

March 2019

# **Explanatory Memorandum**

## ***ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements***

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



**Australian Government**

**Auditing and Assurance Standards Board**

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## **EXPLANATORY MEMORANDUM**

### ***ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements***

#### **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 memorandum represents the Australian exposure of one of those standards, Proposed International Standard on Quality Management ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED- ISQM 1).
2. This Explanatory Memorandum is to be read in conjunction with the overarching Explanatory Guide *Exposure of the IAASB's Proposed Quality Management Standards in Australia*. The Explanatory Guide provides stakeholders with an overview of the approach to exposing the proposed international quality management standards in Australia, and details of the process the AUASB will apply to exposing other IAASB EDs in future.

#### **Overview**

3. This Explanatory Memorandum gives Australian stakeholders an overview of:
  - (a) Request for comments – IAASB questions and additional Australian questions;
  - (b) Background to the matters identified for further consideration by the AUASB during the review of the proposed international standard;
  - (c) How to provide comments and the Australian comment date; and
  - (d) Planned outreach in Australia to gather feedback on the proposed standards.
4. ED – ISQM 1 is included as an attachment to this Explanatory Memorandum, and can also be obtained on the [IAASB's website](#).

#### **Request for Comments**

5. Stakeholders are directed to the Request for Comments section below which comprises IAASB and Australian specific questions. Stakeholder responses to both sets of questions will be used to inform the AUASB in their response to the IAASB on the Quality Management Exposure Drafts.

#### **IAASB Questions**

Stakeholders are asked to respond to the AUASB on the following questions derived from the IAASB's Explanatory Memorandum for ED-ISQM 1 in order to inform the AUASB's formal response to the IAASB on their ED:

*NB: There are no variations between the questions below and those in the IAASB's Explanatory Memorandum, but for completeness and ease of use by respondents they are replicated in the Australian Explanatory Memorandum for ED-ISQM 1.*

***Overall Questions***

1. Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:
  - (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?
  - (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?
  - (c) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?
2. Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?
3. Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

***Specific Questions***

4. Do you support the eight components and the structure of ED-ISQM 1?
5. Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?
6. Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:
  - (a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?
  - (b) Do you support the approach for establishing quality objectives? In particular:

Are the required quality objectives appropriate?

Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

- (c) Do you support the process for the identification and assessment of quality risks?
- (d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:
  - (i) Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?
  - (ii) Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?
7. Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?
8. With respect to matters regarding relevant ethical requirements:

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- (a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?
- (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?
9. Has ED-ISQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management?
10. Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?
11. Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?
12. In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:
- (c) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?
- (d) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?
- (e) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?
- (f) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:
- Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?
- Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?
- Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?
13. Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?
14. Do you support the proposals addressing service providers?
15. With respect to national standard setters and regulators, will the change in title to "ISQM" create significant difficulties in adopting the standard at a jurisdictional level?

**Australian specific questions**

*Matters for further consideration in relation to the Quality Management Standards*

Stakeholders are asked to respond to the following specific questions included to reflect matters for further consideration identified by the AUASB during its deliberations on the IAASB's development of the Quality Management standards.

16. Do you consider the definition of engagement teams has been consistently applied across the suite of Quality Management Standards (Refer to issues identified by the AUASB, matter number 7, table 1)

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17. In relation to engagement quality reviews (Refer to issues identified by the AUASB, matter number 9, table 1) :
- (a) Do you agree with the definition of Engagement Quality Reviews/Reviewer and do you consider the term to be clear and capable of application in a consistent way across engagements?
  - (b) Do you agree that engagement quality reviews should also be performed for audits of financial statements of entities that the firm determines are significant public interest entities?
  - (c) Has the term “significant public interest entity” clear and capable of application in a consistent way across engagements.

*Matters for further consideration in relation to ED – ISQM 1*

Stakeholders are asked to respond to the following specific questions included to reflect matters for further consideration identified by the AUASB during its deliberations on the IAASB’s development of ED-ISQM 1. Further information about the matters related to each of the questions can be found in Table 1 below.

