



**Australian Government**

**Auditing and Assurance Standards Board**

# Overview of the IAASB's proposed Quality Management Standards

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- ISQM 1
- ISQM 2
- ISA 220
- Outreach planned

# Project History



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## 2013–2014

Feedback and concerns

- Findings from ISA Implementation project
- Outreach with regulators and audit oversight bodies
- Respondent comments on public consultation for IAASB's 2015-2016 Work Plan (confirmed by consultation on 2017-2018 Work Plan)



## 2015–2016

Public consultation on issues

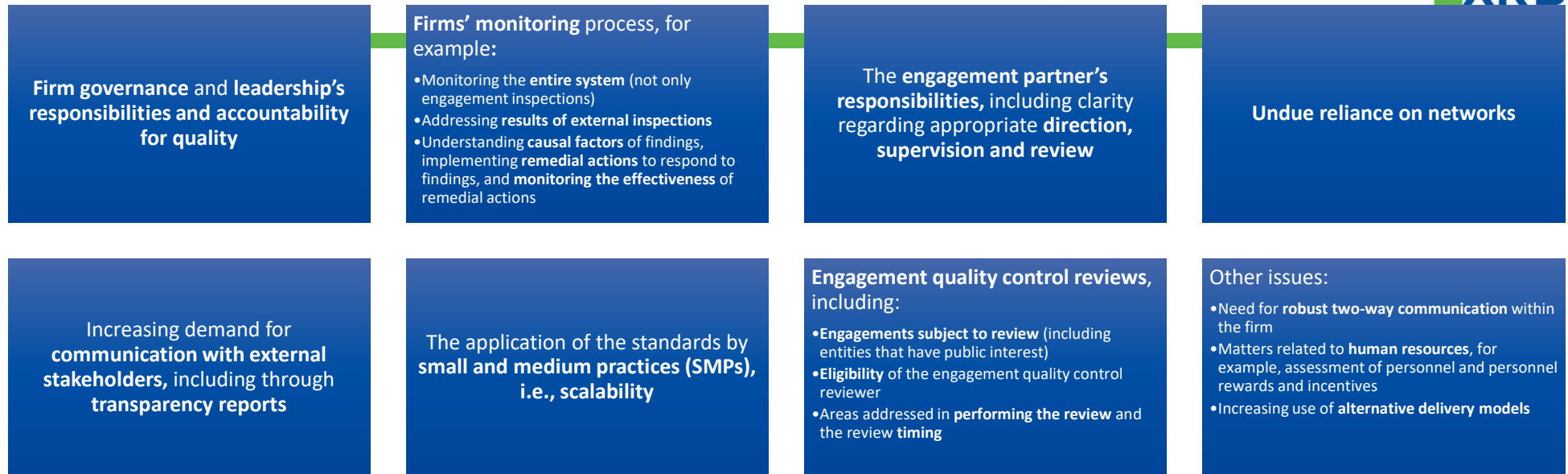
- Invitation to Comment (ITC) issued December 2015 (addressing professional skepticism, quality control and group audits)



## Dec. 2016

Project proposal approved

- Project proposal to amend ISQC 1 and ISA 220 addressing quality control (and ISA 600 (group audits))



Issues identified



# IAASB's proposals



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- February 2019: Three exposure drafts issued:
  - Proposed International Standard on Quality Management *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements* (ED-ISQM 1).
  - Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2).
  - Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220).
- Also released: a covering explanatory memorandum – addresses:
  - The relationships between the standards
  - Overall matters
  - Possible effective dates, including a question to seek views about the time needed to implement the standards
- February 2019-June 2019
  - Global outreach and consultation
- 1 July 2019
  - Comment letters due

## Effective date

- Implementation period of 18 months – effective date December 2021
- Aligned date – interrelationship between standards
- Early adoption permitted – have to adopt all three
- Area of urgent improvement – IFIAR survey
- Concerns from outreach:
  - Inadequate preparation time for firms
  - Rushed implementation may increase risks to quality
- Specific question in EM on implementation date and implementation support needed

# The proposed quality management standards





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

**ISQM 1  
(Previously  
ISQC 1)**





The most significant change

**A more robust system of quality management tailored for the firm**

## The new risk-based approach

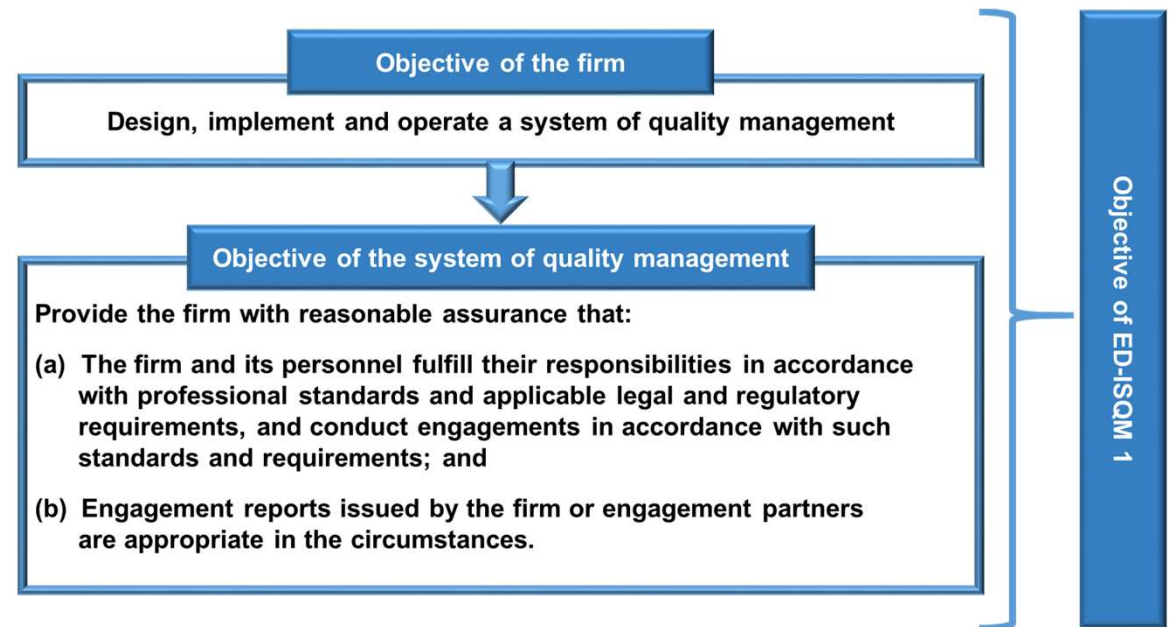
Scalable to the nature and circumstances of the firm and the engagements it performs



