



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.1.0**

Meeting Date: 6 March 2019

Subject: Australian Exposure of Quality Management Standards

Date Prepared: 18 February 2019

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Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objectives of **Agenda Item 4** are to approve:
 - (a) AUASB Explanatory Memorandum *Quality Management at the Firm and Engagement Level – Australian Exposure* (**Agenda item 4.1.2**);
 - (b) ED 01/19 Proposed ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements* (**Agenda Item 4.2.1**);
 - (c) ED 02/19 Proposed ASQM 2 *Engagement Quality Reviews* (**Agenda Item 4.3.1**);
 - (d) ED 03/19 Proposed ASA 220 *Quality Management for an Audit of a Financial Report and other Historical Information* (**Agenda Item 4.4.1**); and
 - (e) ED 04/19 Proposed Auditing Standard 2019-X *Amendments to Australian Auditing Standards – Conforming amendments* (**Agenda Item 4.5.1**).
2. To consider and provide feedback to the ATG on the Outreach Plan for these EDs (**Agenda item 4.1.1**).
3. As outlined in the “Discussion on AUASB ED process” paper at **Agenda Item 3**, due to the need to issue the Quality Management Exposure Drafts as soon as possible to allow sufficient time for stakeholders to consider the extensive changes made to these proposed standards, the AUASB Technical Group will not be requesting AUASB Members to provide additional wording for compelling reasons at this stage, except as described in paragraph 4 below. This discussion will be deferred to a future AUASB Meeting.
4. In place of potential Australian additions, deletions and amendments, the ATG has proposed including a placeholder and accompanying statement, where relevant, indicating that the following

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paragraph will be considered for modification in-line with the *Compelling Reasons* test. Further information on compelling reasons considered for the suite of Quality Management EDs can be found in paragraphs 12 and 24-27 of this Board Meeting Summary Paper.

Questions for the AUASB

5. The AUASB is asked to provide responses to questions 1-14. The questions are collated in this paper to provide AUASB members with a steer when reading the papers throughout Agenda Item 4. The questions will appear, where relevant, in Agenda Item 4 papers.

Questions

Comment Date

1. Does the AUASB support the proposed Australian comment date of 25 May 2019?

Outreach Plan (Agenda Item 4.1.1)

2. Does the AUASB have any feedback on the proposed ATG Outreach Plan?

ED 01/19 ASQM 1 (Agenda Item 4.2.1)

3. Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on whether this standard is expect to result in improved quality engagements?
4. Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on the usefulness of introductory paragraphs as such an introduction appears to be a trend coming through the standards?
5. Does the AUASB consider it appropriate to include additional wording into questions 6(b)(ii) and 6(d)(ii) enquiring whether stakeholders understand the requirements in relation to the firm establishing quality objectives and designing and implementing responses additional to those required by the standard?

6. Does the AUASB consider it appropriate to include an additional question in ED -1/10 in relation to stakeholders' support of documentation requirements particularly those related to the monitoring and remediation process?

ED 02/19 ASQM 2 (Agenda Item 4.3.1)

7. Does the AUASB consider it appropriate to include an additional question in ED 02/19 to address whether the requirement in ASQM 2 for the EQR to determine whether the requirements of ASQM 2 have been fulfilled and completed should actually reside in ISQM 1 or ASA 220?

ED 03/19 ASA 220 (Agenda Item 4.4.1)

8. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on situations where somebody other than the engagement partner signs the audit report?
9. Does the AUASB consider it appropriate to amend Question 4 of ED 03/19 to draw attention to the AUASB's issues with the Engagement Team definition?
10. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on whether the proposed changes will contribute to improved audit quality in Australia?

