



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**           **3.1.0**

**Meeting Date:**               4-5 December 2018

**Subject:**                       ISQM 1 – Quality Management at the Firm Level

**Date Prepared:**               22 November 2018

**Prepared By:**                 Rene Herman

**Action Required**

**For Information Purposes Only**

IAASB Project Objective	AUASB SMEs
<p>Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices.</p>	<p>Gareth Bird/Rene Herman</p>
<p><b>AUASB Key Points</b></p> <p><b>Summary of Main Concerns and Issues Raised at September 2018 AUASB Meetings</b></p> <ol style="list-style-type: none"> <li>1. Its overall <b>complexity and lack of scalability</b> – in particular that the standard is not sufficiently flexible to address the needs of Smaller and Medium Auditing and Assurance practices (SMPs). The consideration of specific guidance for SMP’s supporting the implementation and application of this revised standard is critical.</li> </ol> <p><b>Update at December 2018</b></p> <p>The Audit Technical Group’s view is that the IAASB has not made significant changes to the structure and complexity of the standard which is likely to satisfy many of the concerns raised by stakeholders. These overall concerns remain and will continued to be raised with the Australasian representatives on the IAASB.</p> <ol style="list-style-type: none"> <li>2. The very <b>prescriptive approach</b> to each component of the System of Quality Management (SOQM), whereas in practice Firms deal with the different elements of these components in a more unified fashion. NB: This issue has been acknowledged in the revised text of this version of ISQM 1, but little actual amendments to the standard have been made to address this point.</li> </ol>	

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### **Update at December 2018**

The ATG considers that the application material contained at A46 and A50 recognise this issue raised.

A46: ‘... ..Although this ISQM is organized by components, the firm’s risk assessment process may be undertaken for the system of quality management as a whole.’

A50: ‘Although the quality objectives set out in this ISQM are organized by component, an objective in one component may overlap, be related to, support or be supported by a quality objective in another component.’

3. The **objectives** embedded in each component of the SOQM are still **very compliance based**, in opposition to the QCTF’s intended approach for Firms to apply professional judgement to the quality objectives, risks and associated responses for each component. For example, the Leadership and Governance (Paras 26 - 28) and Information and Communication requirements (Paras 42 & 43) are very granular. These elements of the system of quality management in the requirements read more like application guidance and are very prescriptive. The same could be said of the section on Monitoring and Remediation – it is very detailed, although we are less concerned with this as this what regulators will want and (unlike the other sections) it should not differ too much across different Firms. The Network requirements in 59 to 64 are very detailed and possibly could be considered application material as well.

### **Update at December 2018**

The Audit Technical Group’s view is that the IAASB has not made significant changes to the structure and complexity of the standard which is likely to satisfy many of the concerns raised by stakeholders. These overall concerns remain and will continued to be raised with the Australasian representatives on the IAASB.

4. The proposed standard appears to contain far too much guidance in its application material. It seems as though the QCTF is trying to cater for every question that may arise or situation within the application guidance. We would encourage the IAASB to consider whether a lot of this could be moved to a ‘best practice’ type guide as opposed to being in the standard itself.

### **Update at December 2018**

The Audit Technical Group’s view is that the IAASB has not made significant changes to the structure and complexity of the standard which is likely to satisfy many of the concerns raised by stakeholders. These overall concerns remain and will continued to be raised with the Australasian representatives on the IAASB.

5. The IT elements in the draft standard in A85 onwards and A117 are a concern. This has never really been a focus of existing ISQC1. We believe the standard should be clearer so these relate just to Audit and Assurance and related services to avoid any risk other service lines at large firm are not captured in the scope of the standard.

### **Update at December 2018**

The ATG notes the following amendments to the standard from September:

Paragraph 42(a) *The firm has an information system that identifies, captures, processes and maintains relevant and reliable information, whether from internal or external sources, that is relevant to the design, implementation and operation of the components of the system of quality management.*

## **Other updates since September 2018:**

Since the September IAASB meeting, the QCTF has made many changes to the draft document, but very little change in substance. The main changes to requirements and application material included in the December 2018 IAASB meeting papers include:

### *1. Firms risk assessment process*

- Including a new explicit requirement (paragraph 29) that requires the firm to determine whether it is appropriate to establish beyond those required by the standard in order to achieve the objective of the standard. For example: the results of the firm's monitoring and remediation process may highlight the need to establish additional quality objectives, including when it is determined that the system of quality management does not provide reasonable assurance over the objectives of the standard.
- Where the firm establishes quality objectives beyond this standard, paragraph 10(c) of the introduction states that the responses required by the standard are not sufficient to address all quality risks so the application material. Application material paragraph A57 references paragraph 10(c) and states that the firm is required to design and implement responses in addition to those required by the standard.
- The ATG considers the embedded requirement in A57 in relation to responses to address quality risks should be brought forward into the requirements of the standard under paragraph 33.

