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Quality Management Standards - Enhancing Audit Quality

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AUDITING AND ASSURANCE STANDARDS BOARD



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Auditing and Assurance Standards Board

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits and reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the [AUASB Website](#).

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Introduction and purpose

Audit quality is vital to stakeholder and investor confidence. There is no set definition of a quality audit. However, a quality audit is likely to have been achieved by an engagement team that:

- Exhibited appropriate values, ethics and attitudes;
- Was sufficiently knowledgeable, skilled and experienced, and had sufficient time allocated to perform the audit work;
- Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;
- Provided useful and timely reports; and
- Interacted appropriately with relevant stakeholders¹.

An effective System of Quality Management will drive enhanced audit quality at the engagement level

The new and revised Quality Management Standards (QMS)² support the achievement of these elements and have been designed with the objective to strengthen and improve the management of **quality at the firm and engagement level**.

An effective system of quality management (SOQM) at the firm level, will drive **enhanced audit quality** at the engagement level, by:

- Enabling firms to implement a SOQM that is appropriate to their nature and circumstances, and the engagements it performs.
- Incorporating a robust and proactive approach to identifying and assessing risks to managing quality, and design and implement responses to address those risks.
- Requiring greater accountability with an improved focus on leadership and culture, and continuous improvement through required monitoring and remediation.
- Recognising that an effective SOQM is integrated into all aspects of the firm including the firm's strategy, operational activities and business processes, all working together to support the achievement to enhance audit quality.

The purpose of this AUASB Bulletin is to highlight how the QMS will assist in **enhancing audit quality**. This Bulletin does not detail all the requirements of the QMS and is not a substitute for reading the QMS in their entirety which are available on the [AUASB's Digital Standards Portal](#).

Why did the standards need to change?

Audit provide users with **confidence** that the information subject to audit can be **trusted**. To fulfil its objective, the users of the information must have confidence that the auditor has worked to a suitable standard and that a quality engagement has been performed.

Within Australia the [PJC Inquiry into Regulation of Auditing in Australia](#) and recent ASIC audit inspection findings, have raised questions whether audit quality is at the desired level. These questions have also been raised internationally. Some hold a view that audit quality may be negatively impacted by:

¹ Refer to the IAASB's [A Framework for Audit Quality – Key elements that create an environment for audit quality](#).

² ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, ASQM 2 *Engagement Quality Reviews* and ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

- Firm’s leaders not being sufficiently involved in monitoring and being accountable for quality.
- Quality being compromised as a result of a firm’s operational or financial priorities.
- A checklist approach to quality control without a proactive and robust process to identify risks to quality, and tailored responses to those risks.

The existing quality control standards (ASQC 1³ and ASA 220) have been replaced by the QMS. The QMS will drive firms to design and implement a significantly more robust SOQM to address the matters above and are designed to enhance audit quality and confidence. The QMS demonstrate commitment to quality.

Summary of Who, What and When

Who

Firms that perform audits or reviews of financial reports, or other assurance or related service engagements

What

ASQM 1

Design, implement and operate a system of quality management to manage the quality of all engagements

ASQM 2

Specific requirements for the appointment and responsibility of the engagement quality reviewer

ASA 220

The responsibility of the engagement partner regarding quality management at the engagement level

When

Must be designed and implemented by 15 December 2022, and the evaluation required to be performed 15 December 2023

The requirements of the QMS apply to all firms that perform audits or reviews of financial reports, or other assurance or related service engagements (i.e. agreed upon procedure engagements).⁴ Firms that provide non-assurance are required to comply with APES 320 *Quality Management for Firms that provide Non-Assurance Services*. APES 320 has recently

³ ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, other Assurance Engagements and Related Services Engagements*.

⁴ Refer to the IAASB’s [ISQM First-Time Implementation Guide](#) for more detail on the applicability of the QMS including the degree that they apply within the firm in the circumstances where firms perform other types of engagements that are not performed under the AUASB’s standards (e.g. tax or consulting services)

been revised by the APESB⁵ with an effective date of 1 January 2023, with early adoption permitted.

