



# AUASB Agenda Paper

<b>Title</b>	<b>AUASB Technical Work Program 2021-22 Update</b>	<b>Date:</b>	8 March 2022
<b>Strategic Objective/s:</b>	All	<b>Agenda Item:</b>	2.0
<b>ATG Staff:</b>	Matthew Zappulla	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

- 1 To provide the AUASB with an update of the AUASB's Technical Work Program and for the AUASB to provide feedback to the AUASB's Technical Group (ATG).

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendations
<b>Question 1</b>	Does the AUASB have any feedback on the strategic priorities and current and planned projects/tasks outlined in the AUASB Work Program Update presented at <b>Agenda Item 2.1</b> .	All current and planned AUASB projects for 2021-22 are included in the work program and have been agreed with the AUASB Technical Team and AUASB Chair.

## Background and previous discussions on the topic

- 2 The ATG has updated the 2021-22 Technical Work Program to address changes since the November/December 2021 AUASB meeting, including:
  - (a) Key projects completed to date in 2021-22 and since the last AUASB meeting
  - (b) A summary of strategic priorities for the 2021-22 year and other technical staff projects currently in progress
  - (c) Other planned projects on the AUASB work program which have yet to commence.
- 3 As previously addressed at the November/December 2021 AUASB Meeting the 2021-22 AUASB Technical Work Program, in consultation with the AUASB Chair the ATG has realigned the focus on the AUASB's work program so there is greater emphasis on our strategic priority areas:
  - (a) LCE Audits



- (b) EER Assurance
  - (c) Audit Quality
  - (d) Implementation of the Quality Management Standards
  - (e) Technology
  - (f) Public Sector Audit Issues
  - (g) The IAASB Agenda
- 4 Three corporate priority areas have been identified for the AUASB in 2021-22 – AASB Collaboration, Stakeholder Engagement and Communications. These will be implemented in conjunction with the AASB-AUASB Managing Director and AASB staff to align to our combined AASB-AUASB corporate strategy, systems and processes.

## Matters for Discussion

- 5 As of February 2022 the AUASB Technical Staff have 43 current or prospective projects for 2021-22, with approximately half of these connected to the seven strategic priority areas outlined above. 16 projects have been completed so far over the first 6 months of the 2021-22 reporting period, with 7 projects completed since the last AUASB meeting (as highlighted on slide 3 of the 2021-22 AUASB Technical Work Program presented at **Agenda Item 2.1**).
- 6 The ATG continues to maintain a detailed spreadsheet which tracks the staff working on each project and targeted timelines which is reviewed regularly by the AUASB Chair and Technical Directors. This is summarised for AUASB Board Member at **Agenda Item 2.1** (using a standardised format consistent with the format used by the AASB). The ATG will continue to review and update this presentation quarterly to inform AUASB members of the progress against the 2021-22 AUASB Technical Work Program and following each AUASB meeting publish the updated work program on the AUASB Website.
- 7 Note that the projects and initiatives included in the Technical Work Program include only those matters directly impacting the outputs and outcomes of the AUASB. Projects of a more corporate nature only impacting the AUASB Technical Group and the AASB-AUASB offices (e.g. HR or IT matters) are not included.

## Collaboration with NZAuASB and other standard setters

- 8 The ATG has a regular dialogue with NZAuASB technical staff to identify projects and activities where sharing and collaboration of information should occur. The AUASB and NZAuASB Technical Directors last met on 18 January 2022 to identify and put in place plans to collaborate on common projects over the current period, and bi-monthly meetings are scheduled throughout the year to ensure coordination. In addition, through the joint membership of the AUASB and NZAuASB by each Board's Chair we regularly review and provide input into the NZAuASB work program, and vice versa.
- 9 The AUASB and NZAuASB technical staff continue to collaborate on IAASB projects through their roles as technical advisors to IAASB members in each territory and through the IAASB National Standard Setters forum.

## Next steps/Way Forward



- 10 Subject to changes requested by AUASB Members and agreed by the AUASB Chair at this meeting, the ATG will arrange to have this latest version of the 2021-22 AUASB Technical Work Program published on the AUASB Website.
- 11 The AUASB Technical Staff currently plan to conduct an Agenda Consultation process with key stakeholders and conduct a public consultation process at a date to be determined in 2022. The format and timing for the Agenda Consultation process will be shared with the AUASB for input once the timing has been confirmed.