### *2. Acceptance or Continuance of Client Relationships*

- The firm's responsibilities when information arises after accepting or continuing a client relationship was seen by the IAASB to be problematic at the time of the September meeting. The QCTF has significantly revised the requirement and included application material to explain the different types of information that may arise for example, where information existed at the time of acceptance, but the firm did not know and where information did not exist at the time as well as linking through to ISA 220 (paragraph 37(d) and A88/A89).
- The ATG has no concerns with the additions/amendments

### *3. Information and Communication*

- The QCTF has strengthened the encouragement of communication externally by referencing transparency reports in the requirements but still allowing for auditor's judgement (paragraph 43(c)(iii)): "*Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm determines it appropriate to do so, taking into account.*"
- The ATG has no concerns with the additions/amendments

### *4. Monitoring and Remediation*

- The QCTF has more prominently recognised in-process reviews.
- The QCTF has reorganised the requirements and application material addressing inspection of completed engagements, such that more focus is placed on selecting engagement partners or engagements for inspection based on risk.
- The ATG has no concerns with the amendments.

5. *Networks:*

- The QCTF has more explicitly differentiated between and clarified ‘network’ requirements (required) and ‘network services’ (voluntarily used)
- The QCTF has articulated in the requirements (paragraph 59) that ‘notwithstanding the firm’s compliance with the network requirements or use of the network services, such network requirements or network services shall not override the requirements of this ISQM’. So the QCTF has clarified that the standard does not require the firm to implement network requirements. The intention of the IAASB is to ensure that firms understand and are satisfied that the network requirements or services are appropriate and to consider their effect on the firm’s system of quality management.
- The ATG has no concerns with the additions/amendments.

**Other matter to bring to the AUASB’s attention for discussion:**

1. The introductory paragraphs are largely repetitive of the requirements and application material albeit in a summary form. Since the length of the standard is already at question, does the AUASB consider these paragraphs to be beneficial or duplicative? The ATG raises this matter as the trend of including significant amounts of introductory material was introduced in the proposed exposure draft ISA 315 and it would appear to be a new theme coming through the new standards.

**What the ATG is seeking from the AUASB at this meeting:**

1. The ATG is seeking comments/inputs from the AUASB on the matters highlighted above.
2. ISQM 1 is expected to be approved for exposure at December 2018 IAASB Meeting. As this will be the final opportunity to provide feedback to the IAASB before exposure, AUASB Members are requested to read and review the standard in its entirety. A clean version has been provided as **Agenda Item 3.1.1**.
3. Should AUASB Members wish to review the full suite of IAASB Papers relating to this Agenda Item, they are available via the following link: [IAASB December 2018 Papers](#)

**IAASB timeline and impact on AUASB activities/Next steps**

1. IAASB QM Task Forces aiming to approve ISQM 1, ISQM 2 and ISA 220 for exposure at the IAASB December 2018 meeting. No timeline has been given for when the exposures will be issued. Once the IAASB approves the Exposure Drafts and releases them, the AUASB will work on a project plan and timeline to release the Exposure Drafts and conduct outreach.
2. AUASB members’ feedback on ISQM 1 at the December 2018 AUASB meeting will be summarised and provided to Australasian IAASB members.

**Material Presented**

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| Agenda Paper 3.1.0 | BMSP – ISQM 1 Summary |
| Agenda Paper 3.1.1 | ISQM 1 Revised Clean  |

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**Action Required**

No.	Action Item	Responsibility	Due Date
1.	The ATG is seeking comments / input from the AUASB on the matters described above as well as any other issues that arise. AUASB members are asked to read in full Agenda Paper x, as ISQM 1 is expected to be approved for exposure by IAASB at the December 2018 IAASB Meeting.	AUASB	4 December 2018

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