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# **Explanatory Guide**

## ***Exposure of the IAASB's Proposed Quality Management Standards in Australia***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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## EXPLANATORY GUIDE

### *Exposure of the IAASB's Proposed Quality Management Standards in Australia*

#### Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued for public comment three exposure drafts (EDs) relating to proposed international auditing standards that address quality management at the engagement and firm level ('the Quality Management Standards'). This Explanatory Guide provides an overview of the how the Australian Auditing and Assurance Standards Board (AUASB) is requesting feedback from Australian stakeholders on the proposed changes and their impact on the Australian assurance market.

#### Purpose

2. This Explanatory Guide gives Australian stakeholders an overview of:
  - (a) How the Quality Management Standards are being exposed by the AUASB, including the material that has been prepared and issued as part of the exposure process; and
  - (b) The AUASB deliberations that resulted in the process adopted for the exposure of the Quality Management Standards.

#### Format of the Australian Exposure

##### A change in process

3. The IAASB has issued for public comment three interrelated proposed international auditing standards that address quality management at the firm and engagement levels. Each of the proposed international auditing standards has been issued alongside individual explanatory memorandums which provide stakeholders an insight into the IAASB's significant matters for each proposed international standard. The individual memorandums are intended to be read alongside an overall memorandum which explains the significant matters common to all three proposed international auditing standards.
4. The IAASB versions of the Quality Management Standards have been issued for comment in Australia by the AUASB without modification. The process of issuing without modification is a new process discussed and agreed by the AUASB at its 6 March 2019 AUASB meeting ([Agenda Item 3](#)). This approach differs from the process when the AUASB exposed ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* in August 2018, where the AUASB converted the IAASB's proposed standard into an Australian specific format that included relevant local modifications (such as the amendment of definitions to align with the requirements of the *Corporations Act 2001*).
5. In 2018, the AUASB undertook a project to reconsider how it exposed proposed international auditing standards in Australia. The project was aimed at identifying how the AUASB could better influence international standards as they are being developed, as well as optimise the efficiency and effectiveness of the AUASB's processes. Historically, the AUASB has only exposed Australian EDs after the equivalent IAASB standard has been finalised, focusing on whether there are any Australian principles and practices or laws and regulation ("compelling reasons") that require local modification.
6. At its April 2018 AUASB Meeting ([Agenda Item 3](#)) the AUASB considered two alternate exposure draft processes for issuing an Australian ED equivalent to an IAASB ED:
  - (a) Process A – issue an Australian ED based on the final ISA standard; or
  - (b) Process B – issue the IAASB ED concurrently as an Australian ED, including all known Australian amendments.
7. The AUASB agreed to pilot Process B for ED ISA 315 *Identifying and Assessing the Risks of Material Misstatement* in the second half of 2018.

8. At its December 2018 AUASB Meeting the AUASB requested the AUASB Technical Group (ATG) to analyse the results of this pilot and to consider if this process should also be adopted when exposing these Quality Management Standards.
9. At the March 2019 AUASB Meeting ([Agenda Item 3](#)), in response to the AUASB's request, the ATG prepared a paper discussing the results of the piloted exposure process for ED 01/18 and whether a similar process should be followed for the suite of Quality Management Standards. To effectively evaluate the pilot the AUASB assessed the standard-setting process against the following key principles which require that the exposure process should:
  - (a) Maximise the AUASB's ability to influence the IAASB during the development of a standard. This is a key objective of the AUASB's [International Strategy](#).
  - (b) Make EDs available to Australian stakeholders as soon as practicable to generate the greatest opportunity for feedback from stakeholders.
  - (c) Increase the opportunity for the AUASB members and ATG to consider stakeholder feedback.
  - (d) Facilitate engagement of AUASB members in the ED process and ensure sufficient time to deliberate significant matters and their potential impact in Australia, including the assessment of possible Australian modifications.
10. The AUASB determined that an approach of 'wrapping-around' each IAASB ED with an Australian Explanatory Memorandum best balanced each of these principles. The purpose of the Australian Explanatory Memorandum is to draw Australian stakeholders' attention to areas of the proposed standard which the AUASB have been tracking during its development by the IAASB. Australian specific questions will be asked in relation to "significant matters" in the proposed standard on which the AUASB would like more feedback.
11. The approach of "wrapping-around" the IAASB's proposed standard with an Australian Explanatory Memorandum:
  - (a) Provides the best opportunity to obtain robust feedback from Australian stakeholders about significant matters at the correct stage in the IAASB standard-setting process.
  - (b) Results in an Australian exposure process which closely follows the IAASB release and maximises stakeholder's time to consider the changes.
  - (c) Focuses the AUASB's deliberations on significant matters identified by the AUASB over the course of the proposed standard's development by the IAASB.
  - (d) Focuses the AUASB's time on the development of targeted questions in the Australian Explanatory Memorandum (in addition to the IAASB's questions) to specifically request Australian stakeholders for their views on the significant matters in the proposed standard identified by the AUASB. This provides Australian stakeholders with insight into the AUASB's considerations of the international standards and their potential impact on the Australian assurance market.
12. The AUASB agreed at its March 2019 meeting that this process will be applied for the exposure of the IAASB's proposed Quality Management Standards in Australia. Subject to the success of this process for the Quality Management Standards and agreement of the AUASB at a future Board meeting, the ATG will then update the AUASB Functions and Processes document to reflect this revised process in the second half of 2019.