ASQM 1: SOQM designed to enhance audit quality

The overarching objective of ASQM 1 is for firms to **design, implement and operate a SOQM** which supports engagement teams in the consistent performance of **quality engagements**.

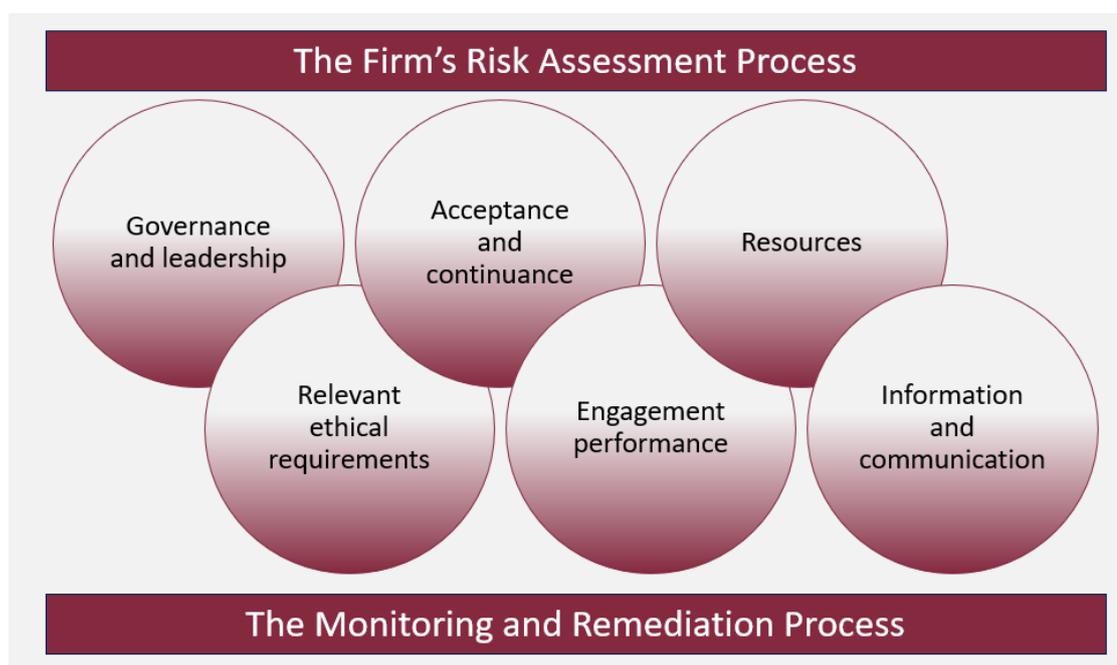
Responsibility and accountability reside with leadership

A key requirement in ASQM 1 is for firms to assign **ultimate responsibility and accountability for the SOQM to the firm's most senior leadership**, for example the firm's managing partner or chief executive officer⁶. This is designed to drive the firm's increased commitment to audit quality including to assist in:

- Ensuring that key strategic decisions are made with audit quality in mind.
- Establishing an environment across the firm that prioritises audit quality.

Processes and components of SOQM

ASQM 1 consists of interrelated processes and components to enable an effective SOQM, which drives enhanced audit quality.



⁵ Accounting Professional & Ethical Standards Board.

⁶ Refer ASQM 1, paragraph 20.

The firm's risk assessment process

An effective risk assessment process is the foundation of an effective SOQM. Firms set quality objectives, identify and assess risks to achieve these objectives, and design and implement tailored and effective responses. This principles-based approach is designed to enhance audit quality as it:

- is focused on quality outcomes;
- promotes proactivity by leadership in identification and assessment of risks and designing appropriate responses; and
- enables scalability (upwards and downwards) and tailoring to the firm's circumstances.

ASQM 1 includes **required quality objectives** so that it is clear what outcomes need to be achieved in order to meet the objectives of the SOQM.

To achieve enhanced audit quality, it is important that the SOQM is designed to the firm's particular circumstances. Therefore, firms must consider if there are **additional quality objectives** necessary to achieve the objectives of the SOQM.

