

1 July 2019

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017  
USA

Dear Willie,

**The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews**

Thank you for the opportunity to comment on the above referenced exposure draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the overall explanatory memorandum in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

The NZAuASB supports the proposed implementation period of approximately 18 months following approval.

The NZAuASB commends the IAASB in its proactive efforts to provide implementation support. Further implementation support will be needed to aid implementation, particularly for sole practitioners and smaller partnerships. As noted in our response to ED-ISQM 1<sup>1</sup>, we raise with the IAASB for consideration the benefit of developing a tool such as a "thinking list" of common quality risks (in the form of a generic list of common risks that practitioners can consider as applicable to their circumstances when undertaking the risk assessment and add to as appropriate) within the standard and/or develop illustrative documentation to assist practitioners to implement the proposals. We consider this may help to mitigate the large cost and resourcing burden without detracting from the benefits of a risk-based approach.

Further, to ensure the standards are embraced it would be helpful to focus the message on why the standards are changing and the benefits to practitioners of the risk-based approach, and to encourage practitioners to start early, looking at what is new and what they are not doing now.

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<sup>1</sup> ED-ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Buchanan". The signature is fluid and cursive, with a long horizontal stroke at the end.

**Robert Buchanan**  
**Chairman**

Email: [robert@buchananlaw.co.nz](mailto:robert@buchananlaw.co.nz)

## **Submission of the New Zealand Auditing and Assurance Standards Board**

### ***The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews***

#### **I Schedule of Responses to the IAASB's Specific 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:**

The NZAuASB considers 18 months is the minimum period necessary to support the implementation of the quality management proposals. In our view, a hurried implementation of these proposals will not improve audit quality.

In light of the IAASB's decision not to make conforming consequential amendments to the assurance and related services standards at this time, we encourage the IAASB to prioritise this project so as to align the effective date of any necessary changes to the assurance and related services standards with the effective date of the revised quality management standards.

- 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:**

The NZAuASB commends the IAASB in its proactive efforts to provide practical examples that assist users in applying ED-ISQM 1. However, the NZAuASB considers further implementation support will be needed to aid implementation. The areas the NZAuASB considers would be the most difficult to implement is the risk assessment and documentation of the quality management system, especially for sole practitioners and smaller partnerships (e.g. two partner firms). The NZAuASB strongly encourages the IAASB to demonstrate how the standards would look for a sole practitioner.

As noted in the NZAuASB's submission on ED-ISQM 1, as part of its outreach activities, the NZAuASB hosted a series of workshops specifically targeted at the SMP community. From our targeted outreach it became clear that implementation support will be needed to assist, especially for SMPs. Feedback from SMPs was that the need to identify risks will be time consuming for individual practices. It was observed that many of the risks would be identical for such firms. Practitioners saw little value in requiring each firm to identify similar risks.

We raise with the IAASB for consideration the benefit of developing a "thinking list" of standard types of quality risks, that firms and practitioners could consider for their circumstances and be required by the standard to add as appropriate. We do not think of this approach as creating a "checklist". To the contrary, we have in mind a description of the generic types of risks to engagement quality which could be identified and assessed by each firm when it is undertaking its assessment of risks in relation to the quality objectives and its own circumstances, as the proposed standard contemplates.

The NZAuASB further considers that implementation guidance to demonstrate how compliance with the requirements of the various proposals might be documented, particularly for the sole practitioner or SMP, would be helpful.

## **II Other Comments**

The NZAuASB provides the following observations on the conforming and consequential amendments

### **1. ISA 300, *Planning an Audit of Financial Statements***

- **paragraphs 8 and 11.** It would be helpful to footnote reference the specific ISA 220 requirement paragraphs being referred to.
- **paragraph A0.** In the first sentence, the wording could be more closely aligned to the wording of ISA 220 (Revised), paragraph 1, i.e., replace “establishes requirements and provides guidance” with “deals with”. In the example, add a footnote reference to refer to the specific paragraph in ISA 220 that is being referred to.
- **paragraph A8, second bullet point.** It is not clear why “observe” has been changed to “attend”. The word “attend” implies simply being present at, whereas “observe” implies an action required by the auditor.

### **2. ISA 610 (Revised), *Using the Work of Internal Auditors***

- **paragraph A11, second bullet point.** This bullet point refers to quality control. Is this intentional?

### **3. ISA 620, *Using the Work of an Auditor’s Expert***

- **paragraph A13.** Footnote reference to the specific paragraphs in ISA 220 (Revised) that address matters the auditor may take into account when determining whether, and if so, the degree to which, the auditor may depend on the firm’s policies and procedures would be helpful.