



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.4
Meeting Date:	12 June 2019
Subject:	Quality Management Standards – Summary of Stakeholder Feedback
Date Prepared:	4 June 2019

Objective of Attachment to Board Meeting Summary Paper

To inform the AUASB of the main themes / messages expressed by stakeholders at the Melbourne, Sydney and Brisbane roundtables.

Summary of main themes/messages

I. ISQM 1

- (a) Scalability and Prescriptiveness
 - (i) On balance, stakeholders considered that it is difficult to argue that the concepts of a Quality Management (QM) System are not scalable. Stakeholders expressed concern around the workability and practical implementation of the standard rather than scalability. Scalability is sometimes viewed as doing less, while it is actually about doing what's right dependent upon the nature and circumstances of the firm.
 - (ii) Stakeholders commented that the sheer volume of requirements makes the standard prescriptive. There were mixed views expressed as to the value of having baseline granularity included as requirements in the standard, particularly for SMPs where a baseline level of requirements is sometimes considered helpful. Other stakeholders commented that to retain a strictly principles based standard, the baseline requirements, particularly around objectives and design and implementation could be included as guidance outside of the requirements of the standard.
 - (iii) Stakeholders expressed concern that the standard contained requirements around design and implementation while no requirements were established over the underlying risks. Accordingly stakeholders considered this to be counter intuitive to the very nature of a risk based standard. Based on the current design of the standard, there is concern by practitioners that firms will

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backfill their risks and objectives based on the design and implementation requirements of the standard.

- (iv) Further to the level of granularity comments made above, some stakeholders expressed concern that the application of ISQM 1 would lead to a boiler-plate compliance exercise. There are 8 components, if each component has multiple quality objectives and each quality objective has multiple risks associated and for each risk there needs to be a response, this could eventuate in an impractical position.
 - (v) Stakeholders commented that ISQM 1 contains principles already included in APES 325 *Risk Management for Firms* that sets out mandatory requirements and guidance for members in public practice to establish and maintain a risk management framework in their firms in respect of the provision of quality and ethical professional services. Accordingly, from an Australian perspective, the impact of ISQM 1 may not be too onerous.
 - (vi) Some stakeholders commented that if the IAASB needs to issues FAQs and examples at the time of Exposure – this may well indicate that the document in its current form is unworkable.
- (b) Implementation Considerations:
- (i) The sheer volume of the standard will practically mean much needed resources at a significant cost to practitioners, particularly at the SMP level.
 - (ii) The enhanced requirements around network firms, while supported by stakeholders, is seen to be a practical challenge that will need to be worked through by network firms. Some stakeholders expressed concern that the granularity of the requirements may undermine the purpose of being in a network and lead to unintended consequences. Additionally, there was a level of concern raised by stakeholders as to the consistency of application across network firms in different jurisdictions and what this means from a regulatory perspective.
 - (iii) Owing to the volume of the requirements in the proposed standard, stakeholders considered that a longer application period would be required, perhaps even a staged implementation process.
- (c) Structure of the standard
- (i) Stakeholders were supportive of the structure of the standard into the 8 components of a Quality Management System and supported the risk assessment process embedded in the standard. Stakeholders supported the flexibility that the standard allows in terms of the 8 components.

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- (d) Risk Assessment Process
 - (i) Stakeholders supported the RAP as outlined in the requirements of the standard.
 - (ii) Stakeholders expressed concern around the requirement to establish additional quality objective and D&I beyond those required by the standard and how this could be demonstrated and regulated. Stakeholders were unsure as to whether there would always be additional quality objectives and D&I beyond those required by the standard, particularly for SMPs as the standard is considered to be comprehensive. Stakeholders will be seeking clarification on this point.
- (e) Introductory Paragraphs and Appendix
 - (i) Stakeholders considered the introductory paragraphs and Appendix to be useful and educative, but largely repetitive of concepts included in the requirements of the standard. Stakeholders supported retaining the concepts included in the introductory paragraphs and Appendix, but there were mixed views as to whether the content should remain within the body of the standard or could be included in an explanatory document outside of the standard.
 - (ii) There was a discussion around the existing form and content of the Basis of Conclusions and discussion around whether this should actually be an expanded document taking users through the considerations from extant to new standard, rather than from ED to new standard. The document could then include educative material for example the introductory paragraphs and the appendix.
- (f) Technology
 - (i) Stakeholders were supportive of the recognition of the use of technology in this standard. Stakeholders considered that the balance of requirements is appropriate and that the standard is sufficiency principles based in this area.
 - (ii) Some stakeholders considered that the standard should explicitly recognise that manual systems may still be appropriate in limited circumstances, particularly in the SMP environment.
 - (iii) One stakeholder raised a concern that that new standard prescribes additional work on all IT applications (for example audit software) that will be onerous, expensive and time consuming.
- (g) Documentation
 - (i) Based on the sheer volume of requirements in the standard as well as the additional requirements to go beyond the standard in terms of objectives and

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design and implementation, stakeholders expressed concern at a regulatory ‘if not why not’ expectation.

- (ii) Stakeholders considered that the extent of documentation could get overly burdensome considering that there are 8 components, with each component having multiple quality objectives and each quality objective having multiple risks associated and for each risk there needs to be a response, this could eventuate in an impractical position to document.
- (h) Monitoring and Remediation
- (i) Stakeholders expressed concern that the current definition of deficiency would capture everything in the standard and therefore were unsure as to how all findings didn’t result in a deficiency. Stakeholders commented that the application material provided guidance in this area, but that the requirements of the standard should be able to stand-alone.
- (i) Networks and Service Providers
- (i) Stakeholders generally supported the requirements around networks and service providers. The more granular requirements were seen to be important in improving audit quality, however practically stakeholders could see implementation challenges in these areas.
 - (ii) Stakeholders commented that the purpose of being part of a network is leverage and the benefits of systems, stakeholders expressed concern that if such reliance was diminished, there may be unintended negative impacts on audit quality.
 - (iii) Stakeholders commented that different regulator expectations and interpretation of the standard in the area of networks and service providers could be problematic across jurisdictions.
 - (iv) Stakeholders expressed concern around the concept of service providers particularly the examples given in paragraph A205 and were uncertain as to who would be captured. Stakeholders found the concept of service providers confusing when considering the service organisations in ISA 402 and sought clarity in this regard.

2. ISQM 2

- (a) Stakeholders were largely supportive of ISQM 2 however raised significant concerns over the new term of significant public interest as introduced by ISQM 1.
- (b) Stakeholders were unsure as to why this new term was being introduced and considered that if an entity is a public interest entity, then it must be significant. Additionally, stakeholders commented that this term would not be able to be defined

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consistently across jurisdictions and therefore ISQM 2 would not be applied consistently.

3. ISA 220

- (a) Stakeholders were largely supportive of ISA 220, however raised concern regarding the definition of engagement team – with particular reference to the lack of a definition of ‘audit procedures’; stakeholders considered that the definition could be centred around a clarification of of procedures to be captured rather than the role of the person.
- (b) Stakeholders considered that the documentation requirements of ISA 220, did not link directly to the extensive requirements of the standard, and accordingly raised regulatory concerns. Stakeholders considered that the documentation requirements could be more granular or alternatively additional guidance was needed in this area.
- (c) Stakeholders commented that the expectations of the engagement partner in relation to ISQM 1 were not clear and that additional guidance is needed in this area.

Part B – NZAuASB

- 1. The ATG has reviewed the draft NZAuASB submission to the IAASB and the themes are consistent with the ATG summary provided above.

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