The following is an overview of the components of the SOQM and required quality objectives, and how they may enhance audit quality. The following also includes **some simple examples** of possible quality risks and responses, and how they may enhance audit quality. These are provided as illustrations only, and **not meant to be exhaustive**.

Governance and leadership

The firm's governance and leadership component establishes the environment in which the SOQM operates. There are several quality objectives for leadership to establish such an environment that supports the SOQM⁷. The required quality objectives deal with matters such as the firm's culture, leadership responsibility and accountability, the firm's organisational structure, assignment of roles and responsibilities, and resource planning.



Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
Leadership demonstrates a commitment to audit quality through their actions and behaviours ⁸	Personnel do not consider leadership prioritises high audit quality over financial goals	<ul style="list-style-type: none"> • Leadership communicates consistently and regularly: <ul style="list-style-type: none"> ○ The achievement of high audit quality is more important than financial goals ○ The responsibility of all personnel for high quality audit 	<ul style="list-style-type: none"> • Personnel consider that audit quality is valued which impacts their behaviour and work performance • Personnel strive for high audit quality in the performance of

⁷ Refer ASQM 1, paragraph 28

⁸ Refer ASQM 1, paragraph 28 (c)

Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
		<ul style="list-style-type: none"> on all engagements ○ The responsibility of all personnel for the activities within the SOQM ○ About actions to address poor audit quality ● Personnel are rewarded for the performance of high-quality engagements and penalised for poor quality 	their engagements

Relevant ethical requirements

The firm is required to establish quality objectives to fulfill its responsibilities in accordance with relevant ethical requirements, including those related to independence⁹. This enhances audit quality as an auditor's independence is a key foundation of professional scepticism and audit quality.

Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
Personnel understand the relevant ethical requirements to which the firm and the firm's engagements are subject ¹⁰	Personnel do not understand and / or do not fulfill the relevant ethical requirements to which they are subject	<p>There are policies to ensure:</p> <ul style="list-style-type: none"> ● Personnel attend mandatory training on relevant ethical requirements ● The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent¹¹ 	Less instances of non-compliance with relevant ethical requirements (including those related to independence), facilitating an enhanced exercise of professional scepticism

⁹ Refer ASQM 1, paragraph 29

¹⁰ Refer ASQM1, paragraph 29 (a)

¹¹ This is a required response in ASQM 1, paragraph 34.

Acceptance and continuance of clients and specific engagements

The firm is required to establish quality objectives that address judgements and decisions on acceptance and continuance of clients and specific engagements. Specifically, these judgements and decisions must be based on quality considerations such as the ethical values of the client and the firm's ability to perform a high-quality engagement in accordance with AUASB standards and applicable legal and regulatory requirements, and not on financial and operational priorities of the firm¹².

Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
Judgements about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with AUASB standards and applicable legal and regulatory requirements ¹³	The firm accepts a new client based on financial priorities however, there are insufficient personnel with the appropriate experience to perform a high-quality engagement	There is a client and engagement acceptance process established which considers the firm's ability to perform the engagement, such as availability of resources with the right skills	Engagements are appropriately resourced to achieve high quality engagement performance

Engagement Performance

There are several quality objectives that address **the performance of high-quality engagements**¹⁴, including:

- Engagement teams understand and fulfill their responsibilities in connection with engagements.
- Engagement teams are appropriately directed and supervised, and work is reviewed.
- Engagement teams exercise appropriate professional judgement and professional scepticism.
- There is appropriate consultation.
- Differences of opinion are resolved.

Quality objectives	Example of identified risk	Example of response	How this enhances audit quality
Appropriate consultation on difficult or contentious matters is undertaken and	An engagement team does not consult on a technical complex matter resulting in an	The firm establishes policies which include with whom consultation should be undertaken by	Appropriate policies: <ul style="list-style-type: none"> • reinforces the importance and benefit of consultation, and

¹² Refer ASQM 1, paragraph 30, A67 – A74.