## Materials Presented

Agenda Item	Description
2.1	AUASB Work Program – March 2022

\*SP: AUASB Supplementary Papers Pack

A large graphic on the left side of the slide. It features a white hexagonal shape in the center containing the text 'AUASB' in bold, black, sans-serif font. The background of this graphic is a collage of financial and data-related elements: a bar chart with blue bars, a line graph with a red line, binary code (0s and 1s) in blue and white, and various numbers (7, 4, 8, 4, 43, 5, 5, 2) scattered throughout. The entire graphic is set against a dark red background that has a white diagonal line running from the top right to the bottom left.

# AUASB

# AUASB Work Program

## March 2022

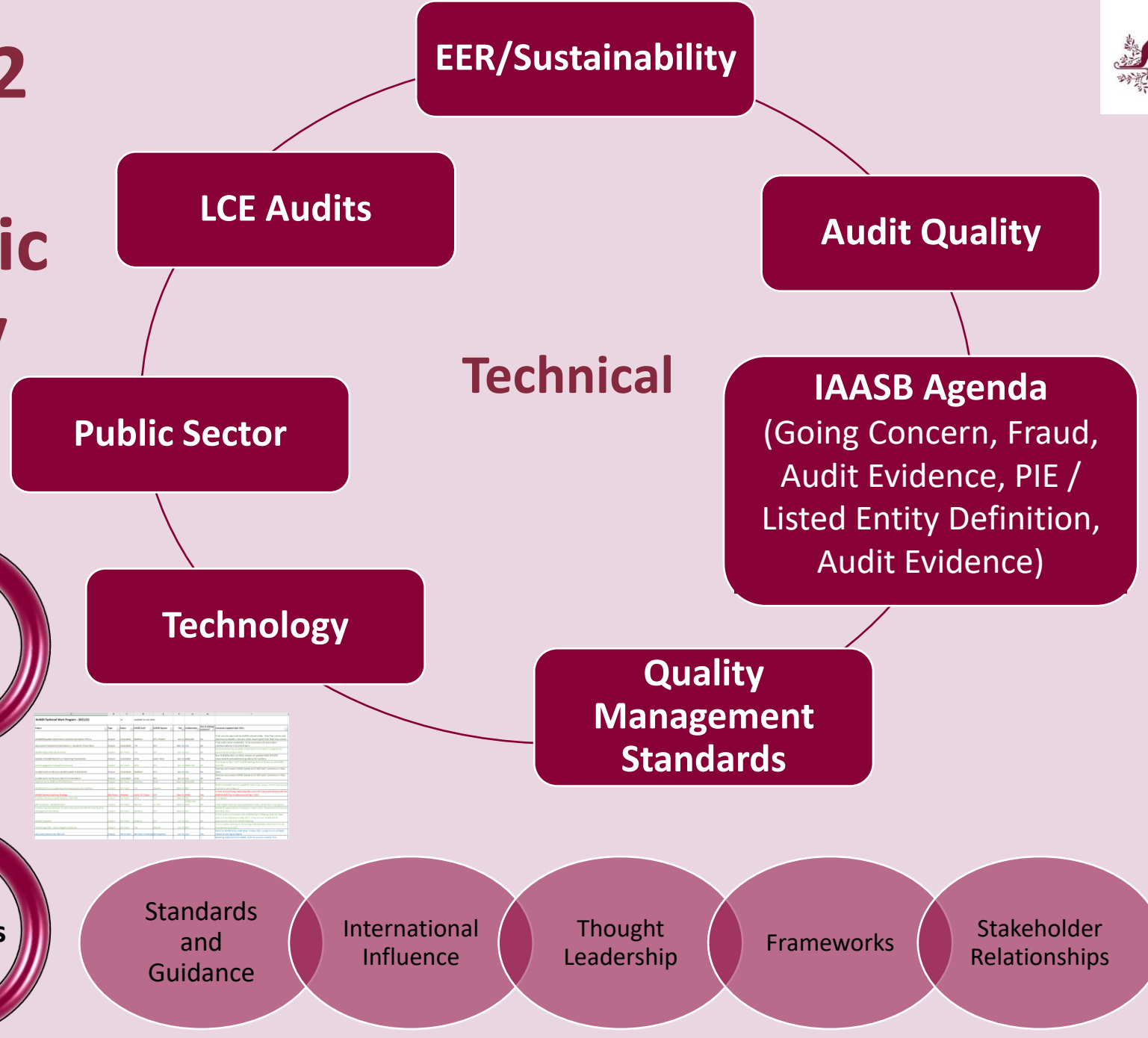
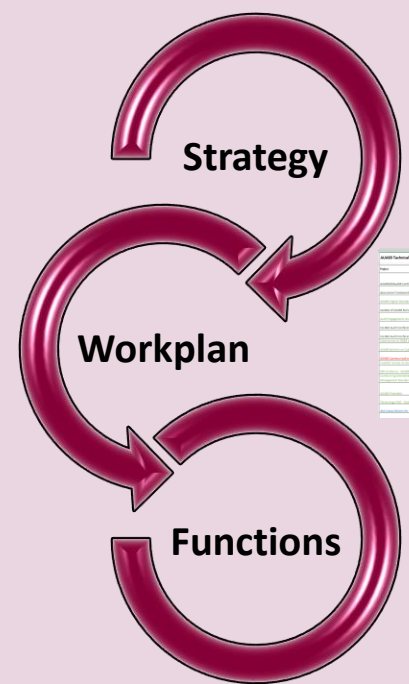
Board activities and timelines set out in this document are subject to change in accordance with the Board's decisions, such as changes in project priorities. To access project pages for these projects, where available, click on the project name in the table.



