

HKICPA & IAASB Roundtable discussion on EDs: Big 4, smaller firms with international network

Date: 23 May 2019

Time: 16:30 – 18:00

Venue: HKICPA Board Room, 37/F Wu Chung House, Wanchai

Attendee:

Anntice Lai, Baker Tilly

Danny Choi, Baker Tilly

Clement Chan, BDO

Simon Riley, BDO

Ivy Chua, Crowe

Derek Broadley, Deloitte

Eric Tang, Deloitte

Clare Wong, EY

Paul Hebditch, EY

Jonathan Lai, HLB

Vency Ip, HLB

Maria Cheng, KPMG

William Crowe, KPMG

Yanny Yam, Mazars

Tony Ching, Moore Stephens

Amanda Chan, PwC

Stephen Wong, RSM

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 managements to the participants.

- 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 participant is concerned with the documentation expectation for the quality management system as the requirements set out in ISQM 1 are principles based. The participant is concerned whether the amount of documentation would meet the regulator's expectations. The participant 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 participant expressed that a firm with limited experienced partners has practical difficulty to select a quality reviewer for an engagement for which the engagement partner is the senior partner of the firm. It would be difficult for the quality reviewer to challenge the engagement partner due to his/her seniority within the firm. IAASB staff suggested that the firm may consider engaging an external service provider to perform quality reviews. In addition, the firm should create a culture of respect for the role of engagement quality reviewer.
 4. One participant expressed that it is difficult for a network firm to get involved in setting the network requirements on quality management. IAASB staff emphasized that firm

shall evaluate the effect of the network requirements or network services on the firm's system of quality management, including determining whether they need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management.

5. One participant mentioned that a tool of quality management was provided by a member firm. The participant was unclear whether the requirement of network services or service provider should be followed in this particular case. The participant would like IAASB to issue guidance on this application issue. IAASB staff noted this comment.