Proactive

## General considerations

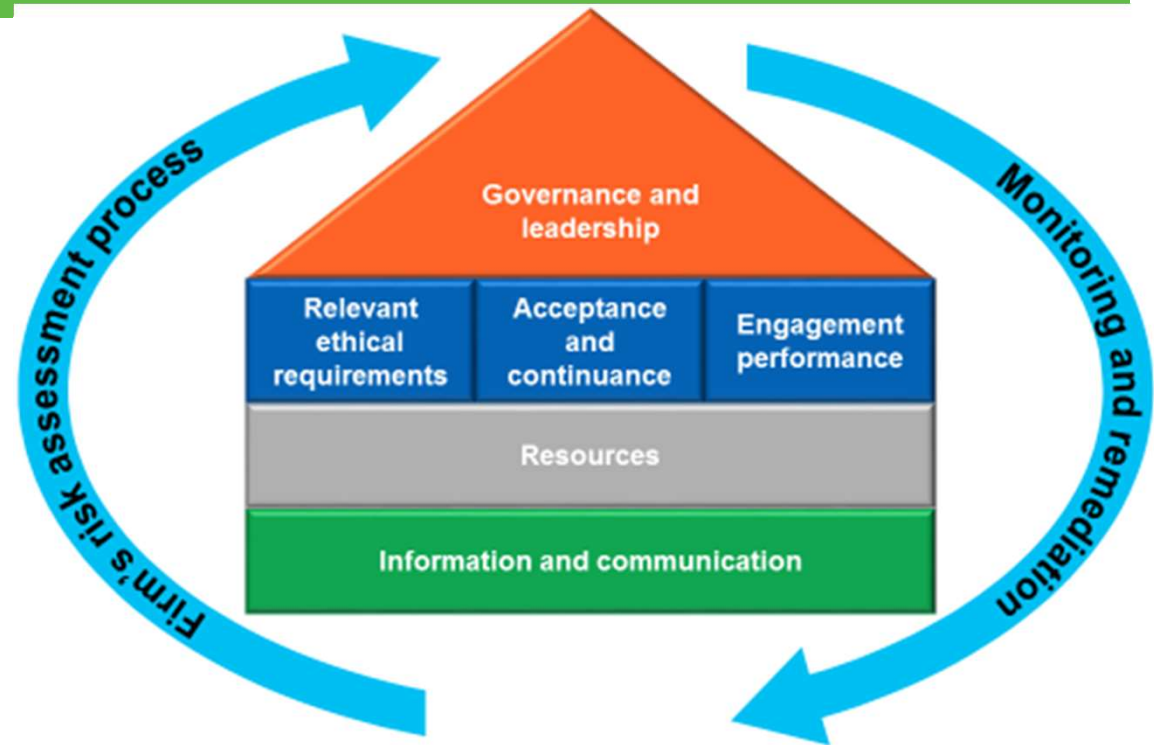
- Objective of the standard
- Public interest
- Professional judgement and professional scepticism



# New approach to quality management



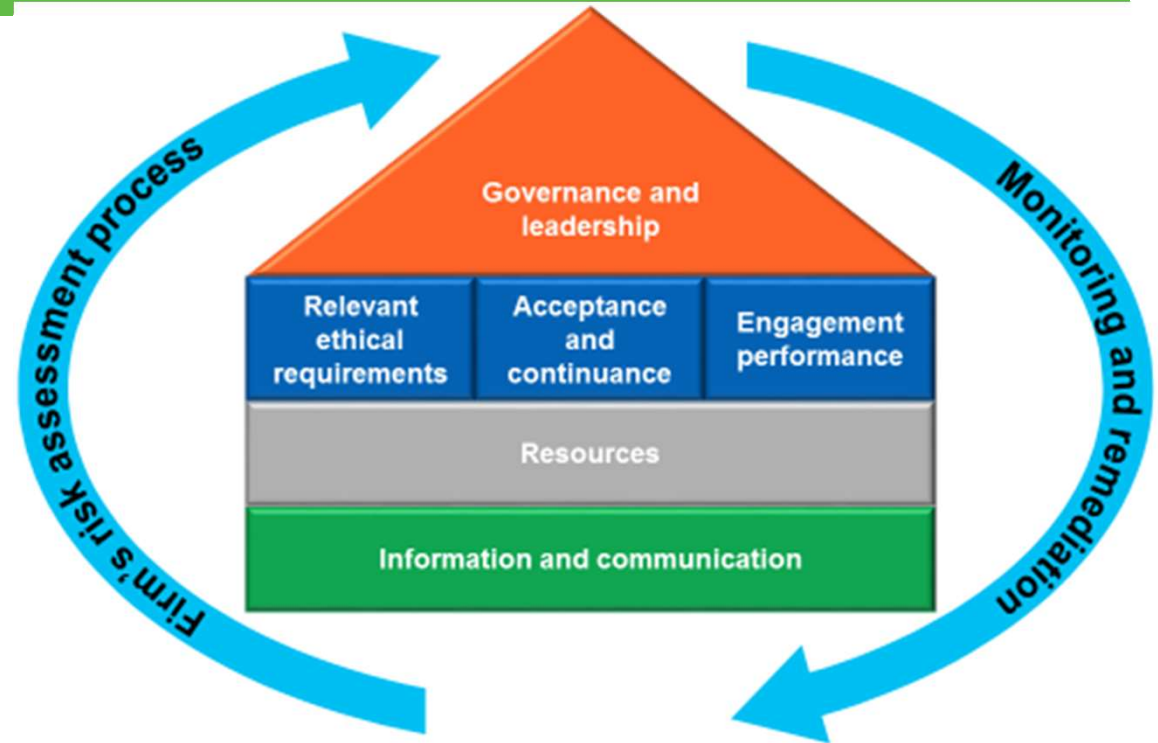
- Components of a system of quality management:
  - Governance and leadership (adapted from “leadership responsibilities for quality within the firm” in extant ISQC 1);
  - The firm’s risk assessment process (new);
  - Relevant ethical requirements (same as extant ISQC 1);
  - Acceptance and continuance of client relationships and specific engagements (same as extant ISQC 1);
  - Engagement performance (same as extant ISQC 1);
  - Resources (adapted from “human resources” in extant ISQC 1);
  - Information and communication (new); and
  - Monitoring and remediation (adapted from “monitoring” in extant ISQC 1).



# Governance and leadership

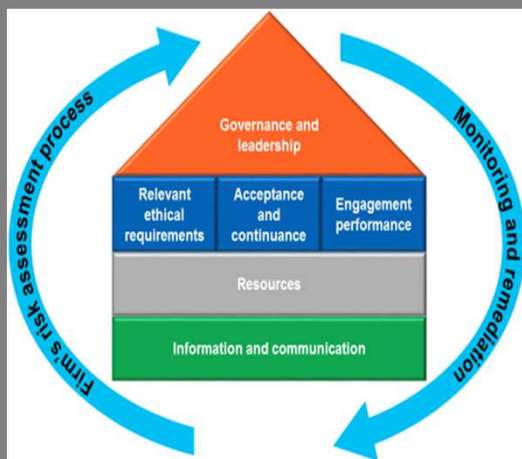


- Not specifically addressed in extant
- Sets expected behavior of firm leadership
  - Qualifications
  - Accountable-performance evaluations
- Strategic decisions and actions
- Ultimate responsibility for system
- Assign operational responsibility for :
  - system as a whole
  - independence
  - monitoring and remediation
- Planning, obtaining and assigning resources
- Understanding of system relevant to responsibilities





The firm's  
risk  
assessment  
process



Establish quality  
objectives



Identify and assess  
quality risks



Design and implement  
responses

# Establish quality objectives

Establish quality objectives

Identify and assess quality risks

Design and implement responses

- Quality objectives required by the standard for each component
- Additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objectives of the standard
- Outcome based – how achieved determined by the firm



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Establish quality objectives

Identify and assess quality risks

Design and implement responses

# Identify and assess quality risks

- No prescribed quality risks
- Identify conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives
- Taking into account the nature and circumstances of the firm and its engagements.



