

EXPOSURE DRAFT

**ED 03/19**  
(March 2019)

# **Proposed Auditing Standard ASA 220** *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be received by no later than 1 June 2019. Comments should be addressed to:

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Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
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## **Formal Submissions**

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ED 03/19

The AUASB issues exposure draft ED 03/19 of proposed Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality. Under the Strategic Direction, the AUASB is required to have regard to any program initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

### Main Proposals

This proposed Auditing Standard represents the Australian equivalent of the IAASB's exposure draft on proposed ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* issued for public comment (February 2019) by the IAASB. This proposed Auditing Standard will replace the current ASA 220 issued by the AUASB in October 2009 and amended to May 2017.

This proposed Auditing Standard contains differences from the current ASA 220, as detailed in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements*

### Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after [date]\*.

### Main changes from existing ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (October 2009)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (October 2009), are included in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Auditing 220 (ISA 220).

The main changes from existing ASA 220 include:

- Modernising the standard to acknowledge different audit delivery models. Including material outlining that regardless of location of engagement team members, the work of any individual undertaking audit procedures needs to be appropriately directed and supervised.

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

## **Proposed Auditing Standard ASA 220**

### ***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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- Removal of material that allowed engagement team members to rely on the firm's system of quality control, unless information from the firm or other parties suggested otherwise.
- Strong emphasis on the Engagement Partner's overall responsibility for managing and achieving audit quality. This includes wording throughout the standard that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to manage and achieve quality. A new stand-back provision has also been included.
- Material relating to relevant ethical requirements has been strengthened with more focus on the engagement partner's role in dealing with relevant ethical requirements.
- Inclusion of a new section relating to engagement resources which includes human, technological and intellectual resources, and the engagement partner's responsibility to determine whether the resources assigned are sufficient and appropriate.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* by no later than 1 June 2019.

### **IAASB questions**

Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when responding to the IAASB on their ED:

1. Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED 03/19), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ASA appropriately reflect the role of other senior members of the engagement team, including other partners?
2. Does ED 03/19 have appropriate linkages with the ASQM 1 and ASQM 2? Does you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?
3. Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED 03/19)
4. Does ED 03/19 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
5. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED 03/19)
6. Does ED 03/19, together with the overarching documentation requirements in ASA 230, include sufficient requirements and guidance on documentation?
7. Is ED 03/19 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?
8. Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?
9. In order to support implementation of the standards in accordance with proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

**Australian specific questions**

The AUASB is especially interested in stakeholders views on:

10. 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?
11. 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?
12. 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?
13. 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?
14. Are there any other significant public interest matters that constituents wish to raise?

## **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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## Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 220 *Quality Management for an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that may be added/deleted/amended in this Auditing Standard are identified with the prefix “Aus”. These paragraphs have been marked as a placeholder and are subject to AUASB deliberations on whether a modification is required to the standard based on the “Compelling Reasons Test” outlined in the [\*Principles of Convergence to the International Auditing and Assurance Standards Board \(IAASB\)\*](#).

## Table of Amendments

Paragraph or Section impacted	Basis for consideration of amendment
Definitions	Definitions may be added, deleted or amended based on the following: <ul style="list-style-type: none"><li>• ASA 220 is a legislative instrument and accordingly some definitions are required to be included within a legislative instrument;</li><li>• Terms are not appropriate in the Australian context;</li><li>• Relevant Ethical Requirements are defined in ASA 102 (no such international equivalent); and</li><li>• Other Australian legal or regulatory requirements.</li></ul>
A40	Additional material may be added to consider Australian legal or regulatory requirements relating to independence.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 220 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 220.



## **AUDITING STANDARD ASA 220**

### ***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

#### **Application**

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### **Operative Date**

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after [date]\*.

#### **Introduction**

##### **Scope of this Auditing Standard**

1. This Australian Standard on Auditing (ASA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report, and the related responsibilities of the engagement partner. This ASA is to be read in conjunction with relevant ethical requirements.  
(Ref: Para. A1–A2)

##### **The Firm's System of Quality Management and Role of Engagement Teams**

2. The firm is responsible for the system of quality management. Under proposed ASQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of a financial report, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
  - (a) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>1</sup> (Ref: Para. A3, A14–A15)
3. This ASA is premised on the basis that the firm is subject to the ASQMs or to national requirements that are at least as demanding. (Ref: Para. A4)

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

<sup>1</sup> See ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Assurance and Related Services Engagements*, paragraph 21.

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4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ASA, for:
  - (a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm; (Ref: Para. A5–A8)
  - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses beyond those set forth in the firm's policies or procedures; and (Ref: Para. A9–A10)
  - (c) Providing the firm with information from the audit engagement to support the design, implementation, and operation of the firm's system of quality management that is required to be communicated in accordance with the firm's policies or procedures. (Ref: Para. A11)
5. Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)
6. The public interest is served by the consistent performance of quality audit engagements. Quality audit engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and exercising professional scepticism. (Ref: Para. A13)
7. In accordance with ASA 200,<sup>2</sup> the engagement partner and other members of the engagement team are required to plan and perform an audit with professional scepticism and to exercise professional judgement. In doing so, the engagement partner and engagement team exercise professional judgement and professional scepticism in meeting the objective and requirements of this ASA. Professional judgement is applied in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement partner and other members of the engagement team. Such actions and communications may include specific steps to deal with impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints. (Ref: Para. A27–A29)

#### **Effective Date**

8. [Deleted by the AUASB. Refer Aus 0.3]

#### **Objective**

9. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:
  - (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
  - (b) The auditor's report issued is appropriate in the circumstances.