¹³ Refer ASQM 1, paragraph 30 (a)

¹⁴ Refer ASQM 1, paragraph 31, A75 – A85

conclusions agreed are implemented ¹⁵	incorrect conclusion being reached	engagement teams and the specific matters for which consultation is required	<p>demonstrates commitment to audit quality</p> <ul style="list-style-type: none"> engagement teams are supported in forming professional judgements
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Resources

The resources component is about the firm addressing appropriately what resources it needs, and how they are obtained, developed, used, maintained, allocated and assigned on a timely basis, to enable the design, implementation and operation of the SOQM. Resources include human, technology, intellectual and service providers¹⁶.

Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
Personnel are hired, developed and retained and have the competence and capabilities to consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs ¹⁷	The firm does not have sufficient personnel with the competence and capability to perform high quality engagements	<p>There are policies relevant to:</p> <ul style="list-style-type: none"> Recruiting individuals who have, or are able to develop, appropriate competence to perform engagements Training programs Timely performance of personnel evaluations Compensation, promotion and other incentives for all personnel 	Personnel performing audit engagements have the appropriate competence to consistently perform quality engagements
Appropriate technological resources are obtained or developed, implemented,	When using an IT off-the-shelf package which is provided by and maintained by a service provider,	There is an agreement with the service provider related to providing appropriate updates	Personnel performing audit engagements are supported by reliable IT resources

¹⁵ Refer ASQM1, paragraph 31 (d)

¹⁶ Refer ASQM 1, paragraph 32, A86 - A108

¹⁷ Refer ASQM 1, paragraph 32 (a)

Quality objective	Examples of identified risk	Examples of response	How this enhances audit quality
maintained, and used, to enable the performance of engagements ¹⁸	there may be lack of appropriate updates to the IT application, resulting in it becoming unreliable or unusable	and testing of functionality	
Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the consistent performance of quality engagements, consistent with AUASB standards and applicable legal and regulatory requirements ¹⁹	Engagement teams do not have appropriate methodologies and technical support materials to enable the performance of quality engagements	There are appropriate intellectual resources such as written policies and procedures, audit methodology in accordance with AUASB standards, accounting guides etc, for engagement teams to use	Appropriate intellectual resources assist in the consistent performance of audit engagements in compliance with AUASB standards and AASB ²⁰ accounting standards
Human, technological, or intellectual resources from service providers are appropriate for use in the performance of quality engagements, consistent with AUASB standards and applicable legal and regulatory requirements ²¹	The firm purchases audit methodology from a service provider, and this is not updated to reflect changes in AUASB standards and applicable legal and regulatory requirements	There is an agreement with the service provider to provide updates to the audit methodology when there are changes to AUASB standards and applicable legal and regulatory requirements	Audit engagements are conducted using audit methodology in compliance with AUASB standards and applicable legal and regulatory requirements

¹⁸ Refer ASQM 1, paragraph 32 (f)

¹⁹ Refer ASQM 1, paragraph 32 (g)

²⁰ Australian Accounting Standards Board

²¹ Refer ASQM 1, paragraph 32 (h)

Information and Communication

The firm has quality objectives that address obtaining, generating or using information regarding the SOQM, and communicating appropriately to support the SOQM²². Obtaining, generating, or communicating information is an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication are pervasive to all components of the SOQM.

Quality Objective	Examples of identified risk	Examples of response	How this enhances audit quality
Relevant and reliable information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM ²³	Personnel and engagement teams are not aware of changes to the SOQM and therefore are not able to fulfill their responsibilities	<ul style="list-style-type: none"> There is regular communication relevant to personnel's and engagement team's responsibilities contained in the SOQM including any changes when they occur Root cause analysis is conducted when breaches or non-compliance with the SOQM are identified, to assess if personnel understand their responsibilities and whether communications are required 	Increases understanding and compliance with the SOQM

Specified Responses in ASQM 1 relating to audit quality

ASQM 1 requires firms to proactively identify and assess risks and design responses to address them. In addition, ASQM 1 includes some specified (required) responses²⁴ as these are considered **relevant for all firms** to achieve the quality objectives. The specified responses are not exhaustive, and firms will need to design additional responses to identified risks.

The following specified responses are clearly linked to enhancing audit quality:

- Obtaining documented confirmation of compliance with independence requirements from all personnel.
- Investigating and resolving complaints about non-compliance with AUASB standards and applicable legal and regulatory requirements, or non-compliance with the SOQM.
- Engagement quality review for specified entities in accordance with ASQM 2.