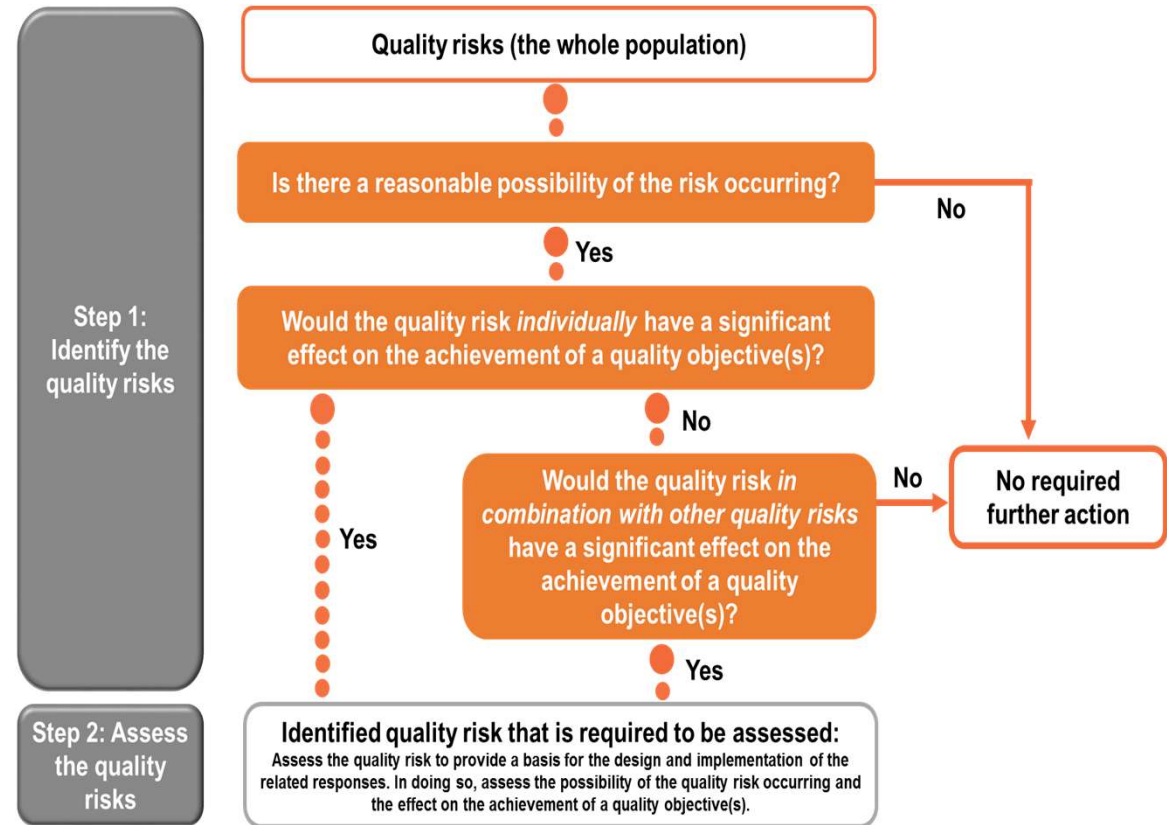
Establish quality objectives

Identify and assess quality risks

Design and implement responses

# Identify and assess quality risks

- Echoes the principles in the IAASB's recently published ED Draft, ISA 315 (Revised)





Establish quality objectives

Identify and assess quality risks

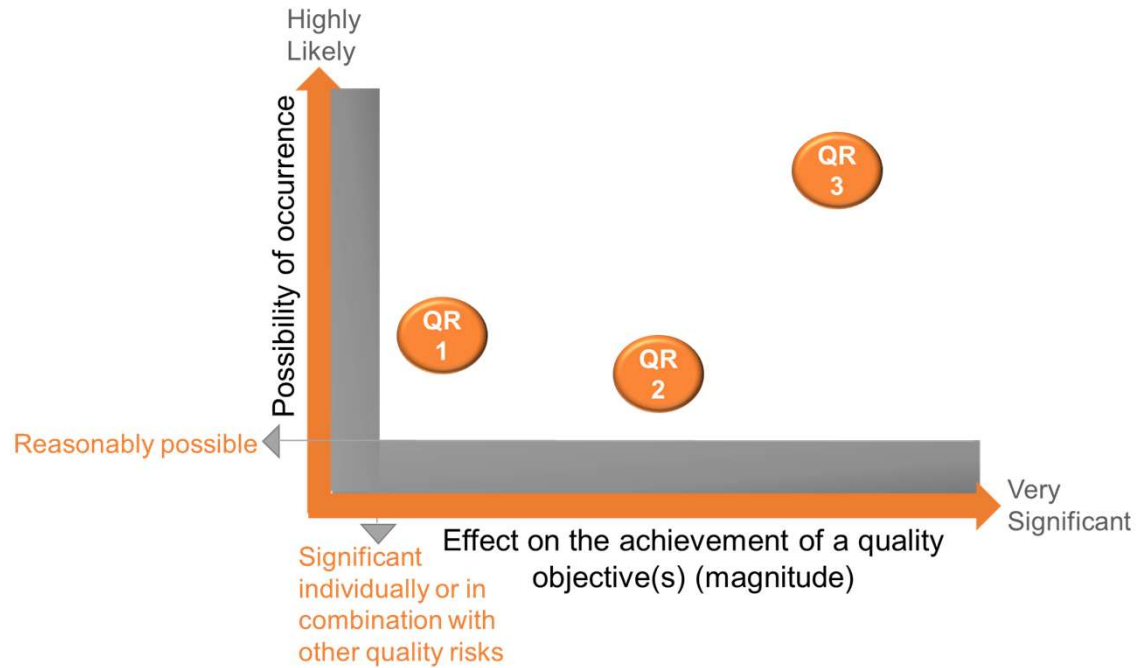
Design and implement responses

# Identify and assess quality risks

- Assess likelihood and magnitude
- Risk assessment informs nature of the response



