



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**           **3.3.0**

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

**Subject:**                       Proposed ISQM 2 - ED

**Date Prepared:**             26 November 2018

**Prepared By:**               Marina Michaelides

**Action Required**

**For Information Purposes Only**

IAASB Project Objective	AUASB SMEs
1. To update the AUASB on changes made to the draft ED since the IAASB meeting in September 2018 and teleconference in October 2018.  2. To seek the AUASB’s views on the exposure draft of proposed ISQM to provide feedback to the IAASB at its December 2018 meeting.	Marina / Gareth
<p><b>1. Update on IAASB ISQM 2 Task Force Work</b></p> <p>Since the September 2018 IAASB meeting, the ISQM 2 Task Force (the Task Force) has focused on:</p> <ul style="list-style-type: none"> <li>➤ Addressing the comments from Board members during the September 2018 IAASB meeting and the October 16, 2018 teleconference, as well as written comments received;</li> <li>➤ Improving the readability and understandability of the draft of proposed ISQM 2 and the ISQM 1 extract; and</li> <li>➤ Coordinating with the Task Forces responsible for proposed ISQM 1 and proposed ISA 220 (Revised) to align the revisions where appropriate.</li> </ul> <p><b>2. Key matters for consideration by the AUASB since September 2018</b></p> <p>Overall the proposed ISQM 2 seems to have addressed the comments made by the IAASB at the September 2018 meeting and October 2018 teleconference. Refer Attachment 1 for how these areas have been dealt with in the revised ED.</p> <p>Additional changes to Proposed ISQM 2 since September IAASB meeting:</p> <p><b>Overall Structure:</b></p> <p>Consistent with the direction from the IAASB at its September 2018 meeting, the TF made extensive changes to the draft of proposed ISQM 2 to incorporate requirements and application material previously included in the extract of ISQC 1 (e.g para 43 – Appointment and Eligibility of EQRs). In doing so, the TF also had the opportunity to streamline the material to improve the flow and clarity of the standard, and to eliminate certain redundancies.</p>	

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**Objective:**

The TF agreed with comments from the Board at the September 2018 IAASB meeting that the objective(s) of the standard should be framed as objective(s) of the firm because an engagement quality review is a firm-level response to quality risks, although carried out at the engagement level. The TF recognises that the objectives in the IAASB's standards are intended to be outcome-oriented, and the objective para 10 has been changed to reflect that i.e to obtain from the EQR an objective evaluation of the significant judgements made by the engagement team and conclusions reached there on. ATG seeks the AUASB views on para 10.

Certain changes in IAASB **Agenda Item 4-A** arose from coordination with the other QM Task Forces, and include the following:

- The definition of relevant ethical requirements.
- The responsibilities of the engagement partner and the engagement quality reviewer in relation to significant matters and significant judgments.
- A reference to "including sufficient time" as part of the eligibility criteria for an engagement quality reviewer.
- Descriptions of quality risks, their assessment and the relationship to quality objectives or responses, as applicable.
- References to networks and service providers.

These items are not discussed in detail in this paper and are just noted for information.

**Common Topics**

A separate paper has been prepared by the IAASB Quality Management Task Forces to address common topics across ISQM 1, ISQM 2 and ISA 220. Consideration of these common topics will be discussed at the December meeting as the IAASB Paper was not available at the time of preparing this paper.

**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 as well as any other areas of the requirements and application material of ISQM 2. A list of all issues has been provided at **Attachment 1** below.
2. ISQM 2 is expected to be approved for exposure at December 2018 IAASB Meeting.
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 Agenda Item 4 looks to approve the ED as well, including proposed questions and any other materials that should be in the EM.
2. AUASB members' feedback on ISQM 2 received at the December 2018 AUASB meeting will be summarised and provided to Australasian IAASB members.

**Material Presented**

Agenda Paper 3.3.0

BMSP – ISQM 2 Summary

Agenda Paper 3.3.1

ISQM 2 Revised Clean (IAASB Agenda Item 4A)

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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 and in Attachment 1 as well as any other issues that arise. AUASB members are asked to read Agenda Paper 3.3.1, as ISQM 2 is expected to be approved for exposure by IAASB at the December 2018 IAASB Meeting.	AUASB	4 December 2018

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## Attachment 1 – Table of issues