18. Do you consider that the proposed revisions to ISQM 1 will result in improved quality engagements? If yes, please state the reasons. If no, please describe the provisions of the proposed standard that may threaten an improvement in audit quality or make it difficult to achieve (matter number 1 and 3, table 1).
19. Do you consider that components of SOQM should be weighted / proportionate within the standard, that is, to have greater or lesser focus to assist in meeting the overall objective of audit quality? How would you demonstrate proportionality of the components of SOQM? (matter number 2, table 1)
20. Do you support the introductory paragraphs and appendix and do you find them helpful; or do you find the introductory paragraphs and appendix to be duplicative and the content addressed elsewhere within the requirements and application material? (matter number 4, table 1)
21. Do you understand the requirements and application material contained within paragraphs 10(c), 29 and A57? Do you understand the work effort required to meet these requirements and how you would demonstrate compliance with these requirements? (matter number 5, table 1)
22. Do you support the documentation requirements in paragraph 67, particularly those related to the monitoring and remediation process. Do you consider that the documentation requirements in relation to the monitoring and remediation process are proportionate relative to the remainder of the documentation requirements, if yes please provide your reasons, if no please provide your reasons and suggestions. (matter number 6, table 1)
23. Do you consider that the term service provider is clearly articulated in paragraph 64 and is capable of application in a consistent way across engagements? Do you agree with the examples of resources from a service provider as contained in paragraph A205 of the proposed standard? (matter number 8, table 1)

*Considerations related to Australian Principles and Practices and Laws and Regulation*

Stakeholders are asked to respond to the following AUASB specific questions which reflect considerations for ED-ISQM 1 related to the Australian regulatory environment and principles and practices considered appropriate in Australia.

*NB: The AUASB is yet to consider Australian modifications to this standards as part of its due process. Refer to paragraph 7 for further information.*

24. Are there any modifications to the extant ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Historical Financial Information, Other Assurance Engagements and Related Services Engagements* which are still relevant to ED-ISQM 1?
25. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

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26. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
27. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
28. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - (a) Where those costs are likely to occur;
  - (b) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - (c) Whether expected costs outweigh the benefits to the users of audit services?
29. Are there any other significant public interest matters that stakeholders wish to raise?

**Matters identified for further consideration by the AUASB**

6. As part of its International Strategy, the AUASB reviews the ongoing progress of all IAASB proposed standards over the course of their development. The AUASB’s International Strategy is designed to ensure the AUASB influences international standards and guidance as early as possible, by identifying matters for consideration that achieve public interest outcomes and ensuring they serve as the most effective base for the Australian auditing and assurance standards..

Matters 1-9 in Table 1 below have been raised by the AUASB during this review process and resulted in additional questions 16-23 in the ‘Request for Comments’ above.

**Table 1 – Significant Issues Identified by the AUASB**

<b>Matter #</b>	<b>Para</b>	<b>Matter Raised</b>	<b>Brief Description</b>
1	Overall	Improvement to audit quality	<p>The AUASB does not have a clear understanding of the linkage of the original objectives to revise ISQC 1 and how the proposed revisions to ISQM 1 will result in improved audit quality. The AUASB has concerns that the prescriptive approach to each component of the System of Quality Management (SOQM) may be detrimental to audit quality.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 18:</p> <p><i>Do you consider that the proposed revisions to ISQM 1 will result in improved quality engagements? If yes, please state the reasons. If no, please describe the provisions of the proposed standard that make threaten an improvement in audit quality or make it difficult to achieve.</i></p> <p>Additionally, the IAASB has raised a question in this regard – refer question 1(c) and 5.</p>
2	Overall	Scalability	<p>The AUASB has concerns that the prescriptive approach to each component of the System of Quality Management (SOQM) may be detrimental to audit quality. For SMPs specifically this prescriptive QMA approach may be less scalable than the current principles in extant ISQC 1 and may increase compliance costs and time at the firm level without necessarily achieving improved audit quality.</p>