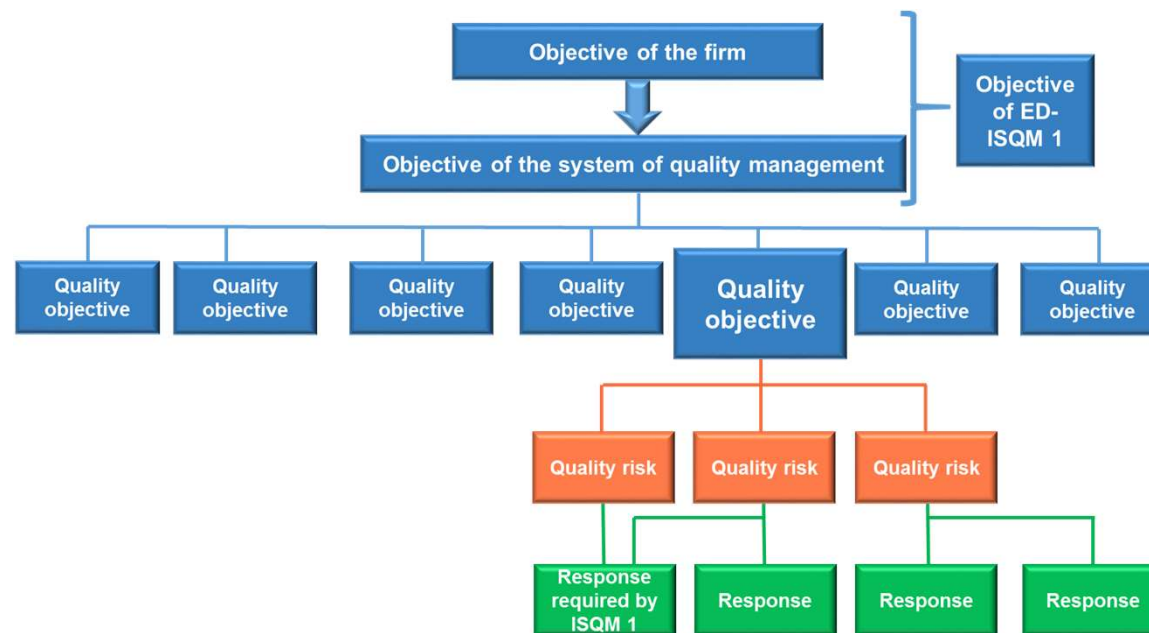
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# Design and implement responses

- ED includes required responses
- Not comprehensive
- Not all relevant in all circumstances
- Not directly linked in the ED to quality objectives



# Engagement Quality Review

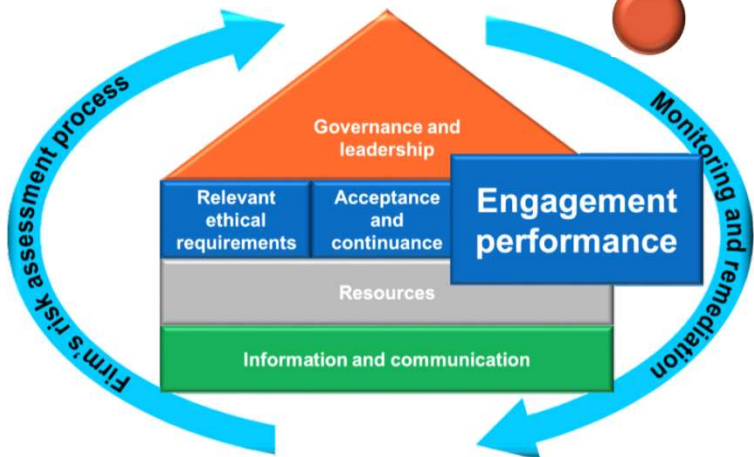


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## Engagement quality review required?

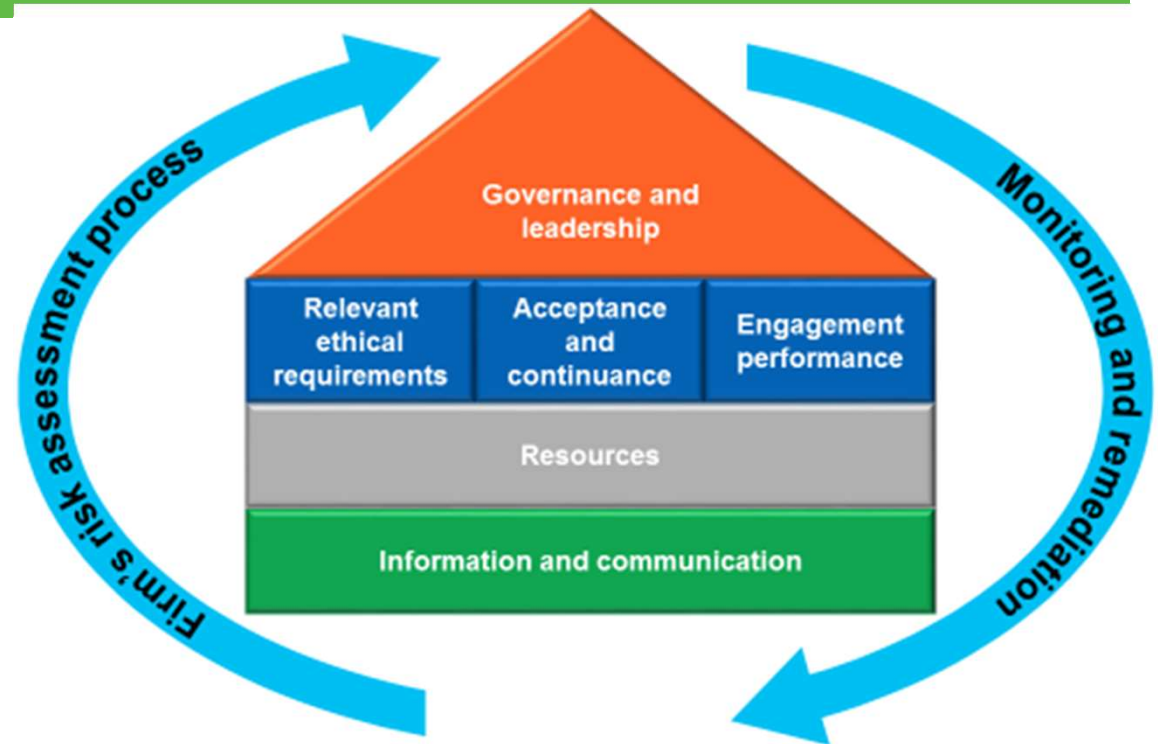
- Firm level response to an assessed quality risk
- Implemented by EQ reviewer on behalf of the firm
- Perform in accordance with ISQM 2
- Enhanced scope of engagements subject to EQR
- Listed entities [currently FMC reporting entities in NZ]
- **Entities the firm determines are of significant public interest, for example**
  - Large number and wide range of stakeholders, nature and size of the business, financial institutions, certain NFPs.
  - Audits or other engagements
  - Required by law and regulation
- Appropriate response to an assessed risk



