



## Attachment to AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**        **4.2.2**  
**Meeting Date:**            6 March 2019  
**Subject:**                    ISQM 1 Australian modifications  
**Prepared by:**              Rene Herman  
**Date Prepared:**            19 February 2019

### Matters to Consider

#### *Part A – General*

1. The AUASB is requested to review the compelling reason tables included below and provide feedback.
  - (a) Table 1 reflects the existing AUS paragraphs within extant ASQC 1 and determines whether these paragraphs are still necessary in the context of the proposed ASQM 1.
  - (b) Table 2 reflects paragraphs within the proposed ASQM 1 that the ATG considers may need to be deleted/modified for the Australian environment. The paragraphs relate to content that is either:
    - (i) APESB Code related; or
    - (ii) subject matter is not applicable within the Australian context

#### *Part B – NZAuASB*

2. The NZAuASB will consider New Zealand amendments as part of their Exposure Outreach. The NZAuASB has issued the IAASB ED with no amendments.

#### *Part C – “Compelling Reasons” Assessment*

3. Refer Table below.

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**TABLE 1 – AUS PARAGRAPHS FROM EXTANT ASQC 1**

**Australian modifications from extant ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagement and Related Services Engagements.***

Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
<b>Introduction</b>			
Aus 1.1	<p><b>Deleted paragraph 1</b></p> <p>This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality control for audits and reviews of <b>financial statements</b>, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.</p> <p><b>ED ISQM 1 paragraph 1:</b></p> <p>This International Standard on Quality Management (ISQM) deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. ISQM 23 deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews. This ISQM is to be read in conjunction with relevant ethical requirements.</p>	<p>This Auditing Standard, ASQC 1 (the Standard), deals with the firm’s responsibilities for its system of quality control for audits and reviews of <b>financial reports and other financial information</b>, other assurance engagements and related services engagements. This Standard is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are <b>defined in ASA 102.</b><sup>*</sup></p>	<p>Y – placeholder to paragraph 1. Note, the linkage to ASA 102 now will come through in paragraph 3 of ED ASQM 1 – refer table 2 below.</p>

<sup>3</sup> Proposed ISQM 2, Engagement Quality Reviews

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

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
<b>Authority of this Auditing Standard</b>			
Aus 4.1	<p>Deleted paragraph 4</p> <p>This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as size and operating characteristics of the firm, and whether it is part of a network.</p> <p><b>ED ISQM 1 introductory paragraphs 4 and 5:</b></p> <p>This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies).</p> <p>Scalability</p> <p>This ISQM requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management, taking into account:</p> <ul style="list-style-type: none"> <li>a) The nature and circumstances of the firm, including whether it is part of a network or uses service providers; and (Ref: Para. A22)</li> <li>b) The nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are performed. (Ref: Para. A23)</li> </ul>	<p>This Standard applies to all firms of assurance practitioners in respect of audits and reviews of <b>financial reports and other financial information</b>, 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.</p>	<p>N – proposed wording of ED ASQM 1 paragraphs 4 and 5 cover this appropriately.</p>

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	Accordingly, the complexity and formality of firms' systems of quality management will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements.		
Aus 4.2	N/A – additional material	The requirements of this Standard apply to a firm, not to the individual auditor(s) within the firm.	N – standard is clear enough in the scope paragraph 4.
<b>Definitions</b>			
Aus 12.1	N/A – additional definition	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.	Y – ASQM 1 is a legislative instrument – suggest including definitions.  Refer to placeholder in ED ASQM 1 under the title of Definitions.
Aus 12.2	N/A – additional definition	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).	Y – ASQM 1 is a legislative instrument – suggest including definitions  Refer to placeholder in ED ASQM 1 under the title of Definitions.
Aus 12.3	Deleted paragraph 12(a)	Date of report <b>means the date the assurance practitioner signs the report.</b>	Y – ASQM 1 is a legislative instrument –