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<sup>2</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs 15–16.

## **Definitions**

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations and principles and practices are still applicable to the below section. See Table 1 in the attachment to this exposure draft for more information**

10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Engagement partner<sup>3</sup> – The partner, or other individual appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s 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 quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon that is completed on or before the date of the engagement report.
  - (c) Engagement quality reviewer – A suitably qualified partner or other individual appointed by the firm to be responsible for the performance of the engagement quality review.
  - (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,<sup>4</sup> and also excludes individuals within the client’s internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ASA 610.<sup>5</sup> (Ref: Para. A16–A19)
  - (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A20)
  - (f) Network firm – A firm or entity that belongs to a network. (Ref: Para. A21)
  - (g) Network – A larger structure: (Ref: Para. A21)
    - (i) That is aimed at cooperation, and
    - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
  - (h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
  - (i) Personnel – Partners and staff.
  - (j) Professional standards – Australian Standards on Auditing (ASAs) and relevant ethical requirements.

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<sup>3</sup> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

<sup>4</sup> ASA 620 *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

<sup>5</sup> ASA 610 *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.

- (k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the Accounting Professional & Ethical Standards Board Code of Ethics for Professional Accountants (APESB Code) related to audits of financial reports, together with national requirements that are more restrictive.
- (l) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk:
  - (i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
  - (ii) Procedures are actions to implement policies.
- (m) Staff – Professionals, other than partners, including any experts the firm employs.

## **Requirements**

### **Leadership Responsibilities for Managing and Achieving Quality on Audits**

- 11. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A22–A29)
- 12. In creating the environment described in paragraph 11, the engagement partner, and others to whom supervisory roles are assigned, shall take clear, consistent and effective actions that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members, including:
  - (a) Emphasising that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
  - (b) Reinforcing the importance of professional ethics, values, and attitudes to the members of the engagement team;
  - (c) Encouraging open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
  - (d) Emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement.
- 13. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ASA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A30)
  - (a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and

- (b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.

**Relevant Ethical Requirements, Including Those Related to Independence**

- 14. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A31–A35, A41)
- 15. The engagement partner shall determine that other members of the engagement team have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that deal with: (Ref: Para. A33–A35)
  - (a) Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence;
  - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and their responsibilities when they become aware of actual or suspected breaches; and
  - (c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.<sup>6</sup>
- 16. If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate such threats through complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources and take appropriate action. (Ref: Para. A36–A37)
- 17. The engagement partner shall remain alert throughout the audit engagement, through observation and making enquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: Para. A38)
- 18. If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A39)
- 19. Prior to dating the auditor’s report, the engagement partner shall determine whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A40)

**Acceptance and Continuance of Client Relationships and Audit Engagements**

- 20. The engagement partner shall be satisfied that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A42–A45, A51)
- 21. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ASAs and complying with the requirements of this ASA. (Ref: Para. A46–A49)

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<sup>6</sup> See ASA 250 *Considerations of Laws and Regulations in an Audit of a Financial Report*.

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22. If the engagement partner obtains information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A50)

#### **Engagement Resources**

23. The engagement partner shall determine that, given the nature and circumstances of the audit engagement (and any changes that may arise during its course), sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. (Ref: Para. A52–A61, A63–A64, A67)
24. The engagement partner shall determine that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62–A64)
25. If, as a result of complying with the requirement in paragraphs 23 and 24, the engagement partner determines that resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate personnel in the firm about the need to allocate or assign additional or alternative resources to the engagement. (Ref: Para. A65–A66)
26. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58)

#### **Engagement Performance**

##### *Direction, Supervision and Review*

27. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and determine that such direction, supervision and review is: (Ref: Para A68–A76, A81–A83)
- (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
  - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement; and
  - (c) Planned and performed on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.
28. On or before the date of the auditor's report, the engagement partner shall, through review of audit documentation and discussion with the engagement team, determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A77–A80)
29. In complying with the requirements of paragraph 28, the engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A77–A80)

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- (a) Significant matters;<sup>7</sup>
  - (b) Other areas involving significant judgements, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached; and
  - (c) Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities
30. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial report and the auditor's report, including, if applicable, the description of the key audit matters<sup>8</sup> and related audit documentation.
31. The engagement partner shall review, prior to their issuance, any formal written communications to management, those charged with governance, or regulatory authorities.

#### *Consultation*

32. The engagement partner shall:
- (a) Take responsibility for the engagement team undertaking consultation on:
    - (i) Matters where the firm's policies or procedures require consultation, including on difficult or contentious matters; and
    - (ii) Other matters that in the engagement partner's professional judgement, require consultation;
  - (b) Determine that members of the engagement team have undertaken appropriate consultation during the course of the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
  - (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
  - (d) Determine that conclusions resulting from such consultations have been implemented.

