

Response Template: Quality Management Covering Explanatory Memorandum

Respondent: CPA Australia

Contact: Dr. Gary Pflugrath, Head of Policy and Advocacy gary.pflugrath@cpaaustralia.com.au

Note to Respondents:

- The questions below are from the covering explanatory memorandum of the IAASB's exposure drafts related to quality management, which is available at www.iaasb.org/quality-management. These questions address key issues pervasive to the three standards.
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

Overall Questions

- 1) 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?

Response: Whilst an implementation period of 18 months sounds reasonable, for practical reasons, we suggest that the effective date may need to be staged, in order to encompass design, implementation and operation of the system of quality management, as well as monitoring and remediation. It will be difficult, if not impossible, for firms to have the components of the system on which other components depend in operation for a sufficient time to have implemented all aspects of the system. Networks and service providers, for example, will also be implementing their systems of quality management with the same implementation date, which would not allow for communication and consideration of the impact of those systems on the firm's system of quality management.

A staged approach to implementation could be done in several different ways. Firstly, a date required for implementation of the system of quality management and a later date for the system to be operating effectively. Secondly, a date for implementation of certain components and another date for others, such as monitoring and remediation processes, which logically only follow-on from the system being in operation for a period of time. Thirdly, a date for the network firms to have a system of quality management in place and later dates for individual firms and engagements so that firms and engagement partners can take into account the network level system when designing and implementing their own systems.

- 2) In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

Response: Readily understanding the changes in requirements and approach from the existing standards, ISQC 1 and ISA 220, to the final standards, ISQM 1, ISQM 2 and revised ISA 220, once

published, will be critical for practitioners to implement the new standards efficiently and effectively. To facilitate this, we suggest providing a mapping document from the extant ISQC 1 and ISA 220 to the final ISQM 1, ISQM 2 and ISA 220 rather than changes only from the exposure drafts. Practitioners need to understand what the differences are from what they are currently doing so they can understand which aspects require new processes and procedures and which aspects they can bring across from their current system of quality control.

Diagrams assist in understanding the quality management approach and so embedding the diagrams from the explanatory memorandum for ISQM 1 in the appendices or introduction to the standard would be very helpful. Likewise developing equivalent diagrams for ISQM 2 and ISA 220 would be welcomed.

Our members have indicated that for SMPs an implementation tool would be beneficial to assist them in working through the components, quality objectives, risks and responses. More fulsome examples than those provided currently would also be of assistance.

General Questions

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

- (a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

Response: No comment

- (b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

Response: No comment

- (c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

Response: No comment