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	<p>Date of report – The date selected by the practitioner to date the report.</p> <p><b>ED ISQM 1</b> does not contain a definition of date of report.</p>		<p>suggest including definitions. Note that ED ISQM 1 does not include a definition.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.4	<p><b>Deleted paragraph 12(b)</b></p> <p>Engagement documentation – The record of work performed, <b>results obtained</b>, and conclusions the practitioner reached (terms such as “working paper” or “workpapers” are sometimes used).</p> <p><b>ED ISQM 1</b> uses the same definition</p>	<p>Engagement documentation means the record of work performed, <b>relevant evidence obtained</b>, and conclusions the assurance practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).</p>	<p>N – this is not considered to be a compelling reason amendment.</p>
Aus 12.5	<p><b>Deleted paragraph 12(c)</b></p> <p>Engagement partner – 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.</p> <p><b>ED ISQM 1 definition, paragraph 19(c):</b></p> <p>The partner or other individual, appointed by 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</p>	<p>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. <b>Engagement partner should be read as referring to a public sector equivalent where relevant.</b></p>	<p>N – ISQM 1 now references public sector.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	Footnote to Paragraph 19(c): “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.		
Aus 12.6	<p><b>Deleted paragraph 12(f)</b></p> <p>Engagement team – 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. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)<sup>4</sup></p> <p><b>ED ISQM 1 paragraph 19(f) definition:</b></p> <p>All partners and staff performing the engagement, and any individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm <b>and also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)<sup>5</sup></b></p>	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.	<p>Y – Australia does not allow direct assistance of internal audit.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>

<sup>4</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

<sup>5</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

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Aus 12.7	<p><b>Deleted paragraph 12(g)</b></p> <p>Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.</p> <p><b>ED ISQM 1 paragraph 19(h) definition:</b></p> <p>A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.</p>	<p>Firm means a sole practitioner, partnership or corporation or other entity of <b>assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.</b></p>	<p>N. Professional accounts automatically replaced by assurance practitioners in the AUASB macros and public sector now referenced.</p>
Aus 12.8	N/A – additional definition	<p>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.</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.9	N/A – additional definition	<p>Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.10	Deleted paragraph 12(m)	<p>Partner means any individual with authority to bind the firm with respect to the performance of <b>an audit, review, other assurance engagement or related</b></p>	<p>Y – only partly as public sector is now referenced.</p>

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	<p>Partner – Any individual with authority to bind the firm with respect to the performance of a <b>professional services engagement</b>.</p> <p><b>ED ISQM 1 paragraph 19(l)</b> – same definition but with a footnote noting “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant..</p>	<p><b>services engagement. Partner should be read as referring to a public sector equivalent where relevant.</b></p>	<p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.11	<p><b>Deleted paragraph 12(o)</b></p> <p>Professional Standards – IAASB Engagement Standards, as defined in the <i>IAASB’s Preface to the International Quality Control, Auditing Review, Other Assurance and Related Services Pronouncements</i>, and relevant ethical requirements.</p> <p><b>ED ISQM 1 paragraph 19(o) – same definition</b></p>	<p><b>AUASB Standards means standards issued by the AUASB, comprising:</b></p> <ul style="list-style-type: none"> <li><b>(a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:</b> <ul style="list-style-type: none"> <li>• <b>Auditing Standards made under section 336 of the Corporations Act 2001;</b> <ul style="list-style-type: none"> <li>• <b>ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement; and</b></li> <li>• <b>ASA 810 Engagements to Report on Summary Financial Statements.</b></li> </ul> </li> <li><b>(b) Standards on Review Engagements;</b></li> <li><b>(c) Standards on Assurance Engagements; and</b></li> <li><b>(d) Standards on Related Services.</b></li> </ul> </li> </ul>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions within the standard.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.12	<p><b>Deleted paragraph 12(q)</b></p> <p>Relevant ethical requirements – Ethical requirements to which the engagement team and engagement</p>	<p>Relevant ethical requirements means <b>relevant ethical requirements as defined in ASA 102.</b></p>	<p>Y – legislative instrument</p>

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	<p>quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code) together with national requirements that are more restrictive.</p> <p><b>ED ISQM 1 paragraph 19(s):</b></p> <p>Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.</p>		<p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.13	<p><b>Deleted paragraph 12(s)</b></p> <p>Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an <b>employee</b> (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of <b>historical financial information</b>, or other assurance or related services engagements, or of an organization that provides relevant quality control services.</p>	<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 <b>member</b> (with appropriate experience) of a professional accountancy body* whose members may perform audits and reviews of <b>financial reports and other financial information</b>, other assurance engagements or related services engagements, or</li> </ul>	<p>N.</p> <p>Note, ED ISQM 1 does not contain definition and the ED only references the term 'suitably qualified' in application material paragraphs A47 and A62 and not in the context of acting as an engagement partner.</p>