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# 2021-22 AUASB Strategic Priority Areas



Item	Strategic Priority Area	Key Initiatives	Timeline	Responsible Party
1	EER/Sustainability	Develop EER framework	2021-22	Director
2	LCE Audits	Review LCE audit practices	2021-22	Director
3	Audit Quality	Implement IAASB Agenda	2021-22	Director
4	Public Sector	Enhance public sector audit effectiveness	2021-22	Director
5	Technology	Upgrade IT systems	2021-22	Director
6	Quality Management Standards	Review and update QMS	2021-22	Director
7	Standards and Guidance	Develop new standards	2021-22	Director
8	International Influence	Participate in international forums	2021-22	Director
9	Thought Leadership	Issue research reports	2021-22	Director
10	Frameworks	Develop audit frameworks	2021-22	Director
11	Stakeholder Relationships	Engage with stakeholders	2021-22	Director



# 2021-22 Technical Work Program

## *Key outputs / projects delivered to date*

- AUASB Bulletin on EER Assurance
- IAASB 22-23 Work Plan Survey
- Updated AUASB Preamble (ASA 101)
- Revised ASA 560 *Subsequent Events*
- Data Integrity Guidance Bulletin
- LCE Consultation Paper
- Update of GS 010 (Questions at AGM's)
- Amending Standards for Portal/ASA 101/ASA 315/ASA 800 and editorial changes
- Updated AUASB Due Process Framework for 'Narrow Scope' projects
- Updated AUASB/NZAuASB Harmonisation Policy
- *LCE Submission to IAASB*
- *Data Reliability Guidance Publication*
- *ASA 315 Implementation Guidance*
- *GS 023 Special Considerations - Public Sector Engagements (1<sup>st</sup> version)*
- *Compilations - ASA 315*
- *AUASB Bulletin on Review of ASIC Inspection Findings*
- *Joint Bulletin with the AASB on broader international developments in EER*



# 2021-22 Technical Work Program

## *Projects in progress*

- LCE Audits – Further Considerations #
- FRC Audit Quality Action Plan and PJC Responses #
- Further ASA 315 Implementation Guidance
- Quality Management Standards Implementation Support
- Public Sector Project Advisory Group – Going Concern guidance
- Update of AUASB Domestic Standards for revised QM Standards
- IAASB Projects # (Sustainability, Audit Evidence, Going Concern, Fraud, Listed Entity/PIE Definition)
- GS 016 Bank Confirmations
- Post Implementation Review - ASAE 3100
- Update of AUASB Digital Standards Portal

# Included on March 2022 AUASB Agenda





# 2021-22 Technical Work Program

## *Key Projects yet to commence or deferred*

- AUASB Agenda Consultation Process
- Consideration of KAM reporting beyond Listed Entities
- Audit Engagement related disclosures (with AASB)
- ASAE 3450 Assurance Fundraisings Standard Update
- ASAE 3500 Post Implementation Review
- New Group Audits Standard - ASA 600







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# AUASB

## Contact us



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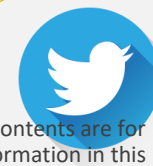


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# AUASB Agenda Paper

<b>Title</b>	ESG / Sustainability International and Domestic Update	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	Thought Leadership/International Influence	<b>Agenda Item:</b>	3.0
<b>ATG Staff:</b>	Marina Michaelides	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