#### *Engagement Quality Review*

33. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A88)
- (a) Be satisfied that an engagement quality reviewer has been appointed;
  - (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;
  - (c) Discuss significant matters arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
  - (d) Not date the auditor's report until the completion of the engagement quality review. (Ref: Para. A89–A92)

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<sup>7</sup> See ASA 230 *Audit Documentation*, paragraph 8.

<sup>8</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

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#### *Differences of Opinion*

34. If differences of opinion arise, within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving them. (Ref: Para. A93–A94)
35. The engagement partner shall:
- (a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm's policies or procedures;
  - (b) Determine that conclusions reached are documented and implemented; and
  - (c) Not date the auditor's report until any differences of opinion are resolved.

#### **Monitoring and Remediation**

36. The engagement partner shall: (Ref: Para. A97–A98)
- (a) Be satisfied that the engagement team has been made aware of results of the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the results of the monitoring and remediation process of the network or network firms;
  - (b) Determine the relevance and effect on the audit engagement of the information referred to in paragraph 36(a) and take appropriate action; and
  - (c) Remain alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

#### **Taking Overall Responsibility for Managing and Achieving Quality**

37. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A99–A101)
- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
  - (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ASA.

#### **Documentation**

38. The auditor shall include in the audit documentation:<sup>9</sup> (Ref: Para. A102–A104)
- (a) Matters identified, relevant discussions with firm personnel, and conclusions reached with respect to:

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<sup>9</sup> See ASA 230 paragraphs 8-11 and A6.



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- (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
  - (ii) The acceptance and continuance of the client relationship and audit engagement.
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement and how such conclusions were implemented.
- (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

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## **Application and Other Explanatory Material**

### **Scope of this ASA (Ref: Para. 1)**

- A1. This ASA applies to all audits of a financial report, including audits of a group financial report. ASA 600,<sup>10</sup> deals with special considerations that apply to group audits, in particular those that involve component auditors.
- A2. ASA 200 requires the auditor to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.<sup>11</sup> Paragraphs 14–19 and A31–A41 of this ASA include requirements and guidance that deal with complying with relevant ethical requirements that are applicable given the nature and circumstances of the engagement, including those related to independence.

### **The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2 – 5)**

- A3. Proposed ASQM 1 deals with a firm's responsibilities for its system of quality management. A system of quality management is designed, implemented and operated by a firm in accordance with proposed ASQM 1 and is organised into the following eight components:
- Governance and leadership;
  - The firm's risk assessment process;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Engagement performance;
  - Resources;
  - Information and communication; and
  - The monitoring and remediation process.
- A4. Firms or national requirements may use different terminology or frameworks to describe components of a system of quality management. National requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as proposed ASQM 1 when they deal with all the components referred to in paragraph A3 and impose obligations on the firm to achieve the objective set out in proposed ASQM 1.

### **Implementing the Firm's Responses to Quality Risks That Are Applicable to the Audit Engagement (Ref: Para. 4(a))**

- A5. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with proposed ASQM 1, the firm is responsible for communicating to relevant personnel, including the engagement team, about their responsibilities for implementing the firm's responses that are applicable at the engagement level. For example, such firm level responses may include policies or procedures to undertake consultations with designated personnel in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to deal with particular matters (e.g., the firm

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<sup>10</sup> See ASA 600 *Special Considerations-Audits of Group Financial Report*.

<sup>11</sup> See ASA 200 paragraph 14.

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may specify that firm-designated credit experts are to be involved in auditing credit loss allowances in all audits of financial institutions).

- A6. Firm level responses may include policies or procedures established by a network, or by another firm or group of firms within the same network (network requirements or network services are described further in proposed ASQM 1 within the “Network Requirements or Network Services” section). The requirements of this ASA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network resources or services or the work of network resources or services on the audit engagement.

#### **Other Firm Level Responses That May be Relevant to the Engagement Team (Ref: Para. 4(a))**

- A7. Some firm level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ASA. For example, when determining whether the members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement, the engagement partner may be able to depend on the firm’s policies or procedures dealing with personnel recruitment and professional training. Other examples of firm level responses that the engagement partner may be able to depend on when complying with the requirements of this ASA include:
- Information systems that monitor independence;
  - Information systems that deal with acceptance and continuance of client relationships and audit engagements; and
  - Audit methodologies and related implementation tools and guidance.
- A8. Matters that the engagement partner may take into account when determining whether, and if so, the degree to which, the engagement partner may depend on the firm’s policies or procedures in complying with the requirements of this ASA include:
- The engagement partner’s knowledge or understanding of, or practical experience with, such policies or procedures.
  - Information obtained from the firm, engagement team, or other parties, about the effectiveness of such policies or procedures (e.g., information provided by the firm’s monitoring and remediation processes that indicate that the firm’s policies or procedures are operating effectively or that do not provide any indications of deficiencies).

#### **Designing and Implementing Responses at the Engagement Level (Ref: Para. 4(b))**

- A9. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement partner exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm’s policies or procedures, at the engagement level in order to meet the objective of this ASA.<sup>12</sup> The engagement partner’s determination of whether such engagement level responses are required (and if so, what those responses are) is influenced by the requirements of this ASA, and the engagement partner’s understanding of the nature and circumstances of the engagement and any changes thereto. For example, unanticipated circumstances may arise during the course of the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm.