## Resources



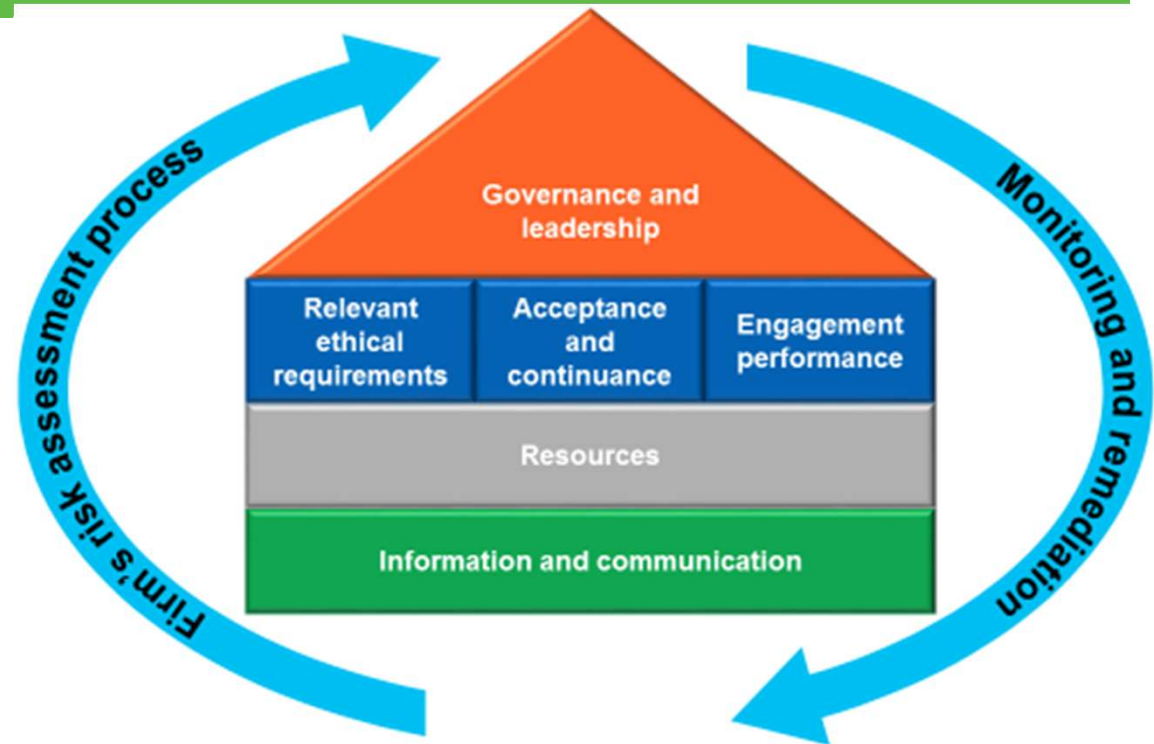
- Human resources
- New requirements
  - Technological resources
  - Intellectual resources
- No required responses



## Information and Communication



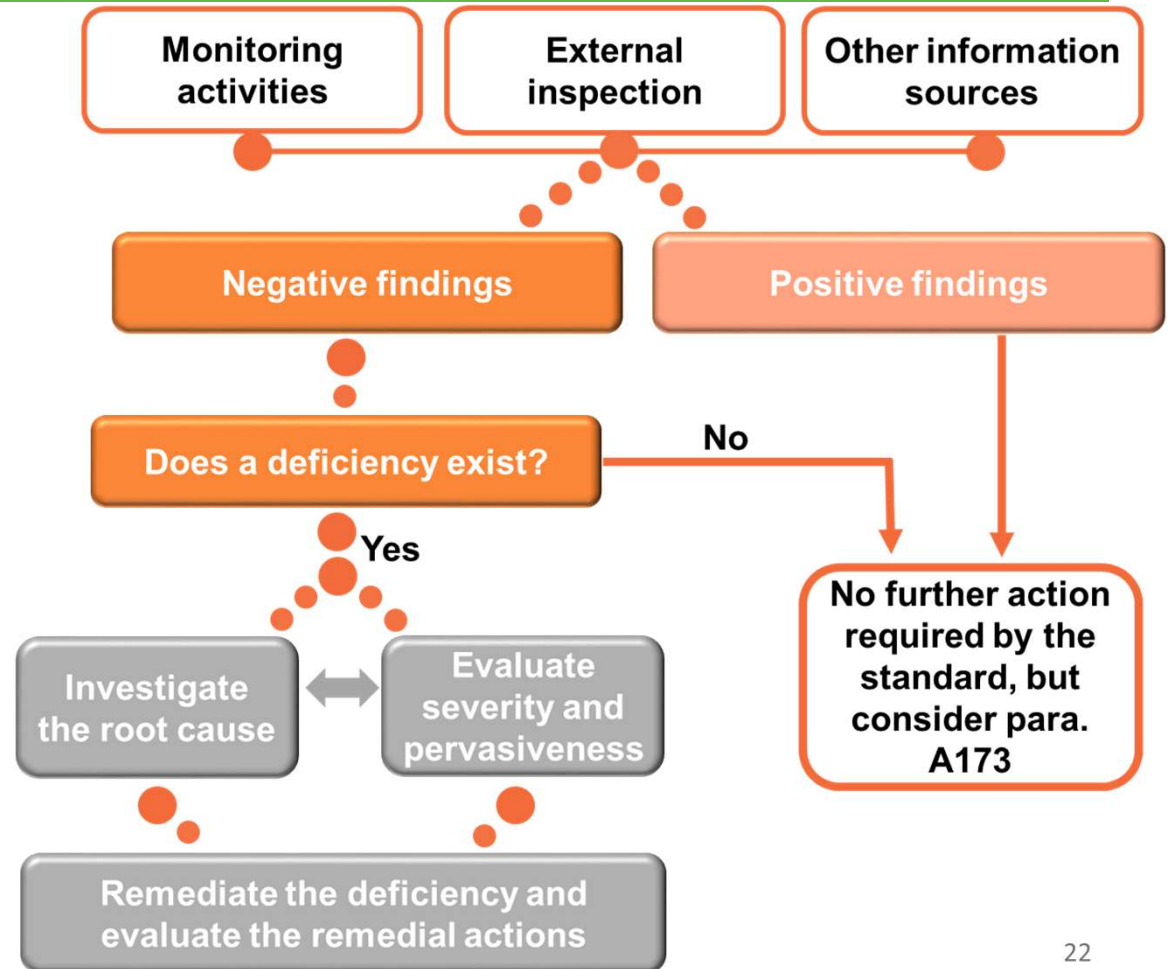
- New component
  - Establish C&I system
  - 2-way communication
  - Set responsibility for all personnel
- Non specific
- Encourages communication with external parties