- 1 The objective of this agenda item is to:
  - a. Update the AUASB on the domestic and International ESG/Sustainability reporting and assurance projects.
  - b. Obtain the AUASB's views on the possible direction the IAASB – Sustainability Assurance Consultation Group (SACG) may take on assurance on sustainability/ESG which may inform a project proposal.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any feedback on the progress of the domestic/international reporting or assurance sustainability matters?	That the AUASB note progress in relation to Sustainability reporting matters as described in Paragraph 2 below.
<b>Question 2</b>	What feedback does the AUASB want to provide to the IAASB- SACG on the matters to be discussed at the breakout sessions at the March IAASB Meeting.	That the AUASB note the responses to the Sustainability questions posed by the IAASB as described in Paragraph 3 below.  In particular, AUASB members are asked to review Question 4 in the table – The ATG recommend that the IAASB needs to consider <b>both</b> a targeted revision to ISAE 3000 (revised) <u>and</u> to address climate assurance separately in a subject matter ISAE.



## Background and Previous Discussions on Topic

### Domestic

2. In mid-December 2021 the AUASB and AASB issued a joint staff article on [Globally consistent reporting of Sustainability related information: Australian perspectives](#). This article provides an overview of the Australian perspective on the recent global sustainability-related developments and the considerations for what approach the AASB and AUASB may take in response to those developments.

Please refer to [AUASB December Board papers](#) - Agenda Item 7 for further background on EER/Sustainability reporting and assurance activities up to the date of that meeting.

At the AASB meeting in February 2022 the Board decided to:

- formally add the Sustainability Reporting project to its work program
- focus the draft project plan on developing a separate suite of standards to address sustainability reporting alongside existing AASB Standards
- develop a draft project plan using:
  - (i) the work of the International Sustainability Standards Board (ISSB) as a foundation with modification for Australian matters and requirements;
  - (ii) international alignment to be considered a priority; and
  - (iii) but not limiting the scope of the project to specific entities in the for-profit sector (FPS) but initially focus on the FPS before considering the other sectors at a later stage.

### International

The joint staff article as noted under domestic matters also gives a current snapshot of the international progress on sustainability from both a reporting and assurance perspective.

The IFRS Foundation appointed a Chair – Emmanuel Faber and Vice Chair – Sue Lloyd to the International Sustainability Standards Board (ISSB) in Dec/Jan 2022. It is anticipated that the remaining members of the ISSB will be announced by mid-March.

## Matters for Discussion and ATG Recommendations

3. The IAASB have produced a discussion paper for its Board (refer [Agenda Item 6 – Assurance on Sustainability / ESG](#) that requests input as a basis for formulating recommendations for possible future action by the SAGC. Please refer to the table below which summarises the questions included in the IAASB discussion paper and insights from the ATG that may assist the AUASB in their considerations.



Questions	International Insights	Australian Insights
<p>1 Consideration of the breadth and depth of the sustainability landscape of topics, scope of those topics and mechanisms for reporting – refer <b>para 15</b> of <a href="#">IAASB Agenda Item 6</a>. Should the IAASB focus its efforts on assurance on particular:</p> <p>(ii) Topics</p> <p>(iii) Information disclosed on the topics; or</p> <p>(iv) Mechanisms for reporting?</p> <p>(v) Framework-neutral in terms of reporting standards?</p>	<ul style="list-style-type: none"> <li>• ISSB are focusing on both general requirements (disclosure) and specifics/themes (climate) separately</li> <li>• IAASB taking wholistic view on non-financial information which includes sustainability information but is broader than climate and includes the concept of double materiality and more specific subject matters – gender equality, modern slavery, cyber security etc</li> <li>• ISAE 3000 currently deals with the information disclosed on the topics of an assurance engagement – governance and risk management, internal control etc.<sup>1</sup></li> <li>• There are a number of mechanisms for reporting and collation of the subject matter information under international jurisdictions e.g. annual report, sustainability report, &lt;IR&gt;, management commentary etc</li> </ul>	<ul style="list-style-type: none"> <li>• AASB will use the ISSB standard as a base line and adopt the building blocks approach with modification for the Australian market</li> <li>• ASAE 3000 is consistent with ISAE 3000 except that the definition of assurance practitioner is broader to allow for a wider range of practitioners to undertake these engagements</li> <li>• The most common forms of reporting on sustainability information are in the Directors report – risk and environmental compliance statement, standalone sustainability report or as part of the general Governance statement<sup>2</sup>.</li> </ul>

<sup>1</sup> Respondents to IAASB survey suggested updating ISAE 3000 (Revised) to include: certain matters addressed in the EER Guidance and align with key revisions to ISA 315 Risk Assessment – reporting, identifying, and assessing risk, ISA 540 Accounting Estimates and technology.