11. Has the AUASB identified any significant issues in ED 03/19 which have not been listed in this paper? If yes, do the specific questions appropriately bring this issue to stakeholder's attention?
ED 04/19 Conforming Amendments
12. Are there any other conforming amendments as a result of the changes proposed in ED 01/19, ED 02/19 and ED 03/19 which have not been identified in ED 04/19?
Compelling Reasons Assessment
13. Does the AUASB support the ATG's approach to the assessment of compelling reasons at this point in time?
14. Does the AUASB agree with the "Aus. Statements" in each of the exposure drafts? Do AUASB Members have any other paragraphs which they would considered appropriate to include an "Aus. Statement"?

Background

Exposure by IAASB

6. At its December 2018 meeting, the IAASB approved for issue three EDs for managing quality at the firm and engagement levels. The three international exposure drafts are:
 - (a) Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements* ([ED-ISQM 1](#));
 - (b) Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* ([ED-ISQM 2](#)); and
 - (c) Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* ([ED-220](#)).

They were released by the IAASB in February 2019 with comments due to the IAASB by 1 July 2019.
7. Alongside the exposure drafts, an overall [Explanatory Memorandum](#) (EM) was released by the IAASB which included:
 - (a) Background as to why the project was undertaken to revise the suite of quality management standards;
 - (b) Significant matters for consideration by stakeholders, which included scalability of the three standards;
 - (c) The linkages between the three standards; and
 - (d) The IAASB's deliberations around an effective date for the standards.

Effective Date

8. At this stage, no effective date for the standards has been proposed by the IAASB. Instead the standards have been exposed with the statement "*the standards will be effective 18 months after the final approval by the Public Interest Oversight Board (PIOB)*". Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB. The ATG has aligned the

effective date wording in the Australian EDs with international and have included a footnote in each ED and the EM with further information.

Format of Exposure Drafts

9. Based on discussions with the AUASB Chair in February 2019, the ATG has converted the IAASB EDs into Australian EDs for exposure. An Australian EM covering all four EDs will be prepared by the ATG following the format established when the EM for ED 01/18 ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (ED 01/18) was approved and issued by the AUASB in July 2018.
10. As previously highlighted in paragraphs 3 and 4, the approach to compelling reasons will be to include a statement in the Australian ED flagging that the below paragraph will be considered for modification and may have an addition, deletion or amendment in line with the AUASB's *Compelling Reasons* test. A more in-depth explanation and consideration of this approach is included in paragraphs 24-27.
11. Refer to the "Discussion on AUASB ED process" paper at **Agenda Item 3**, which discusses the AUASB ED process and the decisions that led to the format of the EDs presented as part of this Agenda Item.

Matters to Consider

Comment Date

12. The IAASB has requested comments to be provided by 1 July 2019. To allow sufficient time for the ATG to prepare the submission to the IAASB and for the AUASB to deliberate the content, including consideration of significant issues and potential compelling reason amendments raised through the consultation process, the ATG proposes an Australian comment date of 25 May 2019.
13. A two day AUASB meeting is scheduled for 12-13 June 2019 (mail outs 29 May and 5 June). If the EDs are approved and released shortly after the March 2019 AUASB meeting, this should give stakeholders sufficient time (i.e. approx. 75 days) to respond.

Questions

1. Does the AUASB support the proposed Australian comment date of **25 May 2019**?

Exposure Draft Questions

14. The questions for each of the exposure drafts have been drawn from the international questions to allow the submission prepared by the AUASB to align with the feedback requested by the IAASB, streamlining the submission preparation process.
15. Additional Australian specific questions have also been included. These questions are drawn from the Australian specific questions approved by the AUASB when ED 01/18 was issued.
16. The proposed EDs for each standard will be accompanied by a covering paper which will outline the major issues identified and discussed by the AUASB and ATG during the development of the EDs and the ATG's assessment as to whether the IAASB's questions appropriately draw stakeholder's attention to these issues. Where relevant, additional questions have been proposed by the ATG.

