



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3.0**

Meeting Date: Wednesday 6 March 2019

Subject: Discussion on AUASB ED process

Date Prepared: 27 February 2019

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Action Required

For Information Purposes Only

Agenda Item Objectives

1. To discuss issues raised by AUASB members about the AUASB Exposure Draft (ED) process raised in correspondence with AUASB members in February 2019.
2. To discuss experiences of AUASB Technical Group (ATG) staff when instigating the ED process for the current IAASB Quality Management standards (ISQM 1, ISQM 2, ISA 220 and conforming amendments).
3. Agree the principles that the AUASB should apply when evaluating due process of AUASB Exposure Drafts in future.
4. Advise AUASB members on how the ATG has applied these principles to the current IAASB Quality Management standards, which are scheduled for review and approval at the March 2019 AUASB Board meeting (**Refer Agenda Item 4**).

Background

1. At its meeting on 17 April 2018 the AUASB considered alternative exposure draft (ED) processes for issuing an Australian ED equivalent to an IAASB ED and agreed to pilot issuing the IAASB ED concurrently as an Australian ED (including all known Australian amendments) for ED ISA 315 *Identifying and Assessing the Risks of Material Misstatement*.
2. At its meeting on 4 December 2018 the AUASB requested the ATG to analyse the results of the pilot and to consider if this process was to be adopted for the upcoming Quality Management standards and / or permanently.
3. The ATG prepared and distributed a paper to AUASB members on 4 February 2019 to seek feedback on the change to ED process (the 'ED process paper'). This paper was also designed to guide the ATG on which ED process should be applied to the IAASB Quality Management' (the 'QM Standards') so they could prepare the board papers for the first AUASB meeting for the year.

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4. The ED process paper presented two options for the AUASB to consider:
 - a. Process A - issue an Australian ED based on the final ISA standard (the current process)
 - b. Process B - issue the Australian ED concurrently with the equivalent IAASB ED, including all known Australian amendments.
5. The majority of AUASB members expressed support for applying Option B in future. No AUASB members supported retaining the existing AUASB exposure process where we issue an Australian ED based on the final ISA standard. But when it came to the detail associated with the ED process the feedback from AUASB members on the ATG's paper was mixed, with some members expressing different perspectives about the current due process the AUASB has in place when considering IAASB EDs.
6. Two AUASB members shared a view that a third option was preferable or should be considered – that the AUASB issue the IAASB ED and not an AUASB formatted ED for exposure.
7. Some AUASB members suggested further clarification is required on how the AUASB segment their deliberations and communications to stakeholders about any 'significant issues' they may have with a proposed IAASB standard, and what may be any Australian 'compelling reasons', either for regulatory/legal reasons or due to local principles or practices.
8. Whilst the issue of when the AUASB re-exposes proposed standards was not explicitly dealt with in the ED Process Paper, there were some comments from AUASB members requesting greater clarity around when this may be necessary.
9. Concern was expressed by a number of AUASB members that the revised ED process adopted for ISA/ASA 315 did not illicit responses from two large audit firms (although it was noted in the paper that the overall number of responses and level of engagement from stakeholders for this ED was at or above the level the AUASB experienced for previous EDs).
10. Following this feedback, the AUASB Chair communicated to the AUASB on 12 February 2019 that due to the different views on this issue expressed by AUASB members this item would be included for discussion on the March 2019 AUASB Agenda. The 'Matters to Consider' below summarise the actions the ATG has undertaken in the last few weeks leading up to the March 2019 AUASB Meeting as a result of this issue.
11. To facilitate the process that ATG staff should apply in the preparation of the QM Standards the AUASB Chair and Technical Director considered the above feedback from Board Members, as described in the matters to consider below.

Matters to Consider

1. Whilst feedback on the different elements in the ED process paper was mixed, the ATG did identify common principles supported by a majority of AUASB members when it comes to the AUASB's ED process. These have been summarized below
 - (a) To maximise the AUASB's ability to influence the IAASB as early as possible in the ED process:
 - (i) As part of the regular activities of the AUASB and before the IAASB issues its ED, the ATG and AUASB members should identify all 'significant issues' they believe exist within each proposed IAASB Standard, including those that may potentially result in an Australian 'compelling reason' due to local principles or practices.
 - (ii) The AUASB should expose its proposed standards in parallel with the equivalent IAASB standard rather than wait until the IAASB has been finalised.
 - (b) To ensure IAASB EDs are made available to our constituents as promptly as possible the ATG should ensure IAASB EDs are ready for AUASB review and approval as soon as practicable after their release by the IAASB.