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<sup>12</sup> ASA 200 requires the auditor to exercise professional judgment in planning and performing an audit of a financial report.

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- A10. The relative balance of the engagement partner's efforts to comply with the requirements of this ASA (i.e., between implementing the firm's responses and designing and implementing engagement-specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement partner's actions in complying with the engagement performance requirements of this ASA may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).

Providing the Firm with Information from the Audit Engagement (Ref: Para. 4(c))

- A11. The firm's policies or procedures may require the engagement team to provide the firm with specific information from the audit engagement that is relevant to the design, implementation, and operation of the firm's system of quality management. During the engagement, the engagement partner may become aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are deficient in the context of the specific engagement. Providing such information to the firm may be relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit program provided by the firm does not deal with new or revised regulation, timely communication of such information to the appropriate individuals within the firm enables the firm to take steps to update and reissue the audit program to deal with such regulation.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 5)

- A12. Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ASA 315<sup>13</sup> provides information that may be relevant to complying with the requirements of this ASA. Such information may be relevant to the determination of:
- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
  - The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
  - The nature, timing and extent of review of the work performed by members of the team based on the number and significance of the assessed risks of material misstatement; or
  - The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Public Interest (Ref: Para. 6)

- A13. Relevant ethical requirements contain 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, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.

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<sup>13</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

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#### Considerations Specific to Smaller Firms (Ref: Para. 2–4)

- A14. In a smaller firm, the design and implementation of many responses to the firm's quality risks, may be most effectively dealt with by the engagement partner at the engagement level (i.e., given the nature and circumstances of the firm and the engagements it performs, there may be less need for firm level responses to many of the firm's quality risks). Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.
- A15. If an audit is carried out entirely by the engagement partner, some requirements in this ASA are not relevant because they are conditional on the involvement of other members of the engagement team. For example, the requirements relating to direction, supervision, and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

#### **Definitions**

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations and principles and practices are still applicable to the section below. See Table 1 in the attachment to this exposure draft for more information.**

#### *Engagement Team* (Ref: Para. 10(d))

- A16. Engagement teams may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations, and may be organised in groups by activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures<sup>14</sup> on the audit engagement is considered to be a member of the engagement team. External experts and internal auditors providing direct assistance are not members of the engagement team. ASA 620<sup>15</sup> and ASA 610<sup>16</sup> include requirements for the auditor to comply with when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity. The auditor performs audit procedures to comply with these requirements and these procedures form the basis for the auditor's determination as to whether work performed by external experts or internal auditors providing direct assistance can be used as audit evidence.
- A17. Engagement teams may include individuals from service delivery centres who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialised in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centres may be established at the firm level, at the network level, or by another firm or group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.
- A18. Engagement teams may include individuals from network firms or other firms to perform audit procedures, for example, procedures such as attending a physical inventory count or inspecting physical fixed assets at a remote location.
- A19. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and individuals who assist the engagement quality reviewer in performing the engagement quality review, are not members of the engagement team.

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<sup>14</sup> See ASA 500 *Audit Evidence*, paragraph A10.

<sup>15</sup> See ASA 620, paragraph 12–13.

<sup>16</sup> See ASA 610, paragraphs 21–25.

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#### *Firm* (Ref: Para. 10(e))

A20. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ASA. For example, the APESB Code defines the “firm” as:

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

In complying with the requirements in this ASA, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

#### *“Network” and “Network Firm”* (Ref: Para. 10(f)–10(g))

A21. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ASA. The APESB Code also provides guidance in relation to the terms “network” and “network firm.” Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ASA in relation to networks apply to any structures or organisations that do not form part of the firm, but that exist within the network.

### **Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 11–13)**

#### *Leadership Responsibilities for Managing and Achieving Quality on Audits* (Ref: Para. 11–13)

A22. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that promotes the conduct of quality audit engagements. In addressing the requirements in paragraphs 11 and 12, the engagement partner may communicate directly and reinforce this communication through personal conduct and actions (e.g., leading by example). A commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.

A23. The nature and extent of the actions of the engagement partner to reflect the firm’s commitment to quality may depend on a variety of factors including the size, structure, geographical dispersion and complexity of the firm, and the nature and circumstances of the audit engagement. With a smaller engagement team, with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

#### *Sufficient and Appropriate Involvement*

A24. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of members of the engagement team, and the review of the work performed in complying with the requirements of this ASA;
- Varying the nature, timing and extent of such direction, supervision, and review, in the context of the nature and circumstances of the engagement.

#### *Communication*

A25. Communication is the means through which the engagement partner and the members of the engagement team share relevant information on a timely basis in order to comply with the requirements of this ASA, thereby contributing to the achievement of quality on the audit

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engagement. Communication may be between or among members of the engagement team, or with:

- (a) The firm, such as with personnel performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management;
- (b) Others involved in the audit (e.g., an auditor's external expert or component auditor); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance, or regulatory authorities).

A26. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the most appropriate means of effective communication with the engagement team members. For example, in-person and more frequent interactions are likely to be a more effective way to direct and supervise less experienced team members.