# Monitoring and remediation

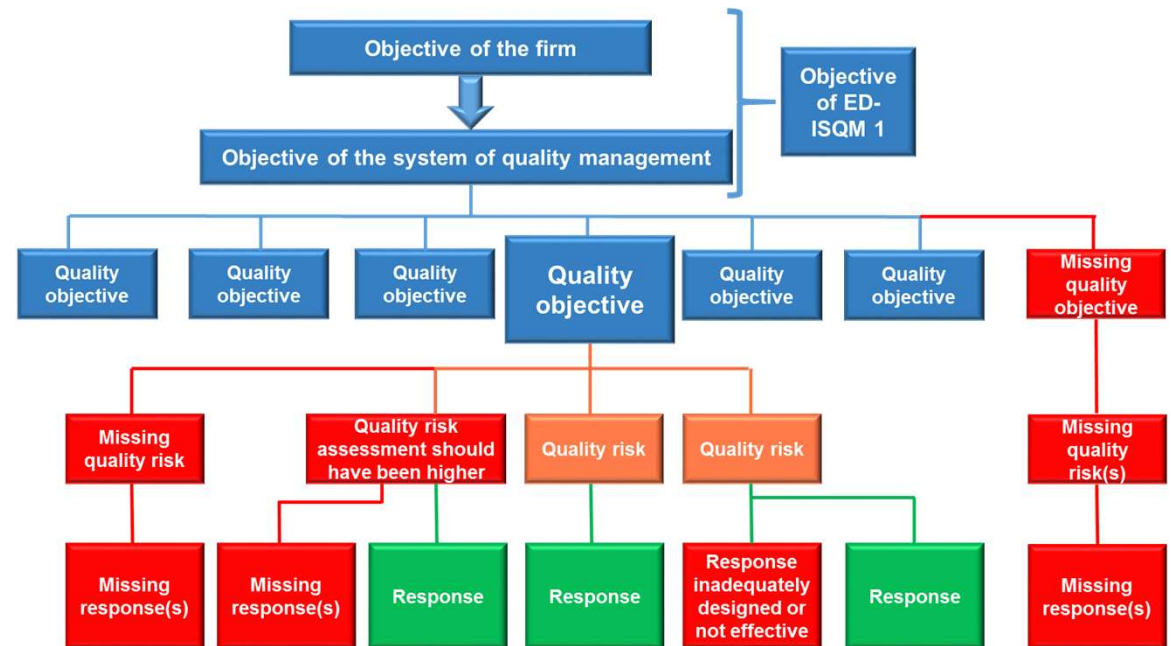


- Various new and improved requirements
  - More proactive and effective monitoring
  - Focus on all aspects of system
  - Acknowledges variety of sources
  - Findings vs deficiencies
  - Root cause analysis
  - Determine effectiveness of remedial actions
- Nature, timing and extent not prescriptive – iterative process
- Cyclical inspection of engagements
- Monitor the monitoring and engagement process
- Evaluate the system of quality management, at least annually



# Definition of deficiency

- Missing quality objective
- Missing quality risk
- Incorrect assessment of a quality risk
- Inadequate or missing response





# Networks and Service Providers

- Concern about undue reliance in ITC
- No requirements for networks themselves
- Emphasis on firm's responsibility
- New requirements for firm – principled based
- Understand the effect of the network requirements or services
- Evaluate the effect of the network requirements and services
  - Appropriate use of resource – address quality risks?
- Address requirements when network performs monitoring activities
- Enhanced requirements addressing matters to be communicated between the firm and the network



# Documentation

- Two-step approach:
  - **Principles-based requirement** for documentation to be sufficient to support understanding of SOQM, consistent implementation and evidence to support evaluation of SOQM
  - **More specific requirements** addressing:
    - Quality objectives, quality risks and responses
    - Monitoring and remediation
    - Networks and service providers



# Engagement Quality Reviews

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ISQM 2



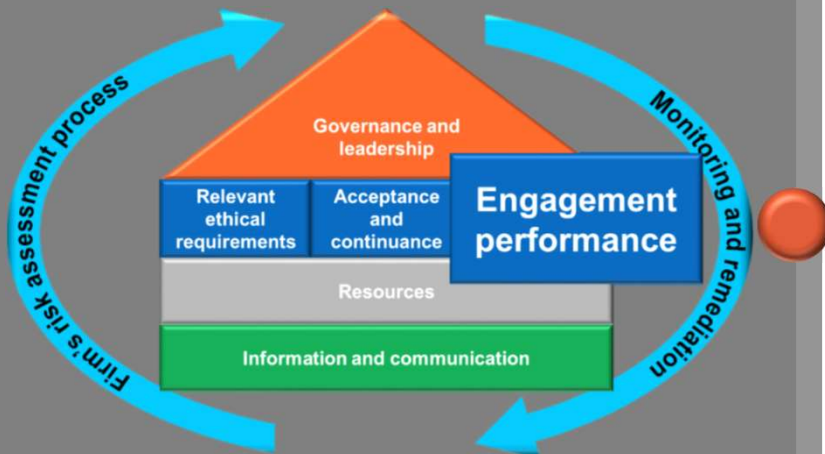
## Significant matters

- Interrelationship with ED ISQM 1 and ED ISA 220 (Revised)
- Requirements of ED ISQM 2
  - Appointment and Eligibility
  - Performance
  - Documentation



# The Interrelationship Between Proposed ISQM 2 and Proposed ISQM 1 and Proposed ISA 220 (Revised)

New EDs			Extant standards	
ISQM 1	ISQM2	ISA 220 (Revised)	ISQC 1	ISA 220
Circumstances under which EQR should be performed - response to an assessed risk	Requirements for: <ul style="list-style-type: none"> <li>Appointment &amp; eligibility</li> <li>Performance and documentation</li> </ul>	EP responsibilities towards the EQR.	Requirements for EQRs	



Engagement quality review required?

