



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.2.1**

Meeting Date: 6 March 2019

Subject: ASQM 1 - Significant issues identified by the AUASB

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Date Prepared: 22 February 2019

Objective

1. The objective of this paper is to outline the significant issues raised by the AUASB and ATG during the development of Proposed ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, determine whether any other issues have been identified since the last review of the proposed standard in December 2018 and whether the questions in ED 01/19 appropriately draw stakeholder's attention to areas of interest.

Matters to Consider

2. A table has been prepared in paragraph 3, which aligns each of the issues raised by the AUASB to a question in ED 01/19. Based on the analysis in the table, the ATG recommends the inclusion of additional question in ED 01/19 to draw stakeholder attention to the following issues:
 - (a) Overall objective of improved quality engagements?
 - (b) Helpfulness of introductory paragraphs and appendix?
 - (c) Quality objectives and responses additional to those set out in the standard?
 - (d) Documentation requirements?

Questions

1. 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?
2. 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?
3. 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?

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4. 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?

AUASB Table Aligning Questions to Issues

3. The following table summarises whether issues identified by the AUASB through the September and November 2018 AUASB meetings have been appropriately addressed by the questions raised in ED 01/19 or whether additional questions should be raised on exposure.

Issue Raised	Brief Description	Addressed by Question
Prescriptiveness and Scalability	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 serious concerns that the very 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 is 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>ATG considers the issue is partly addressed by question 1(c) and question 5.</p> <p><i>1(c): Are the requirements and application material of proposed ED-ASQM 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?</i></p> <p><i>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?</i></p> <p>The ATG consider that an additional question on audit quality could be raised (Question 1):</p> <p><i>Do you consider that the proposed revisions to ISQM 1 will result in improved quality engagements?</i></p>
Principles verses Prescriptiveness	IAASB standards are meant to be principles-based and as such, the QCTF's intended approach for Firms to apply professional judgement to the quality objectives, risks and associated responses for each component. The AUASB does not understand how the current drafting of proposed ISQM 1 can be considered to be principles-based. 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>ATG considers the issue is addressed in questions 4 and 6</p> <p><i>4. Do you support the eight components and the structure of ED-ASQM 1?</i></p> <p><i>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:</i></p> <p><i>(a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?</i></p> <p><i>(b) Do you support the approach for establishing quality objectives? In particular:</i></p> <p><i>(i) Are the required quality objectives appropriate?</i></p> <p><i>(ii) Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?</i></p>

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		<p>(c) <i>Do you support the process for the identification and assessment of quality risks?</i></p> <p>(d) <i>Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:</i></p> <p>(i) <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?</i></p> <p>(ii) <i>Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?</i></p>
Introductory paragraphs and appendix	The introductory paragraphs and appendix are largely repetitive of the requirements and application material, albeit in a summary form. Since the length of the standard is already of concern, the AUASB considers these paragraphs to be duplicate and questions the need for them.	<p>ATG consider that an additional question can be raised (Question 2):</p> <p><i>Do you support the introductory paragraphs and appendix and do you find them helpful?</i></p>
Application material	The proposed standard appears to contain far too much guidance in its application material. It seems as though the QCTF is trying to cater for every question that may arise or situation within the application guidance. The standard could possibly be almost half the length if a more streamlined approach to the nature and extent of guidance provided was taken. We would encourage the IAASB/QCTF to consider whether a lot of this content could be moved to a ‘best practice’ type guide as opposed to being in the standard itself.	<p>ATG considers that issue is addressed in question 3:</p> <p><i>3. Is the application material in ED-ASQM 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?</i></p>

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Legally enforceable standards.	The AUASB raises concern as to how compliance with this standard can be demonstrated particularly in jurisdictions where standards are legally enforceable. The AUASB considers that firms may be inappropriately held to account and set up to fail, particularly with the drafting and requirements 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>ATG considers that the issue is partly addressed through 6(b)(ii) and 6(d)(ii):</p> <p><i>6(b)(ii). Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances</i></p> <p><i>6(d)(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</i></p> <p>ATG recommends an additional question is raised immediately following these questions (Question 3):</p> <p><i>Do stakeholders understand what this means and what work effort is required to meet these requirements?</i></p>
Monitoring Activities	The AUASB considers the drafting of the requirements of paragraphs 46 and 47 difficult to understand. Additionally, the AUASB considers the requirements of paragraph 68(c)iii to be overly granular.	<p>The ATG considers that the question is partly addressed in question 12(a):</p> <p><i>12(a): 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?</i></p> <p>ATG recommends an additional question is raised (question 4):</p> <p><i>Do stakeholders support the documentation requirements particularly those related to the monitoring and remediation process?</i></p>

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