- (c) To aid the efficiency of AUASB Board and staff time the ED process selected should limit duplication of effort by the ATG staff and ensure Board deliberations on the ED are well-organized and effective.
 - (d) To facilitate the engagement of AUASB members in the ED process sufficient time must be scheduled at AUASB meetings for members to consider the ‘significant issues’ and potential Australian ‘compelling reasons’ as part of the IAASB ED review process by the AUASB. This process includes reviewing the status of the significant issues previously identified, to determine whether these have been adequately addressed in the IAASB ED.
 - (e) To generate the greatest opportunity for feedback by our constituents, the AUASB ED process needs to include appropriate outreach activities that enable all types of stakeholders to provide feedback.
2. The ATG will ensure the existing guidelines for re-exposure of AUASB Standards are reviewed as part of any future revision of the AUASB’s standard setting process and work closely with the NZAuASB to ensure consistency on this matter as required by our XRB/AUASB Protocol.
 3. With the exception of the current QM Standards, based on the current IAASB timetable the next IAASB ED the AUASB are likely to have to consider for exposure is ISA 600 on Group Audits in December 2019. There is some possibility a re-exposure of ISA 315 by the IAASB, which may also be something the AUASB needs to consider this year. Accordingly, the ATG have focused on what to do immediately relating to the exposure of the QM Standards, with further deliberations to clarify the due process of the AUASB standards setting process to be held with AUASB members over the next few months.
 4. For the current AUASB proposed standards subject to review, the ATG considered all the feedback provided by AUASB Members in response to the ED process paper as summarized in the ‘Background’ above. With a clear preference expressed to issue the Australian ED concurrently with the equivalent IAASB ED, the ATG have developed the EDs for the QM Standards as outlined in **Agenda Item 4** using the principles outlined above and in consultation with the AUASB Chair:
 - (a) The IAASB EDs for the QM Standards were released on 8 February 2019 and the ATG received word versions of these EDs on 20 February 2019. In order to expose them to Australian Stakeholders as promptly as possible these EDs have been prepared by the ATG in AUASB ED format for review and approval at this first AUASB Meeting for the year in March 2019.
 - (b) Acknowledging the difficulty associated with the size and complexity of the QM Standards (over 200 pages, splitting ASQC 1 to both ASQM 1 and ASQM 2, etc.) and the large number of existing modifications to the extant standards which will need to be considered when issuing the standards in Australia. Definitions, requirements and application material and other explanatory material of the EDs has not been deleted or amended to reflect Australian laws and regulations or principles and practices. Automatic wording changes such as ISA to ASA have been made.
 - (c) This decision was reached on the basis that there is insufficient time for the AUASB to deliberate on the nature and extent of changes required to the proposed versions of ASQM 1, ASQM 2 and ASA 220 at our March meeting and it was impractical to delay the release of these EDs until after our next AUASB meeting in April.
 - (d) However, to ensure AUASB members have clarity on how the AUASB is addressing any significant issues previously identified with these QM standards, and what changes to the Australian versions of these standards may be required under our existing compelling reason test, the ATG has prepared in the board papers for Agenda Item 4 summaries highlighting each of these elements. The process used is described in further

detail in the board paper at Agenda Item 4.1.0 (“Australian Exposure of Quality Management Standards”) paragraph 9.

- (e) The explanatory memorandum for the QM Standards at Agenda Item 4.1.1 has been drafted to ensure AUASB constituents have clarity about this process and how it relates to the AUASB’s review of the QM Standards.
5. The AUASB Technical Director is currently in the process of contacting the major audit firms who did not respond to our request for comment on the ED for ISA/ASA 315 to ascertain their rationale for not providing the AUASB with a submission. Feedback from these firms will be considered and shared with the AUASB.

Questions for the AUASB

1. Do AUASB members agree with the common principles drawn from members’ feedback summarised above? If not, which principles need amendment and what principles are missing from this summary?
2. Do AUASB agree with the manner the ATG have applied the principles to the review of QM Standards at **Agenda Item 4** as described above? If not, what elements relating to the process of exposing the QM Standards would AUASB members like to change?
3. Are AUASB members satisfied with the manner in which other feedback about the ED process has been or will be addressed by the ATG?