<sup>2</sup> AUASB internal research on key climate terms within annual reports of ASX listed entities for the financial years ending 30 June 2018, 2019 and 2020 supports these findings.



Questions	International Insights	Australian Insights
2 Should the IAASB remain neutral on the intended users of the assurance practitioner's report?	<ul style="list-style-type: none"><li>• Sustainability/ESG reporting maybe prepared for broader user groups. User groups affect the scope of what is reported, materiality and where the information is presented and disclosed.</li><li>• IAASB to continue focus on the intended user groups and remain principles-based.</li><li>• Different user groups will be important in undertaking outreach as the project progresses.</li></ul>	<ul style="list-style-type: none"><li>• AASB Sustainability reporting project will not limit scope to certain users but will focus on FPS initially.</li><li>• AUASB will follow international assurance framework and will continue to focus on the intended user group and remain principles-based.</li><li>• EER PAP includes broad membership and provides the AASB &amp; AUASB with diverse views on these matters for ongoing consideration.</li></ul>



Questions	International Insights	Australian Insights
<p>3 Challenges in performing assurance on sustainability / ESG reporting?</p> <p>Refer <b>para 38 of IAASB Agenda Item 6.</b></p> <p>Have these already been addressed in ISAE 3000 or the EER Guidance?</p>	<ul style="list-style-type: none"> <li>• Areas noted by SAGC in para 38 (a) to (e) were addressed as part of the EER/Sustainability Guidance. These could be elevated into a revision of ISAE 3000 as they are more general in nature. Challenges noted in para (f) to (k) have been dealt with less so in the EER guidance or ISAE 3000 so there may be scope for these to be addressed in either a revision of ISAE 3000 or if more appropriate a subject matter specific ISAE.</li> <li>• Agree that is not efficient for the SAGC to further consider a series of multiple ISAEs for assurance on sustainability/ESG reporting to address discrete areas of an engagement similar to the architecture of the ISAs.</li> </ul>	<p>High priority challenges noted by the EER PAP in relation to sustainability assurance include:</p> <ul style="list-style-type: none"> <li>• Lack of climate reporting requirements to meet user needs for consistency and transparency</li> <li>• Lack of consistency in criteria to assure climate-related reporting and disclosures</li> <li>• Reporting and assurance needs to be principles based not compliance driven</li> <li>• Cost vs benefit of assurance on non mandatory climate disclosures</li> <li>• Sound/robust international assurance framework for regulators to work with e.g. IOSCO/ASIC</li> <li>• Forward looking statements – metrics/modelling/forecasts still problematic for Directors disclosing this information and practitioners assuring it. This area is specifically addressed in EER Guidance.</li> <li>• Upskilling staff/ assurance team members on broad ESG/Climate subject matter to be able to competently undertake an assurance engagement.</li> </ul>



Questions	International Insights	Australian Insights
<p>4 What are the AUASB views on actions the IAASB should take in addressing assurance on sustainability/ESG reporting? Refer to <b>para 41</b> of <a href="#">IAASB Agenda Item 6</a> when thinking through the options.</p>	<p>Can the IAASB undertake a project on a subject matter specific ISAE for climate reporting if ISAE 3000 (revised) has not had targeted revision?</p> <p>Is the demand / need for assurance over climate reporting the higher priority in the shorter term due to the fast paced international developments in reporting and disclosures?</p>	<p>ATG Recommendation: IAASB needs to consider <b>both</b> a targeted revision to ISAE 3000 (revised) to modernise it and include current thinking on risk, accounting estimates, quality management, technology, drafting conventions which then allows the standard to continue to be the umbrella standard used across all Non-Financial Information including Sustainability / ESG topics. <u>In addition</u> to this the IAASB needs to address climate assurance separately in a subject matter ISAE which is likely to be linked to the ISSB standards (agreed by the AASB as a building block approach) as the baseline criteria/basis of preparation to meet user needs in this fast paced / growing area which will continue to see demand for third party assurance and to maintain the IAASB's leading standard setting position and not see fragmentation in the assurance market. This would assist in meeting stakeholder feedback (EER PAP) on criteria for assurance.</p>





