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Explanatory Guide

Exposure of the IAASB's Proposed Quality Management Standards in Australia

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued for public comment three exposure drafts (EDs) on interrelated proposed auditing standards that address quality management at the engagement and firm level. This Explanatory Guide provides an overview of how the Australian Auditing and Assurance Standards Board (AUASB) is requesting feedback from Australian stakeholders on the proposed changes and their impact on the Australian assurance market.

Purpose

2. This Explanatory Guide gives Australian stakeholders an overview of:
 - (a) The format of exposure, including the material that has been prepared and issued as part of the exposure process; and
 - (b) The AUASB deliberations that resulted in the process adopted for the exposure of the quality management standards.

Format of the Australian Exposure

A change in process

3. The IAASB has issued for public comment three interrelated proposed standards that address quality management at the firm and engagement levels. Each of the proposed standards have been issued alongside individual explanatory memorandums which provide stakeholders an insight into the IAASB's significant matters for each proposed international standard. The individual memorandums are intended to be read alongside an overall memorandum which explains the significant matters common to all three proposed international standards.
4. Rather than duplicate the material, the IAASB proposed standards on quality management have been issued for comment in Australia by the AUASB without modification. The process of issuing without modification is a new process discussed and agreed by the AUASB at its 6 March 2019 AUASB Meeting ([Agenda Item 3](#)). This approach differs from the process when the AUASB exposed ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* in August 2018, where the AUASB converted the IAASB's proposed standard into an Australian specific format that included modifications such as the amendment of definitions to align with the requirements of the *Corporations Act 2001*.
5. In 2018, the AUASB undertook a project to reconsider how it exposed international proposed standards in Australia. The project was aimed at identifying how the AUASB better influences the international standard-setting process, as well as to optimise process efficiency and effectiveness. Historically, the AUASB has only exposed an Australian ED containing the final version of the equivalent IAASB standard and focused on whether any compelling reasons existed to modify the standard to consider Australian principles and practices and laws and regulation.
6. At the 17-18 April 2018 AUASB Meeting ([Agenda Item 3](#)) the AUASB considered two alternate exposure draft processes for issuing an Australian ED equivalent to an IAASB ED:
 - (a) Process A – issue an Australian ED based on the final ISA standard (the current process); or
 - (b) Process B – issue the IAASB ED concurrently as an Australian ED including all known Australian amendments.

7. The AUASB agreed to pilot Process B for ED ISA 315 *Identifying and Assessing the Risks of Material Misstatement*.
8. At the 4-5 December 2018 AUASB Meeting (Agenda Item 4), the AUASB requested the AUASB Technical Group (ATG) to analyse the results of the pilot and to consider if this process should be adopted for the upcoming Quality Management standards.
9. At the 6 March 2019 AUASB Meeting ([Agenda Item 3](#)), in response to the AUASB's request, the ATG prepared a paper discussing the results of the trialled exposure process for ED 01/18 and whether a similar process should be followed for the suite of quality management standards. Alongside the trialled process, the AUASB considered a number of other exposure options which were assessed against the following key principles. An exposure process should:
 - (a) Maximise the AUASB's ability to influence the IAASB during the development of a standard. This is a key objective of the AUASB's [International Strategy](#).
 - (b) Make EDs available to Australian stakeholders as soon as practicable to generate the greatest opportunity for feedback from stakeholders.
 - (c) Increase the opportunity for the AUASB members and staff to consider stakeholder feedback.
 - (d) Facilitate engagement of AUASB members in the ED process and ensure sufficient time to deliberate significant matters and their potential impact in Australia, including the assessment of possible Australian modifications.
10. The AUASB determined that an approach of 'wrapping-around' the IAASB ED with an Australian *Explanatory Memorandum* best balanced each of these principles. The purpose of the wrap around is to draw Australian stakeholder's attention to areas of the proposed standard which the AUASB have been tracking during the development of the standard by the IAASB. Australian specific questions will be asked in relation to "significant matters" in the proposed standard which the AUASB would like more feedback on.
11. The approach of "wrapping-around" the IAASB's proposed standard with an Australian Explanatory Memorandum:
 - (a) Provides the best opportunity to obtain robust and pervasive feedback from Australian stakeholders about significant matters early in the IAASB standard-setting process.
 - (b) Results in an Australian exposure process which closely follows the IAASB release and maximises stakeholder's time to consider the changes.
 - (c) Focuses the AUASB's deliberations on significant matters in the proposed standard identified by the AUASB over the course of the proposed standard's development by the IAASB.
 - (d) Allows the AUASB and ATG to spend Board time developing targeted questions in the Australian Explanatory Memorandum, in addition to the IAASB's questions, to specifically ask Australian stakeholders their views on the significant matters in the proposed standard identified by the AUASB. This provides Australian stakeholders with insight into the AUASB's considerations of the international standards and their potential impact on the Australian assurance market.
12. The AUASB agreed that this will be the process going forward for future IAASB exposure drafts, and the AUASB Technical Group staff will update the AUASB Functions and Processes document to reflect this change in the second half of 2019.

Material issued as part of this process

13. The following materials have been issued to seek Australian stakeholder feedback:
 - (a) Explanatory Guide *Exposure of the IAASB's Quality Management Standards*;
 - (b) Explanatory Memorandum ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
 - (c) Explanatory Memorandum ISQM 2 *Engagement Quality Reviews*; and
 - (d) Explanatory Memorandum ISA 220 *Quality Management at the Engagement Level*.
14. Each Explanatory Memorandum is structured consistently, with a focus on obtaining Australian stakeholder feedback on significant matters identified by the AUASB. The IAASB's full explanatory memorandums and exposure drafts will be included within the Australian Explanatory Memorandums as an attachment.
15. At this stage of the exposure process, Australian modifications to the proposed standards to reflect Australian principles and practices and laws and regulations (known as "compelling reasons") have not been considered by the AUASB. Based on recent experience, there has been considerable re-drafting post exposure by the IAASB. Accordingly, in-line with the principle to maximise the efficiency of AUASB member and staff time, paragraphs have not been amended, deleted or added to reflect compelling reasons, as the paragraphs in the proposed standard may be significantly amended or deleted by the IAASB at a later stage.
16. However, Australian stakeholders are asked to consider whether modifications in the extant standards are still relevant to guide the AUASB in their deliberations on modifications at a later date.