HKICPA Auditing and Assurance Standards Committee meeting with IAASB

Date: 23 May 2019
Time: 9:00 – 11:15
Venue: HKICPA Board Room, 37/F Wu Chung House, Wanchai

Attendee:
Edmond Chan, Baker Tilly
Johnson Kong, BDO (Chairman of HKICPA SMPC)
Derek Broadley, Deloitte
Paul Hebditch, EY
Joyce Woo, FRC
Steve Ong, HK Ex
Basilia Wong, HLB
Thomas Wong, Nexia
Loretta Fong, PwC
Gary Stevenson, RSM
Prof Arnold Schilder, Chairman, IAASB
Len Jui, Board member, IAASB
Brett James, Deputy Director, IAASB
Jessie Wong, Technical Advisor to Len, KPMG
Chris Joy, Executive Director, HKICPA
Christina Ng, Director, HKICPA
Selene Ho, Deputy Director, HKICPA
Anthony Wong, Associate Director, HKICPA
Grace Lau, Manager, HKICPA
Phoebe To, Manager, HKICPA

1. IAASB staff highlighted the following key points of the three proposed standards on quality management to AASC.
    - The new quality management approach aims to improve the scalability of ED-ISQM 1 because it requires a firm to customize the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs.
    - The new approach focuses on proactively identifying and responding to risks to quality. It would improve the robustness of firms' systems of quality management (e.g. enhanced requirements and focus on governance and leadership–increased responsibilities and accountability, monitoring and remediation, and circumstances when a firm belongs to a network).

- A system of quality management is a continual and iterative process and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner.
- The new requirements emphasize that the firm is responsible for its own system of quality management, thereby addressing the issue that firms may place undue reliance on network requirements or network services.
- The network is a consortium of network firms, it is usually not regulated or subject to inspection at the network level. The individual firms within the network are likely be regulated and inspected by the regulators and audit oversight bodies within their jurisdictions.
- The three standards are expected to be approved in June 2020 with 18-months implementation period. The anticipated effective date is end of December 2021.

2. One member is concerned with the documentation expectation for the quality management system as the requirements set out in ISQM 1 are principles based. The member is concerned whether the amount of documentation would meet the regulator's expectations. The member is requesting for more documentation guidance from the IAASB. IAASB staff encouraged firms to have an early discussion with regulators to understand their expectation on documentation.

3. One member questioned whether this is an expectation from the standard that a sole proprietor should outsource its quality management to external service provider. IAASB staff emphasized that the firm is responsible for its own system of quality management and should consult external parties as appropriate.

4. One member (representative from SMPs) appreciates the scalability of the three proposed standards. However, the member would like to obtain more guidance from IAASB on the application of the risk assessment approach in developing the quality management system. IAASB staff noted this comment.

5. IAASB staff mentioned that they are working on the project of ISA 600, which applies to multi-location audits. It will be their key focus after the completion of projects on quality management and ISA 315 (Revised).

6. IAASB staff further presented a high level overview of their proposed strategy 2020-2013 and projects of Audit of Less Complex Entities and Audit Evidence.

7. One member (representative from SMPs) expressed support for the project on Audit of Less Complex Entities as the existing standard is too lengthy and complex for the

SMPs to apply. The member would support IAASB to develop a separate standard which is based on the existing ISA framework to provide simplified guidance on the audit of less complex entities.