Questions	International Insights	Australian Insights
5 Observations and challenges on the integration of sustainability / ESG information within the financial statements?	<p>Number of challenges and complexities with the integration of sustainability/ESG information:</p> <ul style="list-style-type: none"> <li>• Reporting under multiple frameworks</li> <li>• Differentiation between historical financial information versus sustainability/ ESG information</li> <li>• Integrated assurance report of both FS and Sustainability / ESG information</li> <li>• Unintended consequences on the audit report if there is material misstatement in the sustainability/ESG information</li> <li>• Interplay with ISA 720 <i>Other Information</i></li> </ul>	<p>AASB and AUASB issued their joint Bulletin <a href="#">Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2</a> in 2019 that specifically addresses this issue. Subsequent to that the IAASB issued a staff practice alert <a href="#">The Consideration of Climate-Related Risks in an Audit of Financial Statement</a></p> <p>In 2020 only 8.6% of listed companies in Australia disclose any climate-related information in their financial statements.<sup>3</sup> If you are an entity that meets the GHG criteria you report a GHG Statement and are regulated by the Clean Energy Regulator (CER). The CER also sets the assurance practitioners competency requirements, and all engagements are required to be performed applying the AUASB standard ASAE 3000 and ASAE 3410.</p>

## Collaboration with NZAuASB and other standard setters

- 4 The ATG continues to liaise with the NZAuASB on the XRB Climate-related project and the NZAuASB views on the assurance implications of this project and how those interplay with ISAE (NZ) 3000 / ISAE (NZ) 3410 and ASAE 3000 / ASAE 3410.

## Next steps/Way Forward

- 5 The ATG will continue to work closely with the AASB on domestic and international sustainability reporting matters that may impact the assurance on this subject matter and utilise the EER PAP for stakeholder views on the above questions.

<sup>3</sup> AUASB internal research on key climate terms within annual reports of ASX listed entities for the financial years ending 30 June 2018, 2019 and 2020 supports these disclosures being made in the notes to the FS and also shows an uptake in the % of entities disclosing this information over the three years.



# AUASB Agenda Paper

<b>Title</b>	<b>Project Plan – Going Concern</b>	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	<b>Agenda Item:</b>	4.0
<b>ATG Staff:</b>	Rene Herman	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

- 1 To inform the AUASB and seek any input on the IAASB’s project proposal in relation to Going Concern and the revision to ISA 570; and
- 2 For the AUASB to reaffirm the proposed approach to take no current actions domestically to revise or enhance ASA 570 at this time but continue to influence the IAASB’s direction on the project.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any input in relation to the IAASB’s project proposal on Going Concern as outlined in this Agenda Paper?	While <b>the ATG supports all proposed actions</b> , the ATG considers that the most impactful changes are items 1, 6, 7 and 8 as described in Paragraphs 5 & 6 below.
<b>Question 2</b>	Does the AUASB support the ATG’s recommendation actions relating to Going Concern as summarised in Paragraphs 7 - 12 of this Agenda Paper?	<b>The ATG continues to support</b> the AUASB’s December 2021 position to continue to monitor and provide input into the IAASB’s revision of ISA 570.



## Background and Previous Discussions on Topic

- 3 In September 2020 the IAASB issued a Discussion Paper (DP), [\*Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit\*](#). In December 2020, after extensive consultation, the AUASB submitted a response to this discussion paper. The key messages from the response are included within the tables of Section C of this Agenda Paper.
- 4 At the May 2021 IAASB teleconference, the IAASB received an overview of the feedback received to date related to going concern in an audit of financial statements, including from the Discussion Paper (DP). The IAASB agreed that the message from stakeholders about issues and challenges in ISA 570 (Revised) does not require a fundamental rewrite of the standard, but rather targeted updates in certain areas – this notion is presented in the IAASB's project proposal. The IAASB noted the importance of focusing on actions that are within the IAASB's control. The Going Concern Working Group was tasked with developing a project proposal.

## Matters for Discussion and ATG Recommendations

### *Actions proposed by the IAASB to revise ISA 570*

- 5 The table below maps the Going Concern project objectives to the project proposal actions to achieve the objectives. Additionally, the table reflects how the AUASB issues raised on the IAASB Discussion Paper are being addressed by the various project proposal actions. The AUASB Technical Group (ATG) supports the proposed project objectives and actions in the project proposal as the proposed actions aim to deal with the AUASB issues raised. **While the ATG supports all proposed actions, the ATG considers that the most impactful changes are items 1, 6, 7 and 8.**

### *Expected impacts of the revisions – why revise?*

- (a) Improved audit quality through:
  - Enhanced or clarified going concern-related audit procedures pertaining to the identification and assessment of the risks of material misstatement and the responses to those assessed risks – refer items 1/4/5 in table below
  - More robust evaluation of management's assessment of going concern – refer item 6 in table below
  - Reinforced exercise of professional scepticism - refer item 6 in table below
  - Enhanced transparency – refer items 2/7/8 in table below
- (b) Better meeting stakeholder expectations through enhanced communications, thereby enhancing confidence in audit engagements - refer items 2/7/8 in table below
- (c) Reduction in inspection findings