**Material issued as part of this process**

13. The following materials have been issued to seek Australian stakeholder feedback:
  - (a) Explanatory Guide *Exposure of the IAASB's Quality Management Standards in Australia* (i.e. this document);
  - (b) Explanatory Memorandum ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
  - (c) Explanatory Memorandum ISQM 2 *Engagement Quality Reviews*; and
  - (d) Explanatory Memorandum ISA 220 *Quality Management at the Engagement Level*.
14. Each Explanatory Memorandum is structured consistently, requesting stakeholder responses to both the IAASB and Australian specific questions, including obtaining Australian stakeholder feedback on significant matters identified by the AUASB as described in further detail below. The IAASB's full explanatory memorandums and exposure drafts are included within the Australian Explanatory Memorandums as an attachment.

**Consideration of Australian specific amendments to the proposed standards**

15. As highlighted in Paragraph 11 above, each Explanatory Memorandum contains a summary of the AUASB's deliberations on significant matters in the proposed standards identified over the course of the proposed standard's development by the IAASB. This is a key part of the exposure process and provides Australian stakeholders with insight into the AUASB's considerations of the international standards and their potential impact on the Australian assurance market. These matters have been used as the basis to determine the Australian specific questions posed to Australian stakeholders in each Explanatory Memorandum.
16. As well as responses to the IAASB specific questions, all Australian stakeholders are requested to provide feedback on the Australian specific questions in each Explanatory Memorandum. This will not only assist the AUASB to develop its response to the IAASB on the proposed standards, but also inform the AUASB about whether any Australian specific amendments are necessary to the proposed standard in accordance with the AUASB's "compelling reasons" test. This applies especially if comments on these proposed standards are being sent by respondents directly to the IAASB.
17. Additionally, each Explanatory Memorandum contains a list of the 'Aus' specific paragraphs contained in the extant versions of these standards to assist Australian stakeholders to identify the Australian specific amendments to the extant versions of each standard. Australian stakeholders are asked to consider whether any modifications in the extant versions of these standards are still relevant. This will guide the AUASB in their deliberations about whether there are any existing "compelling reasons" which require modifications to the IAASB standards at a later date.
18. It is important to note that, at this stage of the exposure process, modifications to the proposed standards to reflect Australian principles and practices or laws and regulations (known as "compelling reasons") have not yet been considered by the AUASB. The proposed Quality Management Standards are concurrently being exposed by the IAASB, and may be significantly amended by the IAASB at a later stage. Accordingly, the AUASB will consider all responses and the nature of any future IAASB amendments to each ED before deliberating if any potential Australian compelling reasons are required as part of its due process.
19. Additionally, the AUASB reserves the right to re-expose any or part of the proposed standards should it deem that the changes from the ED originally published are significant, whether due to changes made by the IAASB or Australian specific changes the AUASB proposes to make in accordance with the "compelling reasons" test. Any decision about the timing or nature of re-exposure will be made by the AUASB after the IAASB has finalised its proposed standard and will be subject to the usual AUASB due process.