ATG Outreach Plan

17. The ATG has prepared an outreach plan for Phase 1 (exposure of standards) to ensure that relevant stakeholders impacted by the changes are made aware of the extent of the proposed changes and have sufficient time to provide feedback to the AUASB.
18. Due to the magnitude of the proposed changes in the EDs and the pervasive impact that the changes may have on how firms of all sizes operate, an extensive outreach plan is proposed and AUASB feedback is requested on this plan.
19. An important point for consideration is whether the *Quality Management* standards should exist in both the AUASB and APESB Frameworks. At this point in time, the existing ISQC 1 is also released as APES 320 *Quality Control for Firms* by the APESB. The ATG has initiated discussions with APESB staff on this matter and will have a solution for the AUASB to consider before approval of the final standards.
20. A final version of the ATG Outreach Plan, incorporating AUASB feedback, will be brought to the AUASB for approval at the April 2019 AUASB Meeting. The draft ATG Outreach Plan is presented as Attachment 1, Agenda Item 4.1.1.

Questions

2. Does the AUASB have any feedback on the proposed ATG Outreach Plan? **Agenda Item 4.1.1**

Co-ordination with NZAuASB

21. The ATG has discussed the exposure of the *Quality Management* suite of standards with relevant NZAuASB staff. To avoid a double-up of work effort, where relevant, materials will be shared between the Technical Groups.
22. The NZAuASB has shared their outreach plan with the ATG. The NZAuASB have a number of activities planned which include:
 - (a) A webinar to provide an overview of the standards to be hosted April;
 - (b) Half day workshops on ISQM 1 specifically targeting SMPs; and
 - (c) Teleconferences for all other stakeholders to provide feedback on the issues asked for comment.
23. The AUASB webinar proposed in the outreach plan will be hosted once roundtable and other outreach has been completed. The AUASB webinar will focus on the key issues identified during outreach and will seek additional feedback from a broader range of stakeholders on these areas. The AUASB and NZAuASB webinars will be complementary rather than a duplication.

“Compelling Reasons” Assessment

24. Within the body of each ED, paragraphs that will be considered for modification (addition, deletion or amendment) in-line with the AUASB’s *Compelling Reasons* test have been identified with either of the follow *Modification Statements*:
 - (a) Where the ATG considers an existing modification to the extant standard may still be relevant the *modification statement* will be:

Aus The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect principles and practices considered

appropriate in Australia are still applicable to the below paragraph.
See Table 1 for more information;

OR

Aus The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect Australian laws and regulations are still applicable to the below paragraph. See Table 1 for more information;

(b) Where the ATG considers there may be a new modification required to comply with the AUASB's *Compelling Reasons* test the *modification statement* will be:

Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect principles and practices considered appropriate in Australia. See Table 2 for more information.

OR

Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations. See Table 2 for more information.

25. For example, ED 01/19 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* has a number of paragraphs relating to the International Code of Ethics. Rather deleting or amending the IAASB ED wording, to highlight that an Australian specific amendment to the proposed standard may be required the relevant paragraphs in the ED will appear as follows.

Introduction	
Scope of this Auditing Standard	
1	...
2	...
Aus	The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations See Table 2 for more information.
3	Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM.

26. To support each of the *Modification Statements*, an attachment has been prepared and will be issued alongside each ED and will include two tables.
- (a) **Table 1** – Australian modification to the extant QM Standards and whether they may be applicable to the ED; and
- (b) **Table 2** – Possible modifications to the ED identified by the ATG or AUASB. These are not drawn from existing modifications to the extant ASQC 1¹ and ASA 220².

The purpose of the tables will be to provide more information to stakeholders about why each of the *Modification Statements* have been included. Under the *Conformity with International Standards* section in each ED a *Table of Amendments* has been included which will indicate which paragraphs

¹ ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

² ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

are being considered for modification and a short rationale on why they are proposed for amendment.

