



1 July 2019

Mr Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Dear Willie,

***AUASB Submission on The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews.

The AUASB supports initiatives that are in the public interest and that seek to enhance the quality of the audit process and reinforce confidence of capital markets in that process.

In formulating our response the AUASB sought input from its stakeholders in three principal ways:

1. From hosting a series of roundtable meetings with stakeholders in three large Australian cities. These roundtable meetings were attended by over 50 stakeholders representing a broad range of backgrounds, including assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
2. Through an open invitation to provide comments on the equivalent AUASB issued Exposure Drafts via the AUASB website.
3. Formal discussions and deliberations by AUASB members at recent AUASB meetings.

Detailed response to questions on Exposure are attached as Appendix 1. The AUASB's key messages to reflect upon in finalising the proposals include:

## **1 Overall**

### *Implementation Period*

The AUASB considers that a longer implementation period than currently proposed by the IAASB is required, perhaps even a staggered implementation approach.

ISQM 1 is expected to require a significant amount of firms' resources to put into place a risk assessment process and update firms' methodologies for the other two quality management standards. Stakeholders expressed concern that an 18-month implementation period for network firms will be particularly challenging as the network head firm may be responsible for developing certain parts of the system of quality management, which will then need to be tailored by individual firms to address their specific facts and circumstances.

Additionally, there are two further exposure drafts currently being finalised, those being ISA 315 and ISRS 4400. The AUASB consider that for firms to implement changes in respect of 5 standards almost simultaneously may have an adverse impact on quality.

## **2 ISQM 1**

### *Structure and Granularity of the Standard*

The AUASB supports a quality management approach to ISQM 1, however the AUASB is not supportive of the standard in its current form. The AUASB considers the proposed standard to be a hybrid of risk-based quality management while retaining a granular level of prescription thereby undermining a proper application of a true risk-based approach. Furthermore, the depth of considerations of the proposals of the standard may be greater and have more implications in jurisdictions where the Suite of Auditing Standards (including ISQM 1) are legislative instruments and have force of law implications. The AUASB is concerned that the granular level of detail contained in proposed ISQM 1 makes this standard difficult for practitioners to demonstrate compliance which further supports the need for ISQM 1 to be a true risk based standard.

The AUASB considers that the increased length of ISQM 1 is also a potential barrier to its understanding and application, particularly for small or sole practitioners with resourcing and the cost attached to implementing the proposed standard potentially overly burdensome. The AUASB encourages the IAASB to refine its drafting approach to reduce the length of the proposals.

The AUASB considers that a quality management approach to ISQM 1 drafted on the same basis as the proposed new drafting approach to ISA 315 that is the requirements are the “what”, the application material, appendices and guidance is the “why” and “how”; would facilitate a true risk-based approach, scalable to the specific requirements of a firm and may help to mitigate the large cost and resourcing burden on practitioners.

### *Public Interest Benefits*

The AUASB supports the objective of the standard and considers that the proposed standard provides clarity on the relationship between the purpose of a system of quality management - serving the public interest - performance of quality engagements. However, the AUASB considers there is a strong need to more clearly demonstrate and articulate the benefits of the proposed quality management approach and explicitly weigh these against the cost to implement as the proposals are expected to be resource intensive and costly to implement.

### *Scope of Engagements Subject to Engagement Quality Review*

The AUASB does not support including ‘significant public interest’ entities in the scope of engagements subject to an engagement quality review. The AUASB supports a risk-based approach to such a determination which is already required in the proposed standard where a firm is required to determine whether an engagement quality review is an appropriate response to assessed quality risks.

It is unclear whether the proposed standard would result in an expectation that an engagement quality review is performed on ALL charities and ALL public sector engagements as these entities will always have a large number and wide range of stakeholders. This may be an unintended consequence of the proposed drafting. Furthermore, the AUASB is concerned that ‘significant public interest’ entity cannot be defined consistently across jurisdictions and therefore ISQM 2 would not be applied consistently.

## **3 ISQM 2**

The AUASB is supportive of the principles and requirements of the proposed ED-ISQM 2.

#### 4 ISA 220

The AUASB is largely supportive of the requirements in ISA 220. The AUASB considers that the definition of engagement team is too wide and may result in requirements not being practically achievable.

As a final point, the AUASB notes with concern that the auditing standards or exposure drafts recently issued or currently in development by the IAASB all contain greater complexity and detail than the extant standards they are replacing, which makes the standards more challenging for auditors of smaller and medium or less complex entities to apply. We support the current IAASB Less Complex Entity project as the AUASB consider there is a need for the IAASB to urgently address the impact this issue is having on small/medium/less complex audits and auditors from small and medium practices.

Should you have any queries regarding this submission, please do not hesitate to contact me or Matthew Zappulla at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au).

Yours sincerely,

Professor Roger Simnett AO  
Chair

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