

## AGENDA PAPER

**Item Number:** 6  
**Date of Meeting:** 5 June 2019  
**Subject:** Update on International EDs on Quality Management

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**Action required**     **For discussion**     **For noting**     **For information**

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### Purpose

To:

- a) obtain the Board's preliminary views on the potential matters for inclusion in APESB's submission on the exposure drafts released by the International Auditing and Assurance Standards Board (IAASB) in February 2019 in respect of the proposed International Quality Management Standards; and
- b) provide an update on stakeholder engagement in respect to the proposed quality management standards.

### Background

Technical Staff provided the Board with the background to, and an update on, proposed revisions to Quality Control Standards approved by the IAASB at the February 2019 APESB meeting. The update included a summary of the key changes from existing quality standards, key considerations raised by IAASB and key considerations for APESB.

The following Exposure Drafts and Explanatory Memorandums were released by the IAASB in early February 2019, with submissions due on 1 July 2019:

- The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews;
- Proposed International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements and Related Services Engagements* ([ED-ISQM 1](#));
- Proposed International Standard on Quality Management 2 *Engagement Quality Reviews* ([ED-ISQM 2](#)); and
- Proposed International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements* (ISA 220).

## Key Considerations

### Impact of the Proposed Revisions

ED-ISQM 1 applies to Firms that undertake audits or reviews of financial statements, other assurance engagements and related services engagements, which includes agreed-upon procedures and compilation reports. As such, ED-ISQM 1 would apply to the Firms currently subject to APES 320 *Quality Control for Firms* (APES 320) and APES 325 *Risk Management for Firms* (APES 325).

ED-ISQM 2 is a new separate standard dealing specifically with Engagement Quality Reviews and includes requirements currently included in extant APES 320 (with some additions and enhancements). As ISA 220 focusses on quality of audits at the engagement level, it will not impact on APES 320 or 325 and is not referred to further within this paper.

If the proposed international standards on quality management are adopted there will be a significant impact on APES 320 in particular, which is based on extant *International Standard on Quality Control 1* (ISQC 1). APES 320, originally issued in 2006 and revised in 2009 and 2015, mandates Firms to establish a system of quality control which provides Firms with a reasonable of assurance that:

- Firms and their personnel are complying with applicable professional standards, ethical requirements, and legal and regulatory requirements; and
- Reports issued by Firms and engagement partners are appropriate in the circumstances.

APES 325, originally issued in 2011 and revised in 2015 and 2017, requires Firms to establish, monitor, document and communicate to their personnel a firm-wide risk management framework and related policies and procedures. Whereas the proposed ED-ISQM 1 has similar objectives to APES 320 detailed above. Based on the above, Technical Staff do not consider that the proposed standards will have a significant impact on APES 325 which addresses business, governance and financial risks at the firm level compared to the quality management process of the services delivered by the Firm.

Technical Staff have developed a summary of potential issues (Agenda Item 6 (a)) for inclusion in the Board's submission to IAASB in respect of ED-ISQM 1 and ED-ISQM 2, primarily relating to the:

- Scalability of ED-ISQM 1 and potential challenges to the implementation of the risk assessment process and ongoing monitoring and remediation requirements;
- Mapping of how existing systems of quality control can be adapted to the new requirements in ED-ISQM 1;
- Cost/benefit analysis of ED-ISQM 1 requirements;
- Level of professional judgment and potential subjectivity of ED-ISQM 1;
- New requirements in respect of Networks and Service Providers;
- Separation of engagement quality review obligations into ED-ISQM 2;
- Use of the term significant public interest entities rather than Public Interest Entities; and
- The volume of application and other explanatory material included in ED-ISQM 1.

### Stakeholder Engagement

Technical Staff have organised the following stakeholder engagement in respect of ED-ISQM 1 and ED-ISQM 2:

- Focus group meeting with CPA Australia Public Practice Advisory Committee on 20 May 2019;
- Interactive Webinar in conjunction with Chartered Accountants Australia and New Zealand (CAANZ) on 29 May 2019, including stakeholder feedback via poll questions;
- Interactive Webinar hosted by APESB on 31 May 2019, including stakeholder feedback via poll questions. The presentation is included as Agenda Item 6 (b) and provides an overview of the key proposals; and
- Interactive session with CPA Australia quality control reviewers on 6 June 2019.

As not all stakeholder engagement has occurred before this report was written, Technical Staff will provide an oral update of feedback received to date to the Board at the APESB meeting on 5 June 2019.

### **Staff Recommendation**

The Board consider the impact of the proposed Quality Management Standards and provide feedback on the potential matters for inclusion in a submission to the IAASB.

### **Materials Presented**

Agenda Item 6 (a)	Summary of potential matters for inclusion in the Board' submission to the IAASB;
Agenda Item 6 (b)	Presentation on the proposed Quality Management Standards

**Authors:** Channa Wijesinghe  
Jon Reid

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