



# AUASB Board Meeting Summary Paper

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AGENDA ITEM NO.      **2.2**  
Meeting Date:            26 June 2019  
Subject:                    ED – ISQM 1  
Date Prepared:            19 June 2019

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Action Required

For Information Purposes Only

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## Agenda Item Objectives

1.      **Consider and provide input** into the AUASB response to the IAASB on ED - ISQM 1 *Quality Management for Firms that Perform Audit of Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (Agenda Item 2.2.1). Input by the AUASB directed as follows:
  - (a)      AUASB directed to the summary table of issues under considerations matter 1 below;
  - (b)      AUASB directed to consideration matter 2 below; and
  - (c)      AUASB directed to consideration matter 3 below
2.      **Consider and provide input** into the AUASB cover letter to the IAASB on the IAASB's EDs on the Quality Management suite of standards (Agenda Item 2.6)

## Considerations

1.      ***Matters identified for further consideration by the AUASB as presented in the Explanatory Memorandum to ISQM 1 and how they have been addressed as part of the AUASB submission to the IAASB on ISQM 1.***

The matters in the table below were raised by the AUASB through the course of the development of the proposed ISQM 1 and this table was included in the Explanatory Memorandum to ISQM 1. These matters resulted in Australian specific questions raised as part of the Australian exposure draft process. While the AUASB did not receive formal submissions addressing these comments, the ATG received feedback at the roundtables as well as from the AUASB at recent AUASB meetings. The table below, links the issues raised to the draft AUASB submission to the IAASB on ISQM 1.

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

<b>Matter #</b>	<b>Matter Raised</b>	<b>Brief Description</b>	<b>Link to draft AUASB submission on ISQM 1</b> <b>Agenda Item 2.2.1</b>
1	Improvement to audit quality	The AUASB does not have a clear understanding of the linkage of the original objectives to revise ISQC 1 and how the proposed revisions to ISQM 1 will result in improved audit quality. The AUASB has concerns that the prescriptive approach to each component of the System of Quality Management (SOQM) may be detrimental to audit quality.	Question 1(a), 1(b), Question 1(c) and Question 5.
2	Scalability <i>Australian Q19 on Exposure</i>	The AUASB raises for consideration that the prescriptive approach to each component of the SOQM may be detrimental to audit quality, and there is a lack of weighting and proportionality to each requirement. Additionally, we consider a critical element of a system of quality control is flexibility to circumstances and risk environments. This prescriptive approach may be less scalable than the current principles in extant ISQC 1, and may increase compliance costs and time at the firm level without necessarily achieving improved audit quality.  Also, the AUASB noted that there is language used within the standard that may be a barrier to scalability. For example, the AUASB raises concern with the application material in paragraph A55: <i>‘There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote’.</i>	Question 1 (c), Question 6  Note: stakeholders support the standard not having a weighting and proportionality to each requirement as this would be counter-intuitive to a risk based approach to ISQM 1 – so this this matter has not been addressed in the AUASB submission.
3	Principles versus Prescriptiveness <i>Australian Q18 on Exposure</i>	IAASB standards are meant to be principles-based and, as such, the Quality Control Task Forces intended approach is for firms to apply professional judgement to the quality objectives, risks and associated responses for each component. The AUASB raises for consideration whether the current drafting of ED - ISQM 1 is too prescriptive. The AUASB notes the objectives embedded in each component of the SOQM to be compliance based with a very prescriptive approach to each component of the SOQM.	Question 1(a) and Question 4
4	Repetition <i>Australian Q20 on Exposure</i>	The AUASB raises for consideration that the introductory paragraphs and appendix are largely repetitive of the requirements and application material, albeit in a summary form. The AUASB notes that some of the content may be best suited to a ‘best practice’ guide and not contained in the standard itself.	Question 3
5	Legally enforceable standards <i>Australian Q21 on Exposure</i>	The AUASB raises for consideration how compliance with this standard can be demonstrated particularly in jurisdictions where standards are legally enforceable. The AUASB particularly the drafting and requirements of paragraphs 10(c), 29 and A57 – that require the firm to determine whether it is appropriate to establish quality objectives beyond those required by the standard in order to achieve the objectives of the standard.	Question 2; Question 6(b)(ii) Question 15