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

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	<p><b>ED ISQM 1</b> does not contain definition and the ED only references the term ‘suitably qualified’ in application material paragraphs A47 and A62 and not in the context of acting as an engagement partner.</p>	<ul style="list-style-type: none"> <li>a <b>member</b> (with appropriate experience) of an organisation that provides relevant quality control services.</li> </ul>	
<b>Relevant Ethical Requirements</b>			
Aus 24.1	<p><b>Deleted paragraph 24</b></p> <p>At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independences from all firms personnel required to be independent by relevant ethical requirements. (Ref: Para A10-A11)</p> <p><b>ED ISQM 1 paragraph 33(d):</b></p> <p>Obtaining, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p>	<p>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, <b>and applicable legal and regulatory requirements.</b> (Ref: Para. A10-A11)</p>	<p>Y – to include reference to applicable legal and regulatory requirements.</p> <p>Refer placeholder at ED ASQM 1 paragraph 33(d).</p>
<b>Engagement Performance</b>			
Aus 34.1	N/A – additional material	<p>The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. A36 A40)</p>	<p>N – ATG to take forward as a response to the IAASB’s. No placeholder at this stage.</p>
<b>Applying, and Complying with, Relevant Requirements</b>			
<i>Considerations specific to Public Sector Entities</i>			
Aus A1.1	N/A – additional material	<p>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</p>	<p>Y – ATG still to link to appropriate paragraph of ED ASQM 1.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
		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.	
<b>Relevant Ethical Requirements</b>			
Aus A7.1	<p><b>Deleted paragraph A7</b></p> <p>The IESBA Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> <li>(a) Integrity ;</li> <li>(b) Objectivity;</li> <li>(c) Professional competence and due care;</li> <li>(d) Confidentiality; and</li> <li>(e) Professional behaviour</li> </ul> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>	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.	<p>Y- refer A67 in table 2 below.</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102.</p>
	<p><b>Deleted paragraph A8</b></p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.</p>	[Deleted by the AUASB. Refer ASA 102]	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. See table 2 below.</p>

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	<p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>		
	<p><b>Deleted paragraph A9</b></p> <p>The fundamental principles are reinforced in particular by:</p> <ul style="list-style-type: none"> <li>• The leadership of the firm;</li> <li>• Education and training</li> <li>• Monitoring; and</li> <li>• A process for dealing with non-compliance</li> </ul> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>	[Deleted by the AUASB. Refer ASA 102]	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. See table 2 below.</p>
Aus A10.1	<p><b>Deleted paragraph A10</b></p> <p>The definitions of “firm”, “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISQC. For example, the IESBA Code defines the “firm” as:</p> <ul style="list-style-type: none"> <li>(a) A sole practitioner, partnership or corporation of professional accountants;</li> <li>(b) An entity that controls such parties through ownership, management or other means; and</li> <li>(c) An entity controlled by such parties through ownership, management or other means.</li> </ul> <p>The IESBA Code also provides guidance in relation to the terms “network” and “network firm”. In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.</p>	<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>	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102.</p> <p>Refer placeholder to attach Australian extant text to paragraph 32(a) by way of a footnote to the word independence in paragraph 32(a):</p> <p>32. The firm shall establish the following quality objectives that address the fulfilment of responsibilities in</p>