27. The approach of including *Modification Statements* rather than adding, deleting or amending paragraphs is, in the ATG's view, the most efficient and effective approach for both the ATG and AUASB. This is based on:
- (a) Due to the extensive changes in the standards from extant standards, it is important to provide Australian stakeholders with as much time as possible to review and consider the EDs. This process gives the stakeholders time to review the EDs and also indicates where the AUASB will be deliberating further on Australian modifications and gives stakeholders the opportunity to agree or disagree with the assessment or identify other areas of possible modification.
 - (b) The QM Standards are likely to be subject to significant change – As seen with ASA 540 *Auditing Accounting Estimates and Related Disclosures*, the redrafting from exposure to final was significant. Based on the comments received on exposure of ISA 315 *Identifying and Assessing the Risks of Material Misstatement* a significant re-draft is also expected. This trend is expected to continue with Quality Management EDs.

Drafting and deliberating Aus. modifications for paragraphs which, based on recent experience, could change entirely is not an effective use of AUASB time. Identifying areas of the standards and principles/concepts in those standards which may require modification leaves the AUASB in a more agile position to respond to the final standard.
 - (c) Over this AUASB meeting and the next (April 2019), AUASB and ATG resources are constrained, with a number of other AUASB EDs and Submissions due over the same period, and an IAASB meeting occurring over this period. The AUASB does not have the capacity to sufficiently deliberate all compelling reasons and the wording of possible modifications whilst still allowing stakeholders sufficient time to read the EDs and provide considered feedback.

Questions

- 3. Does the AUASB support the ATG's approach to the assessment of compelling reasons at this point in time?
- 4. Does the AUASB agree with the "Aus. Statements" in each of the exposure drafts? Do AUASB Members have any other paragraphs which they would like considered for a *Compelling Reason* in the future?

AUASB Technical Group Recommendations

28. Once all AUASB Member feedback has been appropriately addressed, the ATG recommends the AUASB approve the Quality Management suite of exposure drafts and related materials for issue.

Questions

5. Does the AUASB approve for issue:
- a) Explanatory Memorandum *Quality Management at the Firm and Engagement Level – Australian Exposure*;
 - b) ED 01/19 ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements*;
 - c) ED 02/19 ASQM 2 *Engagement Quality Reviews*;
 - d) ED 03/19 ASA 220 *Quality Management for an Audit of a Financial Report and other Historical Information*; and
 - e) ED 04/19 Proposed Auditing Standard 2019-X *Amendments to Australian Auditing Standards – Conforming amendments*?

Material Presented

Agenda Item 4.1.0	AUASB BMSP QM Standards (This Paper)
Agenda Item 4.1.1	AUASB (Draft) Outreach Plan
Agenda Item 4.1.2	Explanatory Memorandum <i>Quality Management at the Firm and Engagement Level – Australian Exposure</i>
Agenda Item 4.2.1	ASQM 1 – ED Questions aligned to Issues
Agenda Item 4.2.2	ASQM 1 – Table of Australian Modifications
Agenda Item 4.2.3	ED 01/19 ASQM 1 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements</i>
Agenda Item 4.3.1	ASQM 2 – ED Questions aligned to Issues
Agenda Item 4.3.2	ASQM 2 – Table of Australian Modifications
Agenda Item 4.3.3	ED 02/19 ASQM 2 <i>Engagement Quality Reviews</i>
Agenda Item 4.4.1	ASA 220 – ED Questions aligned to Issues
Agenda Item 4.4.2	ASA 220 – Table of Australian Modifications
Agenda Item 4.4.3	ED 03/19 ASA 220 <i>Quality Management for an Audit of a Financial Report and other Historical Information</i>
Agenda Item 4.5.1	ED 04/19 Proposed Auditing Standard 2019-X <i>Amendments to Australian Auditing Standards – Conforming amendments</i>

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Responses from AUASB to questions asked throughout Agenda Item 4.	Responses to questions	AUASB	6 March 2019	N/A
2.	Approval from the AUASB to issue the four EDs.	Approval of EDs	AUASB	6 March 2019	N/A