²² Refer ASQM 1 paragraph 33, A109 – A115

²³ Refer ASQM 1, paragraph 33 (c)

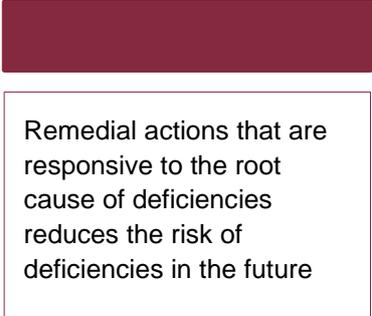
²⁴ Refer ASQM 1 paragraph 34

Monitoring and remediation process

Monitoring and remediation are fundamental to audit quality as it facilitates the proactive and continuous improvement of the SOQM and engagement quality. Prompt identification of deficiencies either in the SOQM or in completed engagements enables **timely and effective remediation** and contributes to a culture of continuous improvement.

There is an increased focus on the importance of the **inspection of completed engagements** to identify where and why high audit quality is not being achieved, and actions to address. ASQM 1 includes a framework for:

- Evaluating findings and identifying deficiencies.
- Evaluating severity and pervasiveness of identified deficiencies.
- Designing and implementing remedial actions that are responsive to the **root cause** of the deficiencies.



Remedial actions that are responsive to the root cause of deficiencies reduces the risk of deficiencies in the future

This enables firms to understand the underlying circumstances that caused the deficiencies and thereby design appropriate remedial actions to assist with reducing the risk of deficiencies in the future.

Documentation

ASQM 1 includes specific documentation requirements and emphasises the need for professional judgement in determining the form, content and extent of documentation. Documentation of the SOQM supports audit quality by assisting with:

- A consistent understanding by personnel of their responsibilities with respect to the SOQM and engagement performance.
- The consistent implementation and operation of the responses.
- Provides evidence of the design, implementation, and operation of the response, to support the evaluation of the SOQM.

ASQM 2: Engagement Quality Review supports audit quality

ASQM 1 establishes when an Engagement Quality Review (EQR) is required, and ASQM 2 addresses the specific requirements for the appointment and eligibility of the engagement quality reviewer, and the responsibilities relating to the performance and documentation of the review.

An EQR supports audit quality through the following principles:

- An EQR is required for higher risk engagements (such as listed entities) with the objective of supporting audit quality.
- By providing an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon.
- There is specified eligibility of individuals who can perform the EQR to ensure they have appropriate skills.
- A cooling off period of two years before the engagement partner can assume the role of engagement quality reviewer thereby enhancing the “fresh eyes” concept.

An EQR is an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon

ASA 220: Engagement Partner responsible for audit quality

The revised ASA 220 clarifies and strengthens the key elements of quality at the **engagement level**, focusing on the critically important role of the **engagement partner**. Consistent with ASQM 1, ASA 220 recognises the importance of leadership and therefore requires the engagement partner to take overall responsibility for audit quality and for reinforcing the importance of high audit quality to all members of the engagement team.

There are several requirements relating to the responsibilities of the engagement partner to enable them to achieve audit quality, including;

- Managing compliance with the firm’s SOQM.
- Taking clear, consistent, and effective actions that reflect commitment to high audit quality and communicate expectations to engagement team members.
- Determining that the engagement team and any auditor’s external experts, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.
- Determining that sufficient and appropriate resources (human, IT, Intellectual) are available on a timely manner to perform the engagement and, if not, to take action.
- Directing and supervising members of the engagement team and the review of their work.

ASA 220 recognises the importance of leadership and requires the engagement partner to take overall responsibility for audit quality

- Ensuring there is appropriate consultation on difficult and contentious matters and matters the firm's policies require, and that the conclusions agreed have been implemented.
- Where relevant, appointing and co-operating with an engagement quality reviewer.
- Taking responsibility for resolving differences of opinion.
- Standing back at the end of the engagement before dating the auditor's report and assessing if they were sufficiently involved throughout the audit engagement.