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	<p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document</p>		<p>accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics: (Ref: Para. A67)</p> <p>(a) The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence.</p>
Aus A12.1	<p><b>Deleted paragraph A12</b></p> <p>The IESBA Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.</p> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– but no specificity on familiarity threats</p>	<p>A familiarity threat may be created by using the same senior personnel on an assurance engagement over a long period of time.</p>	<p>Y – new application material paragraph associated to A68.</p> <p>Refer placeholder to A68.</p>
Aus A13.1	<p><b>Deleted paragraph A13</b></p> <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> </ul>	<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>N</p> <p>See above – already covered.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<ul style="list-style-type: none"> <li>The length of service of the senior personnel on the engagement.</li> </ul> <p>Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.</p> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– but no specificity on familiarity threats</p>	<p>Examples of safeguards <b>that might be appropriate to address familiarity threats</b> include rotating the senior personnel or requiring an engagement quality control review.</p>	
Aus A14.1	<p><b>Deleted paragraph A13</b></p> <p>The IESBA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IESBA Code requires the rotation of key audit partners<sup>6</sup> after a pre-defined period, normally no more than seven years, and provide related standards and guidance. National requirements may establish shorter rotation periods.</p> <p><b>ED ISQM 1</b> No specific paragraphs on familiar but partner rotation paragraphs at paragraph</p>	<p>A familiarity threat is particularly relevant in the context of <b>financial report</b> audits of listed entities. <b>For these audits, relevant ethical requirements and the Corporations Act 2001 specify partner rotation requirements.</b></p>	<p>Y</p> <p>Attach application material to paragraph A68:</p> <p>.....</p> <ul style="list-style-type: none"> <li>Set rotation periods for the engagement partner and other senior personnel for all engagements performed by the firm, including other assurance or related services engagements.</li> </ul> <p>Refer placeholder to A68.</p>
<b>Engagement Performance</b>			
Retention of Engagement Documentation (Ref: Para. 47)			
Aus A61.1	N/A – additional material	For audits or reviews of financial reports conducted under the <i>Corporations Act 2001</i> (the Act),	Y – Corporation Act specific

<sup>6</sup> As defined in the IESBA Code

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
		<p>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> <ul 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> </ul>	<b>Placeholder into ED ISQM 1 paragraph A111</b>
Aus A61.2	N/A – additional material	Relevant law or regulation, other than the <i>Corporations Act 2001</i> , may require the retention of audit working papers for specified periods.	<b>Placeholder into ED ISQM 1 paragraph A111</b>
<b>Engagement Performance</b>			
Ownership of engagement documentation			
Aus A63.1	<p><b>Deleted paragraph A63</b></p> <p>Unless otherwise specified by law or regulation, engagement documentation <b>is</b> 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, <b>in the case of assurance engagements</b>, the independence of the firm or its personnel.</p> <p><b>ED ISQM 1, paragraph A112</b> – same as extant</p>	Unless otherwise specified by law or regulation, engagement documentation <b>remains</b> 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.	N
<b>Engagement Performance</b>			

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
Considerations Specific to Public Sector Organisations			
Aus A68.1	N/A – additional material	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.	AUASB to determine placing.

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**TABLE 2– PARAGRAPHS FROM PROPOSED AQQM 1 THAT MAY NEED DELETION OR MODIFICATION FOR THE AUSTRALIAN ENVIRONMENT (if not already considered in table 1 above)**

Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group’s comments
3	Law, regulation or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this ASQM.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph 3.
A2	The APESB Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ASQM, the consistent performance of quality engagements forms part of the professional accountant’s responsibility to act in the public interest.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A2.
A14	The APESB Code provides guidance in relation to the terms “network” and “network firm.”	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A14.
A15	The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the APESB Code defines the term “professional accountant” and further explains the scope of provisions in the APESB Code that apply to individual professional accountants in public practice and their firms.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A15.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
A16	The APESB Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the APESB Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the APESB Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A16.
A45	Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances when complaints or allegations arise, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm. For example, sections 260 and 360 of the APESB Code address the approach to be taken by the firm or its personnel in responding to non-compliance or suspected non-compliance with laws or regulations, which may include communications external to the firm that are addressed through the firm's policies or procedures for external communication in paragraph 41(c).	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A45.
A67	The APESB Code sets out the fundamental principles of ethics that establish the standard of behaviour expected of a professional accountant and establishes the Australian Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The APESB Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A67.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	<p>Australian Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.</p>	
A70	<p>Various provisions of the relevant ethical requirements may apply only to personnel and not the firm itself. For example, Part 2 of the APESB Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the APESB Code (e.g., policies or procedures addressing section 260 of the APESB Code regarding non-compliance with laws and regulations).</p>	<p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph 70.</p>
A72	<p>Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the APESB Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.</p>	<p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A72.</p>

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
A74	Relevant ethical requirements may specify how the firm is required to respond to a breach. The APESB Code sets out requirements for the firm in the event of a breach of the APESB Code and includes specific requirements addressing breaches of the Australian Independence Standards, which includes requirements for communication with external parties	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A74.
A82	Professional standards or legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make enquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ASA 3007 requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The APESB Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial reports.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A82.
A86	There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A86.