#### *Professional Scepticism*

A27. As explained in paragraph 7, professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, the overall effectiveness of the engagement team in achieving quality at the engagement level. In some circumstances the engagement partner may need to deal with impediments to the exercise of professional scepticism at the engagement level such as:

- Tight deadlines or budget constraints may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review it;
- Lack of cooperation or undue pressures imposed by management may negatively affect the engagement team's ability to resolve complex or contentious issues;
- Insufficient emphasis on the importance of quality may undermine the exercise of professional scepticism by the engagement team;
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework may constrain the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions;
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible; and
- Overreliance on tools and templates may undermine the exercise of professional scepticism by the engagement team.

A28. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, the selection of an audit approach, performance of audit procedures, or evaluation of audit evidence. Examples of unconscious auditor biases that may affect the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement partner in complying with the requirements of this ASA, include:

- Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgement.

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- Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.
- Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgements and decisions.

A29. Possible actions that the engagement partner may take to deal with impediments to the exercise of professional scepticism at the engagement level include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement;
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgement) and emphasising the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures (see paragraph A28);
- Changing the composition of the engagement team assigned, for example, involving more experienced staff in order to obtain greater skills or knowledge or specific expertise;
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with;
- Involving members of the engagement team with specialised skills and knowledge, or an auditor's expert to deal with complex or subjective areas of the audit;
- Modifying the nature, timing and extent of direction and supervision of engagement team members, and review of their work, for complex or subjective areas of the audit, including involving more experienced members of the team, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers;
- Setting expectations for:
  - Less experienced members of the engagement team to seek advice frequently and on a timely basis from more experienced team members or the engagement partner;
  - More experienced team members to be available to less experienced members of the engagement team throughout the audit and to respond positively and on a timely basis to their insights, requests for advice, or assistance; and
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought.

*Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team* (Ref: Para. 13)

A30. The engagement partner is ultimately responsible and therefore accountable for managing and achieving quality on the audit engagement. However, it will generally not be possible or practical for all of the requirements in this ASA to be dealt with solely by the engagement partner (e.g., due to the nature and size of the entity, or the complexity of the audit and the need for specialised skills or expertise). In managing quality at the engagement level, the engagement partner may therefore assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist



the engagement partner in complying with the requirements of this ASA. For example, engagement team members other than the engagement partner may be assigned supervisory roles.

**Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 14–19)**

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations are still applicable to the section below. See Table 1 in the attachment to this exposure draft for more information.**

*Relevant Ethical Requirements*

- A31. ASA 200<sup>17</sup> requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, there may be requirements related to independence that are applicable only when performing audits of listed entities.
- A32. Based on the nature and circumstances of the audit engagement, certain relevant ethical requirements, or aspects of law or regulation, may be of significance to the engagement, for example law or regulation dealing with money laundering, corruption, or bribery.

*Firms Policies or Procedures to Deal With Relevant Ethical Requirements*

- A33. Information and communication, and resources provided by the firm may assist the engagement partner and other members of the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement in accordance with paragraphs 14–19. For example:
- 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 (e.g., ASQM 1 requires that the firm obtain, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) 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, such as requirements for engagement teams or personnel to:
    - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
    - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an

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<sup>17</sup> See ASA 200, paragraphs 14 and A16-A19.

acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.

- Promptly communicate 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.
- A34. The engagement partner may take into account the information, communication and resources described in paragraph A33 when determining whether, and if so, the degree to which, the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements. For example, the engagement partner may be able to depend on information systems that monitor independence. See paragraphs A7–A8.
- A35. Open and robust communication between the engagement partner and the members of the engagement team about relevant ethical requirements may also assist in:
- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
  - Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

*Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements* (Ref: Para. 15–16)

- A36. In accordance with proposed ASQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence, include policies or procedures that address the identification and evaluation of threats to compliance with the relevant ethical requirements and how identified threats should be addressed.
- A37. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be dealt with. For example, the APESB Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.

*Actual or Suspected Breaches of Relevant Ethical Requirements* (Ref: Para. 17)

- A38. In accordance with proposed ASQM 1, the firm is required to establish policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches.

*Taking Appropriate Action* (Ref: Para. 18)

- A39. Appropriate actions may include, for example:
- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate personnel within the firm so that appropriate action can be taken, including as applicable, disciplinary action(s);
  - Communicating with those charged with governance;
  - Communicating with regulatory authorities. In some circumstances, communication with regulatory authorities may be required by law or regulation;
  - Seeking legal advice; or

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- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

*Prior to Dating the Auditor's Report* (Ref: Para. 19)

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

- A40. ASA 700 requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.<sup>18</sup> Performing the procedures required by paragraphs 14–19 of this ASA provides the basis for these statements in the auditor's report.

*Considerations Specific to Public Sector Entities*

- A41. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 14. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

**Acceptance and Continuance of Client Relationships and Audit Engagements** (Ref: Para. 20–22)

- A42. Proposed ASQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances.
- A43. Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:
- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
  - Whether there are sufficient and appropriate resources to perform the engagement;
  - Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
  - Whether the engagement team has the competence and capabilities, including sufficient time to perform the engagement;
  - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A44. Under proposed ASQM 1, for acceptance and continuance decisions, the firm is required to make appropriate judgements about whether it will have access to information to perform the engagement, or to the persons who provide such information. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the

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<sup>18</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 28(c).

