of component auditor's audit documentation.

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward. The ATG draws the AUASB's attention to the revised requirement that the component auditor will need to communicate corrected as well as uncorrected misstatements.

10. Materiality

Extracts from AUASB submission to IAASB

The AUASB supported the focus in ED ISA 600 on component materiality, however, raised the following matters for consideration:

- Paragraph 29 of ED-600 states that component materiality "shall be lower than group performance materiality". The AUASB suggests that this is changed to "Shall not be greater than group performance materiality". When a group has a component that represents almost 100% of the group, it may be reasonable to use the group performance materiality to audit this component.
- While the AUASB supports the factors to consider in determining component performance materiality, Australian stakeholders have raised concern with the lack of guidance and examples regarding the actual calculation and allocation of performance materiality. The AUASB encourages the IAASB to provide implementation guidance and examples of performance materiality outside of the revised standard.
- Paragraph A13 of ISA 320 refers to aggregation risk without a clear definition of aggregation risk within ISA 320. While the AUASB supports the definition of aggregation risk as included at paragraph 9(a) of ED ISA 600, the AUASB queries the placement of this definition. The AUASB recommends that aggregation risk is defined within ISA 320 with the special considerations of such risk being addressed in ISA 600.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- Clarification that proposed ISA 600 does not require component performance materiality to be established for each class of transactions, account balance or disclosure at the component level
- The Task Force continues to believe that any worked examples of determining component performance materiality should be provided outside of proposed ISA 600, consistent with previous Board discussions. Examples, may have unintended consequences, including perceptions of the IAASB sanctioning a particular or 'best' approach
- there are circumstances in which component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk such as

when the account balance or class of transactions for one component represents a substantial portion of the respective significant account balance or class of transactions in the group financial statements. The Task Force is suggesting additional application material to address this point.

- The Task Force discussed whether the definition of aggregation risk should be included in ISA 320 through a conforming amendment. The Task Force will further consider this point and will provide a recommendation to the Board at a later time.
- Additional application material on situations in which a collaborative approach between the group auditor and a component auditor may be appropriate in determining component performance materiality, and to emphasise the importance of two-way communication, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward. The changes proposed are mostly application guidance related.

11. Documentation

Extracts from AUASB submission to IAASB

The AUASB considered that the documentation requirements could be strengthened if it is explicitly tied into the requirements with respect to the overall assessment of sufficiency and appropriateness of audit evidence.

Direction of revisions being put forward for consideration at the March 2021 IAASB meeting:

- The Task Force added application material to provide a stronger link between the documentation requirements and the group auditor's overall evaluation of the sufficiency and appropriateness of audit evidence obtained on which to base the group audit opinion.
- Application material revised to reinforce the general principle that the audit documentation for a group audit consists of the documentation in the group auditor's file together with the component auditor documentation, and that the component auditor documentation generally resides in the component auditor's audit file and need not be replicated in the group auditor's audit file.
- Application material added to provide guidance for situations in which the group auditor may decide for practical reasons to include certain of the component auditor's documentation in the group auditor's audit file. The extent to which such documentation is included in the group auditor's file is still subject to professional judgement, but the examples now given are extensive (significant judgements, matters that may need to be communicated to TCWG, matters that may be KAMs).
- Application material added to indicate that, when required by law or regulation, certain component auditor documentation may need to be included in the group auditor's audit file.
- Application material added that if the group auditor is unable to obtain access to the component auditor documentation due to laws or regulations in a jurisdiction or other restrictions, a scope limitation may exist that may require a modification to the opinion on the group financial statements.

AUASB Technical Group Comment

The ATG is supportive of the proposed way forward. The ATG draws the AUASB attention to the examples proposed in relation to where component auditor documentation may be included in the group auditor's file.