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Matter #	Para	Matter Raised	Brief Description
			<p>Additionally, there is language used within the standard, that the AUASB considers may be a barrier to scalability. For example, the AUASB raises concern with the application material in paragraph A55: ‘There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote’.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 19:</p> <p><i>Do you consider that components of SOQM should be weighted / proportionate within the standard, that is, to have greater or lesser focus to assist in meeting the overall objective of audit quality? How would you demonstrate proportionality of the components of SOQM?</i></p> <p>Additionally, the IAASB has raised a question in this regard – refer question 1(c).</p>
3	Overall	Principles verses Prescriptiveness	<p>IAASB standards are meant to be principles-based and as such, the Quality Control Task Forces intended approach for Firms to apply professional judgement to the quality objectives, risks and associated responses for each component. The AUASB considers the current drafting of proposed ISQM 1 to be prescriptive. The AUASB considers the objectives embedded in each component of the SOQM to be compliance based with a very prescriptive approach to each component of the System of Quality Management (SOQM).</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 18:</p> <p><i>Do you consider that the proposed revisions to ISQM 1 will result in improved quality engagements? If yes, please state the reasons. If no, please describe the provisions of the proposed standard that make threaten an improvement in audit quality or make it difficult to achieve.</i></p> <p>Additionally, the IAASB has raised a question in this regard refer questions 4 and 6.</p>
4	Introductory paragraphs and appendix	Repetition	<p>The AUASB considers that the introductory paragraphs and appendix are largely repetitive of the requirements and application material, albeit in a summary form. The AUASB considers that some of the content may be best suited to a ‘best practice’ guide and not contained in the standard itself.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 20:</p> <p><i>Do you support the introductory paragraphs and appendix and do you find them helpful; or do you find the introductory paragraphs and appendix to be duplicative and the content addressed elsewhere within the requirements and application material?</i></p> <p>Additionally, the IAASB has raised a question in this regard refer question 3.</p>
5	Overall	Legally enforceable standards	<p>The AUASB raises concern as to how compliance with this standard can be demonstrated particularly in jurisdictions where standards are legally enforceable. The AUASB raises this concern particularly with the drafting and requirements</p>

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Matter #	Para	Matter Raised	Brief Description
			<p>of the likes of paragraphs 10(c), 29 and A57 – that require the firm to determine whether it is appropriate to establish quality objectives beyond those required by the standard in order to achieve the objectives of the standard.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 21:</p> <p><i>Do you understand the requirements and application material contained within paragraphs 10(c), 29 and A57? Do you understand the work effort required to meet these requirements and how you would demonstrate compliance with these requirements?</i></p> <p>Additionally, the IAASB has raised a question in this regard refer questions 6(b)(ii) and 6(d)(ii).</p>
6	Documentation	Proportionality	<p>The AUASB considers the documentation requirements of paragraph 67(c) to be overly granular and disproportionately weighted to monitoring and remediation.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 22:</p> <p><i>Do you support the documentation requirements in paragraph 67, particularly those related to the monitoring and remediation process. Do you consider that the documentation requirements in relation to the monitoring and remediation process are proportionate relative to the remainder of the documentation requirements, if yes please provide your reasons, if no please provide your reasons and suggestions.</i></p>
7	19(f)	Ambiguity of definitions across the QM suite in relation to Engagement Team	<p>The AUASB raises concerns in relation to the definition of the term <b>Engagement Team</b> used across the suite of quality management standards. The AUASB considers that the definitions are not used/defined consistently across the standards and are not clear and accordingly may not be capable of application in a consistent way.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 16:</p> <p><i>Do you consider that the definition engagement team has been consistently applied across the suite of Quality Management Standards?</i></p>
8	64, A205-A207	Service Provider	<p>The AUASB considers that the term service provider as contained within paragraph 64 of the proposed standard is not clear enough and raises concerns as to the examples of service providers provided under paragraph A205. For example the AUASB considers that the examples of IT software providers and external experts are not appropriate examples of service providers.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 23:</p> <p><i>Do you consider that the term service provider is clearly articulated in paragraph 64 and is capable of application in a consistent way across engagements? Do you agree with the examples of resources from a service provider as contained in paragraph A205 of the proposed standard?</i></p>