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appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

- A45. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A46. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ASA and making informed decisions about appropriate courses of action. For example:
- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework;
  - The entity's timetable for reporting, such as at interim and final stages;
  - In relation to group audits, the nature of the control relationships between the parent and its components; and
  - Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed.
- A47. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ASAs, as well as this ASA, for example with respect to:
- Establishing an understanding of the terms of the audit engagement, as required by ASA 210<sup>3</sup>;
  - Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ASA 315 and ASA 240;<sup>19</sup>
  - Understanding the group, its components, and their environments, in the case of an audit of a group financial report in accordance with ASA 600, and directing, supervising and reviewing the work of component auditors;
  - Determining whether, and how, to involve an auditor's expert in accordance with ASA 620; and
  - The entity's governance structure in accordance with ASA 260<sup>20</sup> and ASA 265.<sup>21</sup>
- A48. Law, regulation, or relevant ethical requirements may require the auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APESB Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all such facts and other information concerning such non-

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<sup>19</sup> See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

<sup>20</sup> See ASA 260 *Communication with Those Charged with Governance*.

<sup>21</sup> See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

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compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

- A49. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement in complying with the requirement in paragraph 21.
- A50. In deciding on the necessary action in accordance with paragraph 22, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement, and if so, what additional steps are necessary at the engagement level (e.g., the assignment of more staff, or staff with particular expertise). If the engagement partner has further concerns and is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

#### *Considerations Specific to Public Sector Entities* (Ref: Para. 20–22)

- A51. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 20–22 and A42–A47 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

#### **Engagement Resources** (Ref: Para. 23–26)

- A52. Under proposed ASQM 1, the resources assigned, allocated, or made available by the firm to support the performance of audit engagements include:
- Human resources;
  - Technological resources; and
  - Intellectual resources.

Under proposed ASQM 1, the firm's quality objectives are required to address appropriately obtaining, developing, using, maintaining, allocating and assigning such resources in a timely manner to enable the design, implementation and operation of the system of quality management. Based on the nature and circumstances of the engagement the engagement partner may be able to depend on the firm's policies or procedures that address the quality risks related to such quality objectives when complying with the requirements in paragraphs 23–26 of this ASA (see also paragraphs A7–A8).

- A53. A relevant consideration for the engagement partner, in complying with the requirements in paragraph 23 and 24, is whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles, such as professional competence and due care.

#### *Human Resources*

**Aus The AUASB will deliberate whether modifications may be required to the below paragraph to reflect Australian principles and practices. See Table 2 in the attachment to this exposure draft for more information.**

- A54. Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ASA 610 individuals from within the entity's internal audit function may provide direct assistance.

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- A55. An engagement team includes any individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, information technology, or in using automated tools to analyse complex data or to perform statistical analysis.

#### *Technological Resources*

- A56. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technology may allow the auditor to more effectively and efficiently manage the audit. Technology may also allow the auditor to evaluate large amounts of data more easily in order to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Inappropriate use of such technological resources may however increase the risk of overreliance on the information produced for decision purposes, or may create threats to complying with relevant ethical requirements, for example, those requirements related to confidentiality.
- A57. The firm's policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.
- A58. The firm's policies or procedures may specifically prohibit the use of certain technological resources (e.g., software that has not yet been specifically approved for use by the firm) or may include requirements to seek approval to use a new technological resource. In some circumstances the firm's policies or procedures may not specifically deal with the use of a specific technological resource (e.g., a spreadsheet developed by the engagement team or obtained from outside the engagement team or the firm). In these circumstances, the engagement partner may apply professional judgement in considering whether the use of the resource on the audit engagement is appropriate in the context of the engagement, and if so, how the technological resource is to be used.

#### *Intellectual Resources*

- A59. Intellectual resources include, for example, firm, network firm, or network audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.
- A60. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, laws and regulations, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, industry-specific methodology or related guides and performance aids.

#### *Sufficient and Appropriate Resources to Perform the Engagement* (Ref: Para. 23)

- A61. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, the engagement partner may be able to depend on the firm's related policies or procedures as described in paragraph A7. Matters that the engagement partner may take into account when making such a determination are described in paragraph A8. For example, the engagement partner may be able to depend on the firm's technological development and maintenance programs when using firm approved technology to perform audit procedures based on information communicated by the firm.

*Competence and Capabilities of the Engagement Team* (Ref: Para. 24)

- A62. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:
- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
  - Understanding of professional standards and applicable legal and regulatory requirements.
  - Expertise in specialised areas of accounting or auditing.
  - Expertise in information technology used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
  - Knowledge of relevant industries in which the entity being audited operates.
  - Ability to exercise professional scepticism and apply professional judgement.
  - Understanding of the firm's policies or procedures.