Tracking of issues raised by AUASB members or ATG				
<i>Para</i>	<i>Issue previously identified at September 2018 AUASB meeting</i>	<i>Issue identified by ATG for consideration at December 2018 AUASB meeting</i>	<i>ATG Comment</i>	<i>Action</i>
15 (previously ISQM 1 para 43)	<b>Linkages to proposed ISQM 1</b> – revised objective includes both the objectives pertaining to the eligibility criteria (firm level link to ISQM 1) and the performance of the EQ review.	Under option B as agreed at the Sept IAASB meeting, proposed ISQM 1 would include a requirement for the firm to establish policies or procedures addressing EQRs to be performed in accordance with proposed ISQM 2, including the engagements for which an EQR would be required. The requirements for the eligibility of the engagement quality reviewer and related performance requirements would reside in proposed ISQM 2 para 15-18.	No specific issues to raise. ATG believe relocating certain requirements for establishing firm policies or procedures related to EQRs to ISQM 2 is appropriate.	No further action required.
8	<b>Authority of proposed ISQM 2</b> – this has been included in ISQM 2 as the authority drafted in ISQM 1 only relates to the firm and therefore is not adequate for ISQM 2. The taskforce concluded ISQM 2 required its own authority to deal with the EQ reviewer.	The Authority statement has been streamlined to one para 8 similar to the approach in ISQM 1 and references ISQM 1 for further explanation of certain terms.	The ATG agrees with the amendments and that the authority should be included in ISQM 2.	No further action required.
	<b>Definitions</b> – Change to the terminology from ‘engagement quality control review/reviewer to “engagement quality review/reviewer”. This change is proposed to be consistent with the proposed ISQM 1 (revised) which now refers to quality management rather than quality control.		ATG thinks the change is appropriate and consistent with the new suite of standards – ISQM 1, ISQM 2 and ISA 220 however this is likely to result in necessary conforming amendments. ATG don’t have any specific issues with the changes to the definition of “relevant ethical requirements” to apply to the EQ reviewer and believe it should be aligned with ISQM 1 and proposed ISA 220.	No further action required.
2 and 40(e) ISQM 1 (previously 43(e)(i) in ISQM 1)	<b>Scope of engagements subject to an engagement quality review</b> – the intended scope of the EQ reviews are now clearer, sufficiently robust and are in the public interest. The requirement in para 43(e)(i) now includes all audits of financial statements of other entities that are of significant public interest. This is likely to result in a more consistent application across the practices. The definition of “significant public interest entity” would need to be	The Task Force supported the suggestion made at the Sept Board meeting that the requirement for an EQR to be performed for audits of financial statements of entities that the firm determines are of SPI should remain separate	Scope Para 2 now applies to all engagements for which an EQR is required to be performed, or for which the firm determines such a review is an appropriate response to assessed quality risks, in accordance with proposed ISQM 1.	AUASB views on changes are sort.

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	dealt with at a jurisdictional level. The AUASB to review what other National Standard setters use as a definition and discuss further with the firms as to how they would apply this in practice.	to give it increased prominence in view of its importance to the public interest -- see paragraph 40(e) of ISQM 1.		
10		<b>Objective:</b> The TF recognises that the objectives in the IAASB's standards are intended to be outcome-oriented, and the objective para 10 has been changed to reflect that i.e to obtain from the EQR an objective evaluation of the significant judgements made by the engagement team and conclusions reached there on.	The ATG agree that the amended wording is outcome-oriented.	AUASB views on changes are sort.
15-18	<b>Eligibility of the engagement quality reviewer (including cooling-off period)</b> – ATG believe the eligibility criteria for EQ reviewers and for individuals who assist the EQ reviewer outlined in para 20-22 are clear and allows the use of professional judgement in considering the candidates qualifications.  Further work is to be completed on the cooling-off period being coordinated with IESBA through a joint working group.	Dealt with under new para's 15-18.	These amendments seek to clarify what authority the EQR has, actions to be taken when the EQRs eligibility is impaired, EQRs objectivity including, when applicable, limitations on the eligibility to be appointed an EQR.	AUASB views on changes are sort.
19-21 A29- A30	<b>Performance of an engagement quality review</b> – ATG believe the taskforce has improved the focus on significant judgements in paras 19-21 and clarified what these may be as well as how the EQ reviewer may identify significant judgements. It has also clarified the difference between significant matters and significant judgements in the application material para A29. The taskforce needs to coordinate with the ISA 220 taskforce so that examples of significant judgements are consistent.	Dealt with under new para's 19-21, A29-A30.	These amendments seek to clarify the EQRs responsibilities in relation to evaluating the engagement team's significant judgements, the relationship between significant judgements and significant matters. For financial statement audits this has now been linked to the requirements in ISA 220 and A80 which provides examples of significant judgements through A29-A30 of ISQM 2. New sub requirement para 20(e) (previously 24(d)) regarding consultation on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations.	AUASB views on changes are sort.

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A24 (Previously ISQM 1 43(e)(v) and A109)	<b>Consultation between the engagement team and the engagement quality reviewer</b> – ATG has no specific issues with how the taskforce has dealt with the risk of consultations impairing the objectivity of the EQ reviewer under proposed ISQM 1 para 43(e)(v) and A109.	A24 has been moved over from A109 in ISQM 1 and amended.	ATG agree amendments to A24 are appropriate.	AUASB views on this are sort.
21(a)	<b>The engagement quality reviewer's overall conclusion</b> – The taskforce has included a requirement at para 21(a) that the EQ reviewer shall evaluate whether, the requirements of ISQM 2 have been fulfilled, taking into account the firm's policies and procedures and the objective of ISQM 2 has been achieved. Does the AUASB think that the stand back requirement in para 21(a) should be performed at the firm level, engagement partner level or the EQ reviewer level?	This requirement is now dealt with in para 21(a) and (b).	Essentially this requirement is a stand back provision. Do the AUASB agree this should be done at the EQR level or at the firm level?	AUASB views on this are sort.
21(b)	Para 21(b) deals with the evaluation of unresolved matters the EQ reviewer becomes aware of in relation to significant judgements made and that the conclusions reached were not appropriate. It is noted by the ATG that this requirement does not specifically state how these unresolved matters need to be dealt with by the EQ reviewer.	This gap has now been addressed under para 21(b) additional sentence has been added to the requirement.	The requirement now specifies that the EQR shall notify the engagement partner or appropriate individual in the firm that the EQR cannot be completed until such concerns are addressed to the EQR's satisfaction.	No further action required.
23 and 24	<b>Documentation</b> – ATG agree with the taskforce's conclusion that the documentation requirements in ISQM 1 should not specifically address EQ reviews.	The TF have strengthened, clarified and been more specific in the amended documentation requirements in para 23 and para 24.	ATG agrees the documentation requirements in para 22-24 of ISQM 2 are appropriate for the EQ reviewer.	No further action required.

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