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Matter #	Para	Matter Raised	Brief Description
9	19, 37(e)	EQCR	<p>The AUASB notes that the scope of engagements subject to EQR now includes audits of financial statements of entities that the firm determines are significant public interest entities.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer question 17:</p> <p><i>In relation to engagement quality reviews:</i></p> <p>(a) <i>Do you agree with the definition of Engagement Quality Reviews/Reviewer and do you consider the term to be clear and capable of application in a consistent way across engagements?</i></p> <p>(b) <i>Do you agree that engagement quality reviews should also be performed for audits of financial statements of entities that the firm determines are significant public interest entities?</i></p> <p>(c) <i>Has the term “significant public interest entity” clear and capable of application in a consistent way across engagements.</i></p>

**Consideration of Australian modifications from the extant ASQC 1**

7. As outlined in the Explanatory Guide *Exposure of the IAASB’s Proposed Quality Management Standards in Australia*, the AUASB is yet to consider whether any current Australian specific modifications contained in extant ASQC 1 (Auditing Standard ASQC 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information Other Assurance Engagements and Related Services Engagements*) are applicable to the proposed revised ISQM 1. The list of modifications in the extant ASQC 1 as summarised in Appendix 1 to this Explanatory Memorandum will be evaluated for inclusion in the revised ASQM 1 by the AUASB at a later date. However, whilst requesting Australian stakeholders to comment on this explanatory memorandum, stakeholders are also requested to consider whether these Australian specific modifications are still relevant to the proposed international auditing standard. Refer to Question 27.

**Potential Australian modifications arising from Revised ISQM 1**

8. As outlined in the Explanatory Guide *Exposure of the IAASB’s Proposed Quality Management Standards in Australia*, the AUASB is yet to consider whether any additional Australian modifications will be required arising from the Revised ISQM 1. This will be considered by the AUASB in due course and as the drafting of revised ISQM 1 progresses after the IAASB analyses and addresses comments raised on exposure.

**Comment Date**

9. Comments to the AUASB will close on Wednesday 5 June 2019. This allows for the AUASB Audit Technical Group to analyse stakeholder comments and prepare a draft submission to the IAASB. The AUASB will then deliberate the content of the draft submission at a 26 June 2019 teleconference. The AUASB submission is due to the IAASB on 1 July 2019.
10. Where stakeholders for timing or other reasons cannot share a written submission with the AUASB, we request that feedback is still provided in another form. Where stakeholders are intending to only share feedback directly with the IAASB, we request that the AUASB is still consulted on any major concerns with the exposure drafts and if possible that the stakeholder submits or at least shares their submissions to the IAASB with the AUASB as early as possible.

## **Planned Outreach in Australia**

11. The AUASB plans to hold roundtable events in Sydney, Melbourne and Perth. Additionally the AUASB intends to collaborate closely with the NZAuASB and the professional bodies in their outreach plans; so that we obtain sufficient feedback from the SMP sector. Furthermore, the AUASB expects to host webinars summarising feedback from roundtable sessions, with a view to seeking additional feedback on targeted areas. The timing of outreach events will be finalised by the end of March 2019.

## Appendix 1:

### Extracts of Australian Amendments from ASQC 1:

Extant ASQC 1 Paragraph number	Australian text
Aus 1.1	This Auditing Standard, ASQC 1 (the Standard), deals with the firm’s responsibilities for its system of quality control for audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements. This Standard is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.*
Aus 4.1	This Standard applies to all firms of assurance practitioners in respect of audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
Aus 4.2	The requirements of this Standard apply to a firm, not to the individual auditor(s) within the firm.
Aus 12.1	Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.
Aus 12.2	Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures).
Aus 12.3	Date of report means the date the assurance practitioner signs the report.
Aus 12.4	Engagement documentation means the record of work performed, relevant evidence obtained, and conclusions the assurance practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).
Aus 12.5	Engagement partner means the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. Engagement partner should be read as referring to a public sector equivalent where relevant.
Aus 12.6	Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.
Aus 12.7	Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.
Aus 12.8	Limited assurance engagement means an assurance engagement where the assurance practitioner’s objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner’s conclusion. A limited assurance engagement is commonly referred to as a review.
Aus 12.9	Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).