# Appointment and Eligibility



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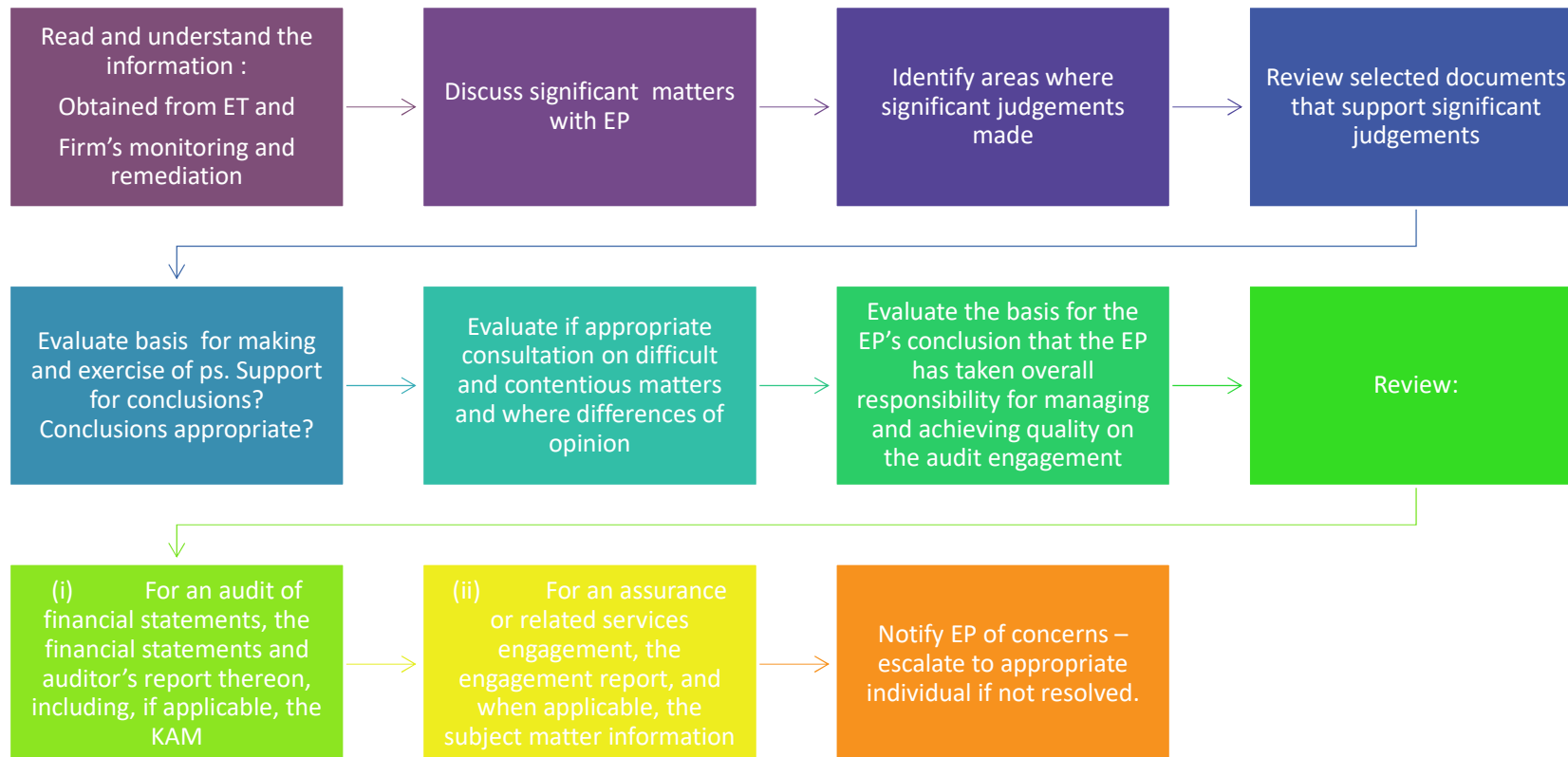
More robust requirements than extant

- Enhanced guidance on competence and capabilities
- Sufficient time (new)
- Appropriate authority
- Relevant ethical requirements
- Use of external resources

Additional requirements and AM added

- The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers.
- The eligibility of individuals to assist the engagement quality reviewer in performing the engagement quality review.
- The engagement quality reviewer taking responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
- Limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner.

# Performance





# Documentation

- The firm shall establish policies or procedures that require:
  - the engagement quality reviewer to take responsibility for documentation of the engagement quality review that:
    - Is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review.
  - Requires the engagement quality reviewer to determine that the documentation of the engagement quality review includes:
    - The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
    - An identification of the engagement documentation reviewed;
    - The engagement quality reviewer's determination of fulfilling ISQM 2 requirements
    - The notifications required if any concerns and to the EP that the review is complete
    - The date of completion of the engagement quality review.



# Quality Management for an Audit of Financial Statements

**ISA 220  
(Revised)**

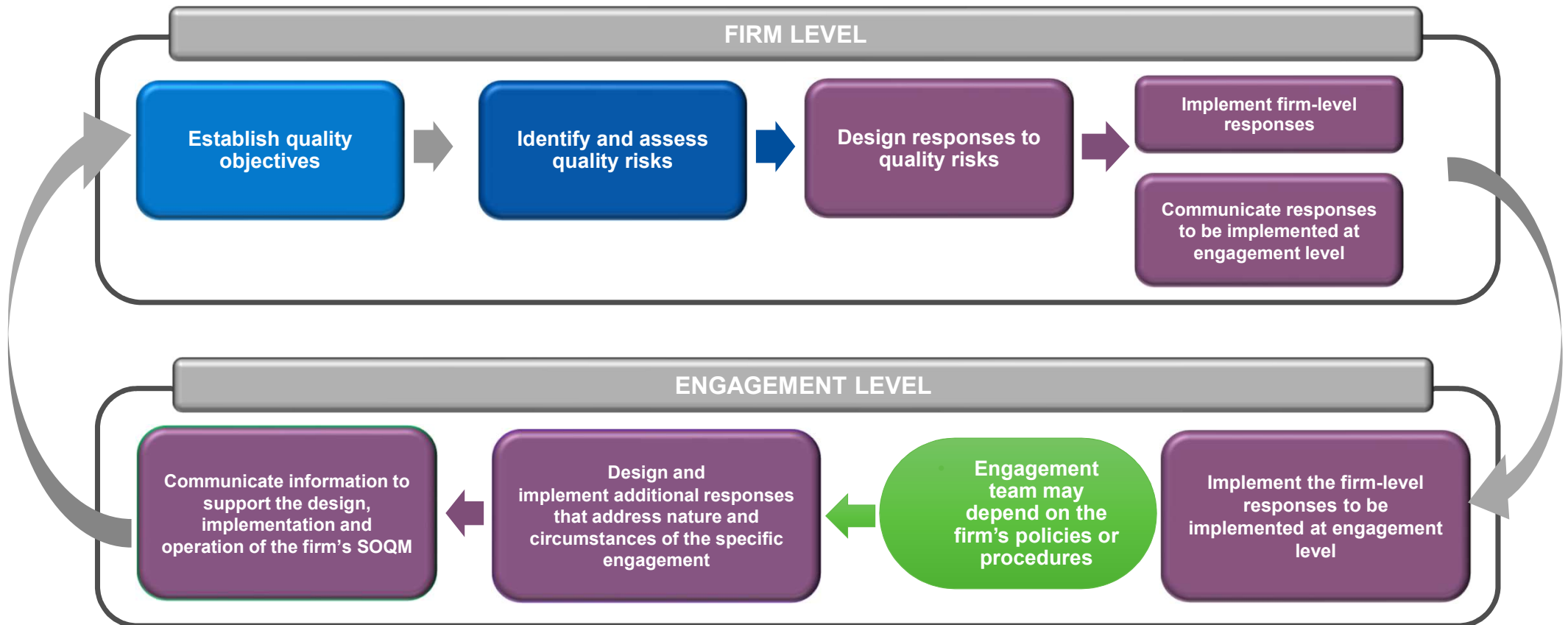




## Significant matters

- Interrelationship with ED ISQM 1 and ED ISQM 2
- Overall responsibility of the EP
- Relevant ethical requirements
- Acceptance and Continuance
- Engagement resources