	AUASB Issues raised to IAASB	IAASB Project Proposal
	<b>Project Objective 1: Promote consistent practice and behaviour and facilitate effective responses to identified risks of material misstatement related to going concern.</b> <b>Project Objective 2: Establish a more robust evaluation of management’s assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional scepticism.</b>	
1	Enhanced linkages to ISA 315	Enhancing Requirements and Application Material – More Robust Link to Risk Identification and Assessment Procedures to drive the auditor to obtain information that is relevant to early identification of events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
2	Definitional transparency including differentiation MURGC / KAM reporting	<i>Consider</i> whether it is necessary to describe or define MURGC and enhance application material to clarify key concepts such as “significant doubt,” and other related terminology.  In conjunction with the Auditor Reporting Consultation Group, develop non-authoritative guidance for the various auditor reporting requirements where confusion has been cited (e.g., MURGC, vs. KAM vs EOM).
3	No support for timeline beyond the Australian standard	<i>Consider</i> whether to extend the timeline for the assessment period from the financial reporting date to at least twelve months from the date the financial statements are approved by management and those charged with governance, (or the date the auditor’s report is signed), including challenging the reasonableness of management’s assessment period based on the entity’s facts and circumstances.
4	No comment – while the AUASB made no comment on this matter, the ATG supports the suggested enhancements by the IAASB.	Enhancing application material to emphasize consideration of external publicly available information when considering whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern.  Enhancing requirements or application material to clarify the considerations, when written evidence of third-party intent to provide financial support is obtained, and whether and in what circumstances this constitutes sufficient appropriate audit evidence.
5	Encourage consideration of the use of technology to predict financial stress	Enhancing application material in ISA 570 to reflect the auditor’s use of technology to perform going concern-related audit procedures.



	AUASB Issues raised to IAASB	IAASB Project Proposal
6	Improvements - evaluation management's assessment of going concern	Enhancing requirements and application material to require a more robust evaluation of management's assessment of going concern, to enhance the rigor around the auditor's evaluation of management's going concern assessment especially with reference to ISA 540.  Emphasising the robust exercise of professional scepticism when performing procedures related to going concern
<b>Project Objective 3: Strengthen the communication and reporting requirements with respect to the auditor's work effort related to going concern.</b>		
7	Consider current communications with TCWG sufficient	Enhancing the requirements and application material to strengthen required communications with TCWG throughout the audit about going concern.
8	Mixed views – caution about more disclosures without change to accounting	Enhancing the requirements and application material in ISA 570 (Revised), to increase transparency in the auditor's report about the auditor's work effort related to going concern.  <i>Considering</i> enhancing auditor reporting for situations where: <ul style="list-style-type: none"> <li>• The auditor concludes that no material uncertainty has been identified, and management's use of the going concern assumption is appropriate (<b>strong PIOB steer</b>)</li> <li>• When a significant judgment was required to conclude that no material uncertainty exists (i.e., "close calls" situations).</li> <li>• Where a MURGC paragraph is required (i.e. to expand the informational content in a "KAM-like" style to describe how the auditor addressed this matter in the audit).</li> </ul>

6 The table below maps the Going Concern project objectives to the project proposal actions to achieve the objectives. Additionally, the table reflects how the AUASB issues raised on the IAASB Discussion Paper are being addressed by the various project proposal actions. The AUASB Technical Group (ATG) supports the proposed project objectives and actions in the project proposal as the proposed actions aim to deal with the AUASB issues raised. **While the ATG supports all proposed actions, the ATG considers that the most impactful changes are items 1, 6, 7 and 8.**



	Other Areas Raised by AUASB	Response by the IAASB
1	Engagement with IASB and regulators strongly encouraged, strong encouragement – more transparency in the financial statements is critically important	As reflected in the project proposal: continued dialogue and engagement on issues requiring efforts from others in the financial reporting ecosystem, including the IASB. <sup>1</sup>  <i>ATG comment:</i> While the ATG supports the need for changes to the financial reporting framework, the ATG recognises that this is an area out of the IAASB’s mandate. The IAASB is limited to continual engagement. The ATG also recognises the strong push by the PIOB in this area of reform.
2	Education across ecosystem	The working group has not proposed any actions within the project proposals in relation to educational efforts but rather will consider over the course of the project, what aspects of the matters raised and included as part of the proposed actions, if any, may be best addressed by other education activities.  <i>ATG comment:</i> The ATG support this approach.
3	Support exploration viability/resilience reporting	The WG does not recommend further action regarding other concepts of financial health or resilience for the scope of the going concern project. The WG recommends monitoring global developments related to resiliency or sustainability reporting and adding to Category A of the Framework for Activities  <i>ATG comment:</i> The ATG recognises that this is an area out of the scope of this project.
4	ISRE 2410 requires revision	Revisions to ISRE 2410 beyond scope of project – back into the pool of ‘next projects’.  <i>ATG comment:</i> The ATG recognises that this is an area out of the scope of this project.