<b>Matter #</b>	<b>Matter Raised</b>	<b>Brief Description</b>	<b>Link to draft AUASB submission on ISQM 1 Agenda Item 2.2.1</b>
6	Proportionality <i>Australian Q22 on Exposure</i>	The AUASB raises for consideration that the documentation requirements of paragraph 67(c) may be overly granular and disproportionately weighted to monitoring and remediation.	This question was explicitly asked of stakeholders at all outreach sessions. Stakeholders were supportive of the level of documentation requirements in paragraph 67(c), therefore this issue has not made its way into the AUASB submission.
7	Ambiguity of definitions across the QM suite in relation to Engagement Team <i>Australian Q16 on Exposure</i>	The AUASB raises for consideration the definition of the term <b>Engagement Team</b> used across the suite of Quality Management Standards. The AUASB notes that the definitions are not used/defined consistently across the standards, are not clear and accordingly may not be capable of application in a consistent way, for example EQCR, experts, specialists, group component auditors.	Refer Agenda Item 2.4.1 Question 2
8	Service Provider <i>Australian Q23 on Exposure</i>	The AUASB raises for consideration whether the term service provider as contained within paragraph 64 of the proposed standard is clear enough and raises concerns as to the examples of resources provided by service providers presented under paragraph A205. For example the AUASB notes that the examples of IT software providers and external experts are not appropriate examples of service providers.	Question 14
9	EQCR <i>Australian Q17 on Exposure</i>	The AUASB notes that the scope of engagements subject to EQR now includes audits of financial statements of entities that the firm determines are significant public interest entities.	Question 11

2. The AUASB is then directed toward the following questions in Agenda Item 2.1.1 that have not been covered through the disposition of issues in the table above: Questions 6(e), 7, 8, 9, 10, 12, 13. The ATG seeks input from the AUASB on the draft responses to these questions.

### 3. *Other National Standard Setters*

#### *NZAuASB*

The ATG have reviewed and considered the NZAuASB draft submission on the IAASB Exposure Draft. The ATG raises for AUASB consideration the following matters included in the NZAuASB draft submission that is either not currently included in the draft AUASB submission or is inconsistent with the draft AUASB submission:

- The NZAuASB have made the following suggestion that comes through the NZAuASB submission several times as well as in their cover letter. *“We consider that to ease the burden, a “thinking list” of quality risks would assist. Such a list should not be developed as a checklist, but would identify common quality risks to assist firms to more quickly identify the risks that are relevant to their circumstances, rather than requiring each firm to effectively go through the same process. Such an approach should still require firms to add additional risks as appropriate for their firm to re-emphasise that this is not a checklist of risks.”* The ATG has not included this as part of the draft submission and consider that this may be counter-intuitive to a risk-based approach.
- ED-ISQM 1 Question 4, support for the 8-components. The AUASB currently support the 8-components, the NZAuASB has mixed views. *‘The NZAuASB questions the value of structuring the proposals around the components, given that the proposals are designed to highlight the integrated nature of the objectives and responses. For example, separating information and communication from the other components seems overly complicated as information and communication relate to the other components. It may be more useful to identify the required quality objectives and required responses in a more neutral manner given that many of the responses may address multiple objectives and risks.’*
- ED-ISQM 1 Question 11, significant public interest in scope for EQR. The AUASB currently does not support significant public interest entities in scope for EQR, but rather support firms deciding this on the basis of risk. The NZAuASB supports this scope inclusion, however seeks clarity around the term ‘significant public interest’ and how this will apply.

### **Material Presented**

2.2.0	ISQM 1 Board Meeting Summary Paper
2.2.1	ISQM 1 Draft Submission to IAASB

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