<sup>7</sup> ASA 300, Planning an Audit of a Financial Report, paragraph 13(b)

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	requirements. The APESB Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.	
A90	In some circumstances, a threat to the firm's integrity may arise as a result of being associated with the subject matter of the engagement. Relevant ethical requirements may include requirements addressing circumstances when the firm becomes associated with information that is false or misleading. For example, the APESB Code contains requirements addressing circumstances when the professional accountant becomes associated with information that contains a materially false or misleading statement, contains statements that have been provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A97.
A97	In performing related services engagements, a practitioner is not required to gather evidence to express an opinion or conclusion on the information. However, the practitioner may form conclusions related to the performance of the engagement, for example, in a compilation engagement the practitioner may conclude that the compiled financial information is misleading and be required to take the appropriate actions set out in ISRS 4410 (Revised). <sup>8</sup>	This paragraph will be considered in the context of Australia not having a related services engagement ASRS 4410. Placeholder to paragraph A97.

<sup>8</sup> International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, paragraphs 34–36

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
A171	<p>As described in paragraph A65, objectivity is a fundamental principle of the APESB Code, and the provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. For example, a self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> <li>• An inspection of an engagement was: <ul style="list-style-type: none"> <li>○ In the case of an audit of a financial report, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or</li> <li>○ For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.</li> </ul> </li> <li>• Another type of monitoring activity had participated in designing, executing or operating the response being monitored.</li> </ul>	<p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A171.</p>
A213	<p>In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the APESB Code requires documentation of particular matters, including certain situations</p>	<p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A213.</p>

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	related to conflicts of interest, non-compliance with laws and regulations and independence.	

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## Appendix 1:

*Exerts from ED ISQM 1 in relation to Ethical Requirements (A67 – A74)*

### Relevant Ethical Requirements (Ref: Para. 32–33)

- A1. The IESBA Code sets out the fundamental principles of ethics that establish the standard of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the International Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.
- A2. In some cases, the firm may determine that it is appropriate to design and implement responses that are more specific than the provisions of relevant ethical requirements. For example, having regard to the nature and circumstances of the firm and its engagements, a firm may:
- Prohibit the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
  - Set rotation periods for the engagement partner and other senior personnel for all engagements performed by the firm, including other assurance or related services engagements.
- A3. Other components include responses that may affect or relate to the relevant ethical requirements component. For example, the following are examples of responses for information and communication and resources that may address assessed quality risks for relevant ethical requirements:
- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
  - Providing training for personnel on relevant ethical requirements.
  - Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
  - Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
  - Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner related to:

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- Personal or firm situations that may create threats to independence, for example, financial interests, loans, employment relationships or personal appointments.
- Client engagements, including non-assurance engagements. For example, this may include the scope of services, fees or information about long association.
- Business relationships.
- Any breaches of the relevant ethical requirements, including those related to independence.
- Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

Furthermore, the individual in the firm assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures addressing communication of breaches of independence requirements and determining that appropriate actions have been taken to address the causes and consequences of the breach.

- A4. Various provisions of the relevant ethical requirements may apply only to personnel and not the firm itself. For example, Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the IESBA Code (e.g., policies or procedures addressing section 260 of the IESBA Code regarding non-compliance with laws and regulations).
- A5. The applicability of the relevant ethical requirements to others (i.e., the network, network firms, personnel in the network or network firms, or service providers) depends on whether those requirements contain specific provisions addressing others, and how the firm uses others in its system of quality management. For example:
- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms.
  - The definition of engagement team under relevant ethical requirement may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.

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- The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.
- A6. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.
- A7. The policies or procedures addressing breaches of the relevant ethical requirements, including those related to independence, may address matters such as:
- The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;
  - The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;
  - The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;
  - Determining whether to report a breach to external parties; and
  - Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.
- A8. Relevant ethical requirements may specify how the firm is required to respond to a breach. The IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties

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