### Other jurisdictions’ advancements in this area

Netherlands – revised equivalent of ISA 700 (December 2021)	Mandatory requirement to disclose how the auditor has responded to going concern (not a separate opinion) and encourages reporting on the results of the procedures or significant observations.
South Africa	Consultation paper issued in late 2021 to gather perspectives from stakeholders about the need and options for additional disclosures in the independent auditor’s report for an audit of financial statements, including exploring the usefulness, benefits and drawbacks of such additional disclosures.

1. In February 2022, the IASB provided the IAASB with a Technical Update. As part of the update, the IASB provided an overview of the stakeholder feedback received from its Third Agenda Consultation as it related to the IASB’s future work plan. The feedback received noted that going concern was one of the most commonly suggested projects. However, the IASB observed that it remained devoted to projects already underway, and that it was premature to commit to which of the suggested projects would be added to its work plan at this time. In addition, it was noted that the IASB should not add too many new projects to the work plan as capacity will be needed to deal with emerging issues and enable interactions with the International Sustainability Standards Board. Feedback provided by both an IAASB member, and the PIOB observer, reiterated support for a project on going concern.



UK – revised UK 570	<ul style="list-style-type: none"><li>• greater work on the part of the auditor to more robustly challenge management’s assessment of going concern, thoroughly test the adequacy of the supporting evidence, evaluate the risk of management bias, and make greater use of the viability statement;</li><li>• improved transparency with a new reporting requirement for the auditor of public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management’s assessment is appropriate, and to set out the work they have done in this respect; and</li><li>• a stand back requirement to consider all the evidence obtained, whether corroborative or contradictory, when the auditor draws their conclusions on going concern.</li></ul>
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### *What this means for the AUASB and ATG recommendations to the AUASB*

- 7 The ATG considers that most substantive issues raised by the AUASB are being considered by the IAASB as part of the Project Plan, recognising that some areas are considered either outside of the mandate of the IAASB (education) or outside of the scope of the project (resilience/viability reporting and revision to ISRE 2410).
- 8 While the Project Plan does not indicate a complete revision of ISA 570, there are some significant areas for consideration. The working group considers that one of the more contentious issues in this project is related to transparency of reporting so the ATG expects that there will be extensive outreach and consultation internationally. In Australia, at the time of the Discussion Paper, Australian stakeholders expressed mixed views in this regard.
- 9 Based on feedback by the IASB to the IAASB at the February 2022 IAASB teleconference, the ATG notes that it is unlikely that the IASB will move on changes to reporting in the area of Going Concern anytime soon.
- 10 There has been no government response to the PJC enquiry and the AUASB have agreed to not step ahead.
- 11 At the December 2021 AUASB meeting, the AUASB agreed that considerable preparatory work had been done in order to understand the issues and our stakeholders views and it was not necessary to do any further work ahead of a formal government response, and to provide input into the IAASB’s projects on these topics.
- 12 Based on the information contained in this Agenda Paper **the ATG supports the AUASB’s December 2021 position to continue to monitor and provide input into the IAASBs revision of ISA 570** as part of the AUASB influencing international strategy. The ATG notes that limited jurisdictions have moved ahead of the IAASB in this area and recommends that the AUASB reassess whether to do anything domestically as the IAASBs project progresses.

### **Next steps/Way Forward**

- 13 March 2023 Approval of ED by IAASB – 90-day comment period (close end June/beginning July 2023)
- 14 Q1 2024 – approval of revised ISA 570





# AUASB Agenda Paper

<b>Title</b>	<b>Revision of ISA 240 - Fraud</b>	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	<b>Agenda Item:</b>	5.0
<b>ATG Staff:</b>	Rene Herman	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

- 1 To **brief the AUASB** on the Fraud matters being discussed by the IAASB at the upcoming IAASB March 2022 meeting and to **obtain AUASB input** into the 3 Fraud topics being discussed: Transparency in Reporting, Communication with Those Charged with Governance and Risk Assessment.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	The AUASB is requested to provide input