# Interrelationship with ED ISQM 1

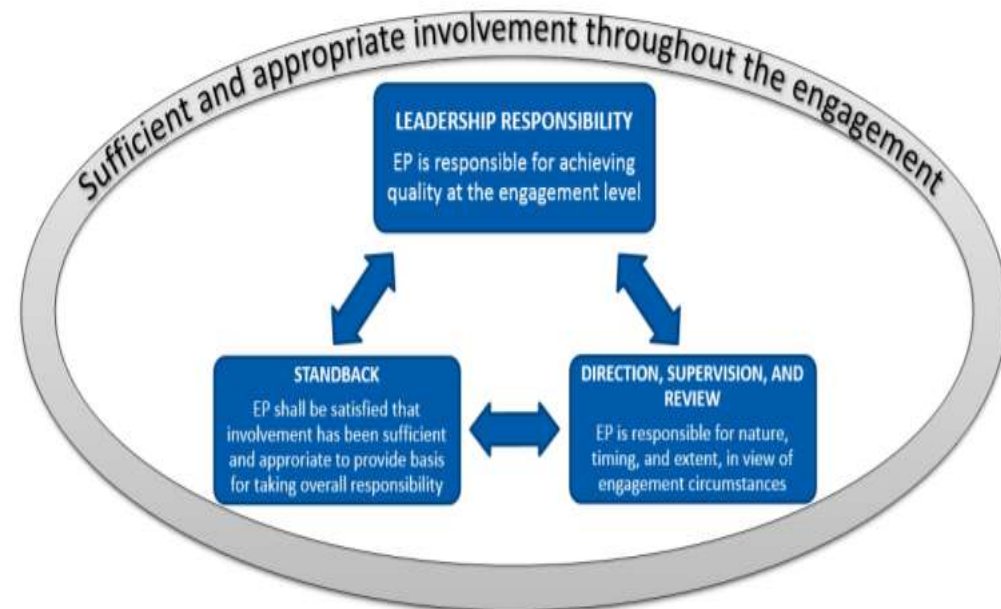


## Interrelationship with ED ISQM 1

- Premised on basis firm is subject to ISQMs
- Role of the firm's policies and procedures
  - Extant ISA 220 – ET can rely on Firm's system of quality control.
  - Removed from ED – may depend on firm's policies and procedures
    - Personnel recruitment and training
    - Information systems that monitor independence
    - Acceptance and continuance information systems
    - Audit methodologies, implementation tools and guidance
  - Include requirements to comply with firm's policies and procedures
    - Evaluate threats to compliance with relevant ethical requirements
  - Shall be satisfied vs shall determine

## Overall responsibility of the EP

- Managing and achieving quality on audits, including engagement performance, and standing back.
- Stronger emphasis on public interest context, professional judgment and professional skepticism
- Proposed revision to definition of engagement team



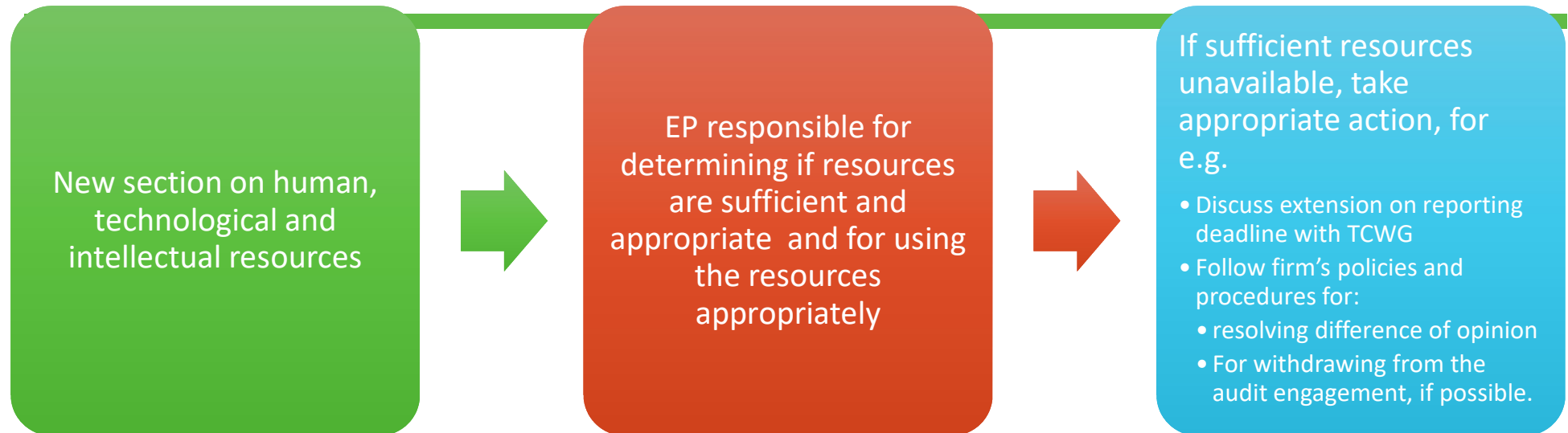
# Relevant Ethical requirements

- Strengthened from extant
- EP to understand applicable relevant ethical requirements
- Determine others are aware of policies and procedures
  - Threats, breaches, responsibilities
- Evaluate identified threats
- Remain alert throughout the audit
- Take appropriate action where required
- Prior to dating report, determine if ethical requirements fulfilled.



# Acceptance and Continuance

- Shall be satisfied firm's policies and procedures followed
- Shall determine that conclusions reached are appropriate
- Take account of information obtained in planning and performing process
- Take action if become aware of information subsequently that may have caused the firm to decline engagement



## Engagement Resources



# Engagement performance

- Responsibility of EP for Engagement Performance
  - Determining sufficient appropriate audit evidence
  - Review documentation at appropriate points, relating to:
    - Significant matters
    - Areas involving significant judgements
    - Other relevant matters
  - Prior to dating audit report, review financial statements, audit report, KAM
  - Responsible for undertaking consultation
  - Responsible for dealing with differences of opinion
  - If EQR review required:
    - Be satisfied EQR reviewer appointed
    - Cooperate with EQR reviewer,
    - Discuss significant matters with EQR reviewer
    - Don't date audit report until EQR completed.



# Documentation

- Shall include:
  - Matters identified, discussions and conclusions about:
    - Relevant ethical requirements
    - Acceptance and continuance of client and engagement
  - Nature, scope, conclusions – consultations undertaken and how implemented
  - EQR completed on or before date of auditor's report.

# Outreach planned

- New Zealand

Workshops		Roundtables	
Auckland	3 April	SMPs follow up	6 May
Tauranga	4 April	Larger firms	27 May
Wellington	11 April		
Christchurch	12 April		

NZ ED on compelling reason changes to be issued June/July 2019.

# Outreach planned

- Australia

## Timing

- Final dates and timing for the Australian Workshops to gather feedback on the Quality Management Standards are still to be determined.

## Specific Target

- Specific targeted outreach will be held with 'Big 6' and 'Large National Network' firms.

## Roundtables

- Roundtables to be held in conjunction with CA ANZ and CPA Australia in Sydney, Melbourne, Brisbane and Perth – these will be targeted at Small / Medium practices and also cover the upcoming IAASB LCE Discussion Paper.

## Webinar

- The AUASB will also hold another Webinar in Mid / Late May to capture feedback from those unable to attend the Roundtables.

## Exposure Process

- Exposure process different to NZ - the AUASB Explanatory Memoranda for each of the Quality Management Standards contain a number of Australian specific questions.





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**Thank you for listening**

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