There is also new introductory material and application material on the importance of professional scepticism and professional judgement in performing audit engagements. This includes guidance on impediments to professional scepticism and actions the engagement team can take.

The QMS are scalable

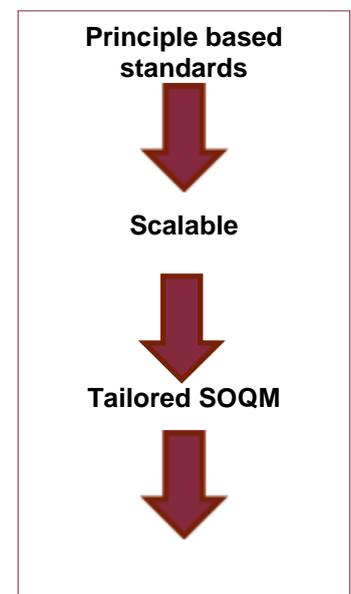
The Auditing Standards (including the QMS) are principles based to enable them to be scaled up for complexity and scaled down for less complexity. **Scalability drives audit quality** as firms focus on the matters which are the most important to them in mitigating risks to enhance audit quality.

ASQM 1

The risk-based approach allows firms to design and implement a SOQM which is appropriate to their size, and the engagements it performs. Specifically:

- The quality objectives are outcome-based, and firms determine how to achieve the quality objectives.
- Quality risks and responses are tailored to the firm's nature and circumstances.
- Specified responses are limited and can be implemented as determined appropriate.
- The monitoring and remediation process is focused on tailoring to the firm's circumstances.

ASQM 1 includes application material to assist with scalability including where requirements of the QMS may not be relevant to the firm. In addition, there are examples to show how to apply the requirements in less complex firms and more complex firms. Less complex firms may find the following particularly useful:



Examples

In a less complex firm, ultimate responsibility and accountability for the SOQM may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the SOQM, including operational responsibility, compliance with independence requirements and the monitoring and remediation process.²⁵

In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive than for a more complex firm (e.g., it may be documented in a single document).²⁶

ASQM 2

ASQM 2 is only relevant where:

- the engagement is an audit of a listed entity;
- an EQR is required by law or regulation; or
- the firm identifies an EQR as an appropriate response to an assessed quality risk.

ASQM 2 includes application material to assist smaller firms and sole practitioners on how to apply with certain requirements. Less complex firms may find the following particularly useful:

Examples

The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers is not a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer²⁷.

In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual in the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of a network firm, a structure or an organisation within the firm's network, or a service provider. When using such an individual, the provisions in ASQM 1 addressing network requirements or network services or service providers apply.²⁸

²⁵ ASQM 1 paragraph A35.

²⁶ ASQM 1, paragraph A39

²⁷ ASQM 2 paragraph A2

²⁸ ASQM 2 paragraph A4

ASA 220

The requirements of ASA 220 can be applied in the context of the nature and circumstances of each audit. ASA 220 includes guidance on how in a smaller firm the engagement partner may fulfill their responsibilities. Less complex firms may find the following particularly useful:

Examples

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 partner²⁹.

The approach to direction, supervision and review may be tailored depending on the matters such as³⁰:

- The engagement team's experience, competence and capabilities
- The complexity of the engagement
- The assessed risks of material misstatement
- The structure of the engagement team and location of engagement team members

Conclusion

Depending on the existing system of quality control a firm has in place, the firm may have to exercise a great deal of change for the QMS. However, these changes are necessary to meet ongoing expectations of the profession when it comes to audit quality. Embedding quality management and a culture of continuous improvement is fundamental to audit quality and the value of the audit profession in enhancing confidence in information subject to assurance.

The AUASB is confident that firms who effectively design and implement the requirements of the QMS will benefit from improvements in audit quality.

For implementation support including details on what has changed refer to the [AUASB's website](#) where there are extensive materials to assist which include:

- Introductory 5-minute awareness videos.
- Webinars.
- First time implementation guides.
- Fact sheets.

Also the QMS which are available on the [AUASB's Standards Portal](#).

²⁹ ASA 220 paragraph A14

³⁰ ASA 220 paragraph A95