*Project Management*

- A63. In situations where there are many engagement team members, for example on larger, or more complex, audit engagements, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller engagement team with fewer engagement team members, project management may be achieved through less formal means.
- A64. Project management techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the audit engagement by, for example:
- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;
  - Facilitating timely performance of audit work to more effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
  - Monitoring the progress of the audit against the audit plan,<sup>22</sup> including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources;
  - Assisting the engagement partner in taking responsibility for the direction and supervision of engagement team members and the review of their work (see paragraph 27); or
  - Co-ordinating arrangements with component auditors and auditor's experts.

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<sup>22</sup> ISA 300, paragraph 9

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#### *Insufficient or Inappropriate Resources* (Ref: Para. 25)

- A65. Proposed ASQM 1 requires that the firm's quality objectives include that the firm's strategic decisions and actions, including financial and operational priorities, reflect the firm's commitment to quality and do not undermine the firm's role in serving the public interest by consistently performing quality engagements. However, in certain circumstances the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team.<sup>23</sup> In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for becoming satisfied that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.
- A66. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ASA and the nature and circumstances of the audit engagement. If the engagement partner determines that the resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, the engagement partner is required to take appropriate action. In such cases, appropriate actions may include:
- If possible, discussing an extension to the reporting deadlines with management or those charged with governance.
  - Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
  - Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

#### *Considerations Specific to Public Sector Entities* (Ref: Para. 23–26)

- A67. In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

## **Engagement Performance**

#### *Direction, Supervision and Review* (Ref: Para. 27)

- A68. Under proposed ASQM 1, the firm is required to establish policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.
- A69. Direction and supervision of the engagement team and the review of the work of the engagement team are firm level responses that are implemented at the engagement level of which the nature, timing and extent may be further tailored by the engagement partner in managing quality of the audit engagement. Accordingly, the approach to direction, supervision and review will take into account the nature and circumstances of the engagement and will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses. The approach will vary from one engagement to the next.

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<sup>23</sup> See also paragraph A37.



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- A70. The approach to the direction and supervision of the members of the engagement team and the review of the work performed provides support for the engagement partner in addressing the requirements in this ASA, as well as the conclusion that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 37.
- A71. Ongoing discussion and communication among members of the engagement team allows less experienced team members to raise questions with more experienced team members (including the engagement partner) on a timely basis and enables effective direction, supervision and review in accordance with paragraph 27(c).

#### **Direction**

- A72. Direction of the engagement team may involve informing the members of the engagement team of matters such as:
- The responsibility for all engagement team members for contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions.
  - The importance of maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism in gathering and evaluating audit evidence (see paragraph A29).
  - Their responsibilities to fulfill relevant ethical requirements.
  - Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
  - Respective roles and responsibilities of the engagement team members in performing audit procedures and the roles of more experienced team members in directing, supervising and reviewing the work of less experienced team members.
  - The objectives of the work to be performed and detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
  - Threats to the achievement of quality, and the engagement team's expected response in this regard. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

#### **Supervision**

- A73. Supervision includes matters such as:
- Tracking the progress of the audit engagement, which includes:
    - Monitoring the progress against the audit plan;
    - Monitoring whether the objective of work performed has been achieved;
    - Monitoring the ongoing adequacy of assigned resources.
  - Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced members of the engagement team when issues are more complex than initially anticipated.
  - Addressing matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.

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- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

#### **Review**

A74. Review of work performed provides support for the conclusion that the requirements of this ASA have been addressed.

A75. Review of work performed consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the audit procedures have been achieved.

A76. The firm's policies or procedures may contain specific requirements regarding:

- The nature, timing and extent of review of audit documentation;
- Different types of review that may be appropriate in different situations (e.g., detailed review of each individual working paper or a high-level review of selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

#### **The Engagement Partner's Review of Work Performed (Ref: Para. 28–31)**

A77. The firm's policies or procedures may specify the nature, timing and extent of the engagement partner's review. As required by ASA 230, the partner documents the extent and timing of the review.<sup>24</sup>

A78. Timely review by the engagement partner at appropriate stages during the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation but may do so.

A79. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. Significant judgements in relation to the

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<sup>24</sup> See ASA 230, paragraph 9(c).

audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement such as matters related to determining materiality;
- The composition of the engagement team, including:
  - Personnel using expertise in a specialised area of accounting or auditing;
  - The use of personnel from service delivery centres;
- The decision to involve an auditor's expert, including the decision to involve an external expert;
- The engagement team's consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team;
- The engagement team's consideration of related party relationships and transactions and disclosures;
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations;
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom;
- In group audit situations:
  - The proposed overall group audit strategy and group audit plan, including the identification of significant components;
  - Decisions about the involvement of component auditors, including how to direct and supervise their work. For example, if a component auditor is located in a jurisdiction or a firm with significant audit inspection findings, then judgements about their involvement in the engagement and the direction, supervision and review of their work are likely to be more significant; and
  - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed;
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement; or
- The engagement team's proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A80. The engagement partner uses professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.