Collaboration with NZAuASB and other standard setters

12. At this stage of the project - through the AUASB international influencing strategy.

Way Forward

13. The AUASB technical group will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.



AUASB Agenda Paper

Project:	IAASB Proposed Non-Authoritative Guidance – Extended External (EER) Assurance	Meeting:	10 March 2021
Topic:	EER	Agenda Item:	5.4
Strategic Objective:	International Influence	Decision-Making:	Fatal Flaw Review IAASB EER Guidance
ATG Staff:	Marina Michaelides	Project Status:	Final Approval at March IAASB Meeting
AUASB Sponsor:	Jo Cain / Bill Edge		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Item is to provide the final IAASB *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* for fatal flaw comments from the AUASB
- 2 A link to the IAASB *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* is provided [\[here\]](#).

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Q1. Does the AUASB have any fatal flaw comments or feedback on the IAASB's final <i>Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance</i> ?	ATG do not have any fatal flaw comments and support the <i>Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance</i> being approved for issue by the IAASB at its March 2021 meeting.

Background

- 3 The IAASB issued Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance in March 2020, with a comment period ending 13 July 2020.
- 4 The AUASB undertook virtual outreach with the NZAuASB in June 2020 on this Guidance and [submitted a response to the IAASB](#).
- 5 The ATG considers that the EER taskforce has addressed the substantive matters raised by the AUASB in the submission. A summary of all AUASB matters raised matters and where the IAASB task force has gotten to on these is summarised in section A of this paper.
- 6 Since the September 2020 IAASB meeting the Taskforce has met numerous times to work through the proposed enhancements to the guidance and to address comments from respondents to streamline the guidance and to focus on:

- EER-specific considerations
- Eliminating repetition of material from the Standard
- Using ‘plain English’ to help make the Guidance more accessible.

The outcomes from this process resulted in there being considerable changes throughout many of the chapters including: a rewrite of Chapters 2 – Exercising Professional Scepticism and Professional Judgement to be more EER specific and Chapters 12 - Communicating Effectively in the Assurance Report to include two examples reports illustrating an unmodified RA and LA opinion/conclusion. Inclusion of 5 new examples in [Supplement B](#) that include subject matters of Climate-related disclosures through the TCFD recommendations and Sustainable Accounting Standards (SASB) as suitable criteria as suggested by respondents.

- 7 The main change to the guidance since the December 2020 meeting is to **Appendix 3** the Limited and Reasonable Assurance table now depicts illustrative procedures in a cumulative approach for the two levels of assurance:
- Limited assurance
 - as a range, or continuum, for limited assurance, and to avoid suggesting that there are particular ‘points’ for the lower and upper end of the range.
 - Reasonable assurance

Previous Discussions on Topic

- 8 Over the past year, the AUASB has been tracking the progress on the IAASB proposed EER guidance against the key matters raised in the AUASB’s submissions to the IAASB and throughout the updated progress of the guidance. This tracking is reflected in the following AUASB meeting papers:
- (a) 16 April 2019 (Agenda item 6.1)
 - (b) 11 September 2019 (Agenda Item 4.7)
 - (c) 3 December 2019 (Agenda Item 16.6)
 - (d) 9 September 2020 (Agenda Item 9.2)
 - (e) 1 December 2020 (Agenda Item 11)

Matters for Discussion and ATG Recommendations

9 The table below reflects a summary of AUASB key themes raised in our submission to the IAASB and how the EER TF have addressed these matters in the proposed draft:

	AUASB Key Theme (refer to AUASB Submission)	Approach by EER TF & IAASB
1	Limited and Reasonable Assurance	<p>In Appendix 3, the key differences and implications btw LA and RA:</p> <ul style="list-style-type: none"> including illustrative procedures in a cumulative approach for the two levels of assurance: <ul style="list-style-type: none"> Limited assurance <ul style="list-style-type: none"> as a range, or continuum, for limited assurance, to avoid suggesting that there are particular 'points' for the lower and upper end of the range. Reasonable assurance using the material in ISAE 3410, Assurance Engagements on Greenhouse Gas Statements as a basis for illustrative considerations and procedures, making it clear that the summary does not suggest a requirement or best practice, but is included for illustrative purposes only, and positioning the table as an appendix to the Guidance.
2	Use of Examples – Supplement B	<p>Five further longer examples in Supplement B – including one to illustrate the assurance of reporting in line with the TCFD recommendations, and another illustrating the use of SASB standards, both of which address the reporting of a mix of qualitative and quantitative information, and historical and future-oriented information.</p> <p>Replaced theoretical or conceptual content within the Guidance with shorter practical examples e.g. in Chapter 2, 4,10 and 11.</p>
3	Professional Scepticism and Professional Judgement	<p>Streamlined the guidance in Chapter 2, by focusing on:</p> <ul style="list-style-type: none"> why the exercise of professional scepticism and professional judgment are important in an EER engagement, impediments that are more likely to arise in such engagements, and including a short EER-specific example within the chapter to illustrate the exercise of professional scepticism and professional judgment in an EER context.
4	Qualitative Information	<p>Retained the guidance in a separate chapter and enhancing the linkage between this chapter and the other chapters, where relevant.</p> <p>Enhanced the guidance on obtaining evidence and the evaluation of qualitative misstatements for qualitative information by including two further examples in Supplement B.</p>
5	Communicating Effectively in the Assurance Report	<p>Inclusion of two interactive examples of unmodified reports illustrating RA and LA in line with para 69(f) of ISAE 3000.</p>
6	Length, Format and Use of Language	<p>The perceived length of the Guidance is inextricably linked with the format in which the Guidance is to be published, and that presenting the Guidance in an innovative, easily accessible manner would, to a large extent, overcome possible barriers to its use as a</p>

		result of its length. In finalising the Guidance, it was proposed to hyperlink from the Guidance to the requirement(s) or application material in ISAE 3000. The TF will continue to work with the IAASB on the format in which the guidance will be released. The AUASB strongly supported a digital format for the guidance and believe it is critical to accessibility and usability.
7	Order of Chapters	Repositioned Chapter 6 before Chapter 4, as the guidance on considering the entity's process to identify reporting topics follows logically from the guidance on preconditions (Chapter 3) and reinforces the preparer's role in preparing for assurance. Chapter 11 and Chapter 12 have been moved to before the reporting chapter (Chapter 10), as reporting is the last stage in an assurance engagement.
6	Chpt 4 - Process to identify Reporting Topics and interplay with Chpt 9 Considering the Materiality of Misstatements	The concept of 'Double' and 'dynamic' materiality was introduced to the guidance in the December 2020 revision presented to the IAASB. These concepts were not encapsulated in the non-authoritative Guidance that went out on ED in 2020 and as such the IAASB has agreed to not introduce these new concepts within the guidance without formal consultation. Materiality has been one of the more difficult EER challenges to address through the Guidance and as such keeping it simpler and less complex has been the agreed approach by the IAASB. Chapter 9 does also discuss the concept of performance materiality in relation to EER engagements.

A. Other matters for noting

10 Note that the old Supplement A and Supplement B have been renamed and are not subject to the due process that has been agreed for the Guidance and will be reviewed and cleared for issue through a separate channel. These non-authoritative support materials will be circulated to the IAASB for review on a 'no objection to be published' (negative clearance as contemplated in the IAASB Framework for Activities):

- Non-Authoritative Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements (previously referred to as 'Supplement B')
- Non-Authoritative Support Material: Credibility and Trust Model Relating to EER Reporting (previously referred to as 'Supplement A Part I').

Collaboration with NZAuASB and other standard setters

11 The AUASB will continue to collaborate with the NZAuASB on how the Board's will jointly look to adopt and roll out the non-authoritative guidance in our respective jurisdictions once approved by the IAASB at the March 2021. A more detailed EER communication and stakeholder engagement plan will come to the April AUASB meeting.

Next steps/Way Forward

12 The IAASB EER TF is seeking approval of the final Non-Authoritative Guidance at its March 2021 meeting. It is anticipated if approval is given the guidance will be formally issued by the IAASB by end of March 2021.