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\* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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Extant ASQC 1 Paragraph number	Australian text
Aus 12.10	Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement. Partner should be read as referring to a public sector equivalent where relevant.
Aus 12.11	<p>AUASB Standards means standards issued by the AUASB, comprising:</p> <p>(a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:</p> <ul style="list-style-type: none"> <li>• Auditing Standards made under section 336 of the <i>Corporations Act 2001</i>;</li> <li>• <i>ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>; and</li> <li>• <i>ASA 810 Engagements to Report on Summary Financial Statements</i>.</li> </ul> <p>(b) Standards on Review Engagements;</p> <p>(c) Standards on Assurance Engagements; and</p> <p>(d) Standards on Related Services.</p>
Aus 12.12	Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.
Aus 12.13	<p>Suitably qualified external person means an individual outside the firm with the competence and capabilities to act as an engagement partner. For example:</p> <ul style="list-style-type: none"> <li>• a partner of another firm, or</li> <li>• a member (with appropriate experience) of a professional accountancy body* whose members may perform audits and reviews of financial reports and other financial information, other assurance engagements or related services engagements, or</li> <li>• a member (with appropriate experience) of an organisation that provides relevant quality control services.</li> </ul>
Aus 24.1	At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, and applicable legal and regulatory requirements. (Ref: Para. A10-A11)
Aus 34.1	The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. A36 A40)
Aus A1.1	For assurance engagements conducted in the public sector by Auditors General pursuant to legislation, public sector auditors should have regard to the relevant public sector mandate and address any threats in that context. Requirements relating to independence (paragraphs 21 25), acceptance and continuance of client relationships and specific engagements (paragraphs 26 28), and complaints and allegations (paragraphs 55 56) may not be consistent with the Auditors General legislative mandate in all circumstances.
Aus A7.1	The firm is required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits and reviews, other assurance engagements and related services engagements, as defined in ASA 102.
	[Deleted by the AUASB. Refer ASA 102]
	[Deleted by the AUASB. Refer ASA 102]
Aus A10.1	<p>Independence (Ref: Para. 21)</p> <p>Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> Part 2M.3 Division 3, and relevant ethical requirements.*</p>

\* For example, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

**Explanatory Memorandum: ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements**

Extant ASQC 1 Paragraph number	Australian text
Aus A12.1	A familiarity threat may be created by using the same senior personnel on an assurance engagement over a long period of time.
Aus A13.1	<p>Determining appropriate criteria to address familiarity threats may include matters such as:</p> <ul style="list-style-type: none"> <li>• The nature of the engagement, including the extent to which it involves a matter of public interest; and</li> <li>• The length of service of the senior personnel on the engagement.</li> </ul> <p>Examples of safeguards that might be appropriate to address familiarity threats include rotating the senior personnel or requiring an engagement quality control review.</p>
Aus A14.1	A familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements and the <i>Corporations Act 2001</i> specify partner rotation requirements.
Aus 22.1	For example, the firm may be required to obtain consent from the Australian Securities and Investments Commission (ASIC) prior to resigning from certain audits
Aus A61.1	<p>For audits or reviews of financial reports conducted under the <i>Corporations Act 2001</i> (the Act), section 307B of that Act requires an auditor or member of an audit firm to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until:</p> <ol style="list-style-type: none"> <li>(a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or</li> <li>(b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers.</li> </ol>
Aus A61.2	Relevant law or regulation, other than the <i>Corporations Act 2001</i> , may require the retention of audit working papers for specified periods.
Aus A63.1	Unless otherwise specified by law or regulation, engagement documentation remains the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed or the independence of the firm or its personnel.
Aus A68.1	In the public sector, an auditor appointed under statute (for example, an Auditor General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement.

**ATTACHMENT 1 – PROPOSED INTERNATIONAL  
STANDARD ON QUALITY MANAGEMENT ISQM 1**