

HKICPA & IAASB Roundtable discussion on EDs and Discussion Paper on "audits of less complex entities": SMPs local

Date: 24 May 2019

Time: 9:00 – 11:30

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

Attendee:

Anntice Lai, Baker Tilly

Danny Choi, Baker Tilly

Lesley Yeung, BDO

Amy Law, BDO

Kenneth Lau, Crowe

Ivan Lau, Edward Lau & Co.

Sharon Chan, Grant Thornton

Vency Ip, HLB

Philip Fung, Lak & Partners

Thomas Wong, Nexia

Jenny Lui, PwC

Loretta Fong, PwC

Sammy Choi, TKC Corporate

Webster Ng, Webster Ng & Co.

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, Manager, HKICPA

Grace Lau, 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. IAASB staff shared the video for SMPs on quality management to our participants. The video demonstrated situations where SMPs can apply the scalability in the system of quality management.
3. 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.
4. One participant would like to obtain more guidance from IAASB on the application of the scalability and risk assessment approach in developing the quality management system. IAASB staff noted this comment.
5. One participant asked whether firms can apply their existing policies and procedures as starting point for developing the system of quality management. IAASB staff confirmed that they don't expect firms to start from scratch to develop the quality management system.
6. One participant expressed that it is difficult for a sole proprietor to locate external

quality reviewer as there is limited professionals offering quality review services in Hong Kong. Besides, it is difficult for the firms to ensure the quality of the external individuals. IAASB staff noted this comment.

7. One participant would like the IAASB to clarify whether the 18-months implementation period includes the time for testing the effectiveness of the quality management system. It may be a hurdle for firms to comply with the three standards. IAASB staff noted this comment.
8. IAASB staff further presented a high level overview on the project of audit of Less Complex Entities (LCEs).
9. Most of the participants supported IAASB to develop a separate auditing standard for audits of LCEs as they considered the current ISAs are too lengthy and complex for them to apply. However, one participant considered that most of the requirements in current ISAs are still applicable for the auditors of LCEs.