AUASB Agenda Paper

Projects:	AUASB Technical Work Program	Meeting:	12 March 2021
Topic:	AUASB Technical Work Program 2020-21 Update	Agenda Item:	7.0
Strategic Objective:	All	Decision-Making:	For Discussion
ATG Staff:	Matthew Zappulla	Project Status:	Ongoing
AUASB Sponsor:	Bill Edge		

Action Required and Decisions to be Made

- 1 To provide the AUASB with an update of the AUASB's Technical Work Program for 2020-21, including projects completed to date in 2020-21 and a summary of technical staff projects currently in progress.
- 2 For the AUASB to provide feedback to the AUASB's Technical Group (ATG) on the current AUASB work program.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendations
Question 1	Does the AUASB have any feedback on the current status and planned projects/tasks for 2020-21 outlined in the AUASB Work Program Update presented at Agenda Item 7.1 .	N/A
Question 2	Does the AUASB support the 2020-21 AUASB Work Program Update presented at Agenda Item 7 being posted to the AUASB Website.	The ATG recommend publishing this version of the AUASB Work Program on the AUASB Website

AUASB Agenda Paper

Background

- 3 The ATG has updated the 2020-21 Technical Work Program following feedback received from AUASB members on the initial plan presented and discussed at the October 2020 and December 2020 AUASB meetings.
- 4 In preparing the original version of the 2020-21 AUASB Technical Work Program the ATG consulted with all ATG staff and also on an informal basis with the AASB staff, technical staff from the CA ANZ and CPA Australia, the CEO of the APESB and the ASIC Chief Accountant.

Previous Discussions on Topic

- 5 In October 2020 AUASB members were provided with a slide pack which contained a 'stocktake' of projects completed to date in 2020 and the status of current projects that are in progress by the ATG. Additionally, other outstanding tasks or new projects in the AUASB Technical Group's project pipeline were presented for consideration.
- 6 In December 2020 AUASB members were

Matters for Discussion

- 7 The information shared and discussed with AUASB members at the December 2020 AUASB meeting has now been converted into a high level summary (using a standardised Powerpoint format consistent with the format used by the AASB) which the ATG will complete quarterly to inform AUASB members of the progress against the 2020-21 AUASB Technical Work Program and, with the approval of the AUASB Chair, publish on the AUASB Website.
- 8 Note that the projects and initiatives included in the Technical Work Program include only those matters directly impacting the outputs and outcomes of the AUASB. Projects of a more corporate nature only impacting the AUASB Technical Group and the AASB-AUASB offices (e.g. HR or IT matters) are not included.

Question for the AUASB

Please provide feedback on the current status and planned projects/tasks for 2020-21 outlined in the 2020-21 AUASB Technical Work Program presented at **Agenda Item 7.1**.

Collaboration with NZAuASB and other standard setters

- 9 The ATG has a regular dialogue with NZAuASB technical staff to identify projects and activities where sharing and collaboration of information should occur. The AUASB and NZAuASB Technical Directors met in January 2021 to identify and put in place plans to collaborate on common projects over the current period.
- 10 The AUASB and NZAuASB technical staff continue to collaborate on IAASB projects through their roles as technical advisors to IAASB members in each territory and also through the IAASB National Standard Setters forum.

Next steps/Way Forward

- 11 Subject to changes requested by AUASB Members, the ATG will arrange to have this latest version of the 2020-21 AUASB Technical Work Program published on the AUASB Website.
- 12 The intention is that once a new AUASB Chair is appointed, the AUASB will conduct an Agenda Consultation process with key stakeholders and conduct a public consultation process later in 2021. The format and timing for this is Agenda Consultation is still to be determined.

Materials Presented

- 13 The updated of the 2020-21 AUASB Technical Work Program for consideration is at **Agenda Item 7.1**.