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- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

#### *Nature, Timing and Extent* (Ref: Para. 27)

- A81. In accordance with paragraph 27(a), the nature, timing and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm's policies or procedures. For example, the firm may require that work planned to be performed at an interim date be directed, supervised, and reviewed at the same time as the performance of the procedures rather than at the end of the period so that any necessary corrective action can be taken on a timely basis.
- A82. In accordance with paragraph 27, the engagement partner is responsible for the nature, timing and extent of direction and supervision of the engagement team and the review of the work performed. The engagement partner may tailor the approach to direction, supervision and review depending on, for example:
- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
  - The complexity of the entity, including whether there are significant events that have occurred at the entity or in the industry in which the entity operates since the previous audit engagement or during the current engagement.
  - The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of direction and supervision of engagement team members, and a more detailed review of their work.
  - The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced team members may require more detailed instructions and more frequent, or in person, interactions as the work is performed.
  - The manner in which the engagement partner and manager reviews of work performed are expected to take place. For example, in some circumstances remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
  - The structure of the engagement team, and location of engagement team members, including where service delivery centres are used. For example, direction and supervision of individuals located at remote service delivery centres and the review of their work may need to be more formalised and structured than when members of the engagement team are all situated in the same location.
- A83. In accordance with paragraph 27(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced member of the engagement team becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

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#### *Consultation* (Ref: Para. 32)

- A84. Proposed ASQM 1 requires the firm to establish policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which to consult, and how the conclusions should be agreed and implemented. Consultation may be appropriate or required, for example for:
- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
  - Significant risks;
  - Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
  - Limitations imposed by management; and
  - Non-compliance with law or regulation.
- A85. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
  - Have appropriate knowledge, seniority and experience.
- A86. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organisations that provide relevant quality control services.
- A87. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.<sup>25</sup>

#### *Engagement Quality Review* (Ref: Para. 33)

- A88. Proposed ASQM 1 requires that the firm establish policies or procedures that require an engagement quality review for certain types of engagements.<sup>26</sup> Proposed ASQM 2<sup>27</sup> deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. National requirements that deal with the appointment and eligibility of an engagement quality reviewer and the responsibilities of the engagement quality reviewer are at least as demanding as proposed ASQM 2 when they address all of the requirements in proposed ASQM 2.

#### *Completion of the Engagement Quality Review before Dating of the Auditor's Report* (Ref: Para. 33(d))

- A89. ASA 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial report.<sup>28</sup> If applicable to the audit engagement, proposed ASQM 2 requires that the engagement quality review be completed on or before the date of the auditor's report.

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<sup>25</sup> See ASA 701, paragraphs 9 and A15.

<sup>26</sup> See ASQM 1, paragraph 40(e).

<sup>27</sup> See ASQM 2 *Engagement Quality Reviews*.

<sup>28</sup> See ASA 700, paragraph 49.

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- A90. The auditor's report cannot be dated until the completion of the engagement quality review. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.<sup>29</sup>
- A91. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.
- A92. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for co-ordinating requests from the engagement quality reviewer to another member of the engagement team.

#### **Differences of Opinion** (Ref: Para. 34)

- A93. Proposed ASQM 1 sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm's system of quality management, including those who provide consultation.
- A94. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:
- Seeking legal advice; or
  - Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

#### **Monitoring and Remediation** (Ref: Para. 36)

- A95. Under proposed ASQM 1, the firm is required to establish quality objectives and responses that address the firm's monitoring and remediation process that enable the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved. In addition, the firm is required to communicate to personnel information about the firm's monitoring and remediation process to the extent that it is relevant to their responsibilities and to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. The results of the firm's monitoring and remediation activities are based on an evaluation of findings from the firm's monitoring activities, the results of external inspections and other relevant information that the firm obtains or of which the firm becomes aware.
- A96. Information provided by the firm may be relevant to the audit engagement when, for example, it deals with findings identified on another engagement done by the engagement partner or engagement team, findings from the local firm office or previous inspection results of this particular engagement.
- A97. In considering relevant information communicated by the firm and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to deal with identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement

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<sup>29</sup> See ASQM 2, paragraph 21(b).

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team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert should be used;
- The nature, timing and extent of direction, supervision, and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

- A98. A deficiency in the firm's system of quality management does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.

#### **Taking Overall Responsibility for Managing and Achieving Quality** (Ref: Para. 37)

- A99. Under proposed ASQM 1, the firm is required to establish objectives relating to the engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.
- A100. Relevant considerations in addressing the requirement in paragraph 37 include determining how the engagement partner has complied with the requirements of this ASA, given the nature and circumstances of the audit engagement, and how the audit documentation evidences the engagement partner's involvement in the engagement.
- A101. If the engagement's partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 37. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:
- Re-evaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
  - Consulting with firm personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

#### **Documentation** (Ref: Para. 38)

- A102. In accordance with ASA 230,<sup>30</sup> audit documentation provides evidence that the audit complies with the ASAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. Documentation of the performance of the requirements of this ASA, including evidencing the involvement of the engagement partner, may be accomplished in different ways. For example:
- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
  - Minutes from meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's communications and other

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<sup>30</sup> See ASA 230, paragraph A7.

actions in respect of culture and expected behaviours that reflect the firm's commitment to quality;

- Agendas from discussions between the engagement partner and engagement team members, and where applicable the engagement quality reviewer, and related time records, may provide evidence of the engagement partner's involvement throughout the audit; and
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A103. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 22), the documentation may include explanations of how the engagement team dealt with the circumstance.

A104. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.