

ASQM 2
(March 2021)

Explanatory Statement

ASQM 2 Engagement Quality Reviews

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Reasons for Issuing Auditing Standard ASQM 2

The AUASB issues Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with Quality Management ISQM 2 *Engagement Quality Reviews* .

Purpose of Auditing Standard ASQ 2 *Engagement Quality Reviews*

The purpose of the Auditing Standard represents the Australian equivalent of ISQM 2 *Engagement Quality Reviews* (December 2020).

Main Features

The project to address engagement quality reviews originated from the issues identified in the Invitation to Comment (ITC) published in December 2015. This recognised the importance of the engagement quality review and the public interest importance ascribed to it by certain stakeholders. In addition, findings from the ISA Implementation Monitoring project had earlier identified concerns that the requirements in ISA 220 (ASA 220) and ISQC 1 (ASQC 1) regarding engagement quality reviews were not sufficiently robust, and similar concerns were expressed by audit oversight bodies.

The engagements that may require a quality review are incorporated into ASQM 1 and a new standard for engagement quality reviews ISQM 2 was developed. ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

Operative Date

ASQM 2 *Engagement Quality Reviews* is effective for:

- (a) Audits and reviews of a financial report for periods beginning on or after 15 December 2022; and
- (b) Other assurance and related services engagements beginning on or after 15 December 2022.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, inter alia, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use, as appropriate, the text of the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;
- make amendments to ISAs as necessary to conform with the Australian regulatory environment and statutory requirements; and

- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard, by exposing the international ED-ISQM 2, along with an associated Australian Explanatory Memorandum. ED-ISQM 2 was exposed within Australia with 60 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) has been prepared in connection with the preparation of *ASQM 2 Engagement Quality Reviews*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASQM 2 *Engagement Quality Reviews***

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASQM 2

The purpose of ASQM 2 is for the engagement quality reviewer to evaluate the significant judgments made by the engagement team.

Main Features

ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

Human Rights Implications

This Legislative Instrument does not engage any of the applicable rights or freedoms due to it being compatible with human rights and therefore does not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.