A large, stylized graphic of the AUASB logo, which is a white hexagon with the letters 'AUASB' in bold, dark blue. The hexagon is set against a background of a blue and white grid pattern, with various numbers and symbols scattered around it.

AUASB

AUASB Work Program

February 2021

Board activities and timelines set out in this document are subject to change in accordance with the Board's decisions, such as changes in project priorities. To access project pages for these projects, where available, click on the project name in the table.



Completed AUASB Projects – YTD 2020-21

Updated Auditor Responsibility Statements	ASRE 2410	COVID-19 Guidance on AUASB Website	AUASB/UNSW Going Concern Roundtable	GS 012	ASRS 4400 (AUP)
AUASB Due Process Framework Document	Research Report on COVID-19 impact on Listed Audit Reports	PJC Inquiry - response to final report	Response to IAASB Discussion Paper on Fraud and Going Concern	Auditor Reporting Post Implementation Review Survey	Audit Committee Chairs Audit Quality Survey



Active AUASB Projects 2020-21

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
Assurance Framework Publication 2 - Guide for Prescribers	Finalised	High	Publications completed and currently being converted to glossy brochure	Publication	March 2021	-	-	-	-
AUASB/ NZAuASB Conformance and Harmonisation Policy	Finalised	High	Fatal flaw comments on final version sent to AUASB to be processed and final version place on AUASB website	Policy	March 2021	-	-	-	-
ASA 540 Implementation Support	Finalised	Normal	Updates to website and planned communications completed, with implementation issues to be monitored.	Guidance Materials	March 2021	-	-	-	-
AUASB Digital Standards Portal	On Track	High	Build complete. Upload of content in progress. Rollout on track for March 2021	Website	March 2021	-	x	-	-
AUASB Foreword to Pronouncements	On Track	Normal	Final version for final review and approval at March 2021 meeting	Framework Pronouncement	March 2021	x	-	-	-



Active AUASB Projects 2020-21

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
ASA 220	On Track	High	For review and approval at March AUASB meeting	Updated Standard	March 2021	x	-	-	-
ASQM 1	On Track	High	For review and approval at March AUASB meeting	Updated Standard	March 2021	x	-	-	-
ASQM 2	On Track	High	For review and approval at March AUASB meeting	Updated Standard	March 2021	x	-	-	-
Guidance for Auditors on removal of SPR for 'For Profit' entities	On Track	Normal	AUASB staff working with AASB to produce guidance, specifically on impact on opening balances and comparatives	Guidance Materials	April 2021	-	-	-	-
EER Guidance - AU Rollout	On Track	Normal	Final IAASB materials to be released in March 2021	Guidance Materials	April 2021	-	x	-	-

Active AUASB Projects 2020-21

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
CA ANZ Audit Conference	On Track	Normal	Presentations being developed on ASA 315 Implementation and a general AUASB Update	Presentations	April 2021	-	-	-	-
Feedback to APESB on IESBA's proposed revised PIE Definition	On Track	Normal	For discussion at March 2021 AUASB meeting	Feedback to APESB	April 2021	x	-	-	-
AUASB Bulletin on Cybersecurity implications for Auditors	On Track	High	Draft developed and currently being reviewed	Guidance Materials	April 2021	-	x	-	-
Conforming Amendments Arising to other IAASB Standards from Quality Management Standards	On Track	Normal	Work to be planned after review of final AU Quality Management Standards	Exposure Draft	June 2021	-	x	x	-
AUASB Communications Strategy	Deferred	Normal	To be revisited following joint AASB-AUASB meeting in March 2021	Policy	June 2021	-	x	x	-

Active AUASB Projects 2020-21

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
Data Integrity Guidance	On Track	Normal	Work in progress with the Technology PAG	Guidance Materials	June 2021	-	x	x	-
AUASB Preamble	On Track	Normal	Work has recommenced, including obtaining external legal advice	Updated Standard	June 2021	-	x	x	-
Public Sector Audit Issues PAG	Delayed	Normal	PAG to reconvene in April and plan beong developed to address outstanding matters in 2021	Guidance Statement	Dec 2021	-	x	x	x
ASA 315 Implementation Guidance and Outreach	On Track	High	Awaiting materials from IAASB. For further discussion at April 2021 AUASB meeting	Guidance Materials	June 2021	-	x	x	-



Active AUASB Projects 2020-21

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
Investor Survey on Audit Quality	On Track	Normal	In progress [with FRC]	Survey and Report	June 2021	-	x	x	-
Review of ASIC Inspection Program	Ongoing	High	Meetings being held with ASIC and other relevant stakeholders [NB: with FRC]	Improvements to ASIC program	N/A	x	x	x	x
Technology PAG	Ongoing	Normal	Next Technology PAG meeting being held in Mid March 2021	Guidance Materials	N/A	-	x	x	x
Evidence Informed Standards Setting Activities (incl. Academic Liaison)	Ongoing	Normal	Ongoing engagement with Academic stakeholders on relevant issues	Research and Engagement	N/A	-	-	-	-

IAASB Projects

Project	Status	Priority	Comments	Key Deliverables		Alignment with AUASB Meetings			
				Milestone	Date	MAR M122	APR M123	JUN M124	Subsequent meetings
ISA 600	On Track	Normal	Reviewing next version of standard from IAASB in March 2021	Standard	Dec 2021	x	-	x	x
LCE – Separate Standard	On Track	Normal	Reviewing initial version of standard from IAASB in March 2021	Exposure Draft	June 2021	x	-	x	x
Audit Evidence Project	On Track	Normal	Papers for March 2021 IAASB meeting currently being reviewed	Exposure Draft	2022	x	-	x	x
IAASB - Fraud	On Track	Normal	Work to be dependent on IAASB work program and materials	TBC	Dec 2022	-	-	x	x
IAASB - Going Concern	On Track	Normal	Work to be dependent on IAASB work program and materials	TBC	Dec 2022	-	-	x	x
IAASB - Technology Working Group Guidance	On Track	Normal	Awaiting further information from IAASB in June 2021	TBC	Ongoing	-	-	x	x
Feedback on 2022-23 IAASB Work Plan	Yet to Begin	Normal	IAASB Consultation to launch in April 2021	Survey response	July 2021	-	x	x	-
CUSP Project	On Track	Normal	Awaiting further information from IAASB in June 2021	TBC	Ongoing	-	-	x	x

Collaboration Projects with the AASB

Coronavirus Guidance

Frameworks

- For Profit
- Not for Profit
- Public Sector

Non-Financial Reporting and Assurance / EER

- Sustainability Reporting
- Reporting of Service Performance Information
- Management Commentary
- Climate Change Disclosures Research

Parliamentary Inquiry into Auditing Response

- Fraud
- Reporting on Internal Controls
- Audit tenure and rotation
- Digital Reporting
- Disclosure of Non-Audit Services and Fees

Going Concern

- Auditor Reporting
- Disclosures and alternate basis

ASIC Audit Inspection Findings



Other AUASB Projects – 2020-21

Deferred

*Withdrawal of GS 014
and GS 021*

GS 008

*Assurance Framework
Publication 1 -
Assurance 101*

*Climate Change
Research Report*

Yet to commence

*ASA Compilations for
ASA 315*

*Amendments to other
Standards arising from
QM Standards*

NFP Assurance

*ASA 315 Implementation
Guidance and Outreach*

ASA 560 Subsequent
Events

Assurance Framework
Publication 3

Auditor Reporting PIR
Phase 2

GS 007

GS 010

GS 016

IAASB 2022-23 Work
Plan Consultation

ASAE 3500 PIR

GS 019

ASAE 3100 PIR

GS 003





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General enquiries



+61 (3) 8080 7400

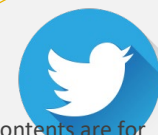


enquiries@auasb.gov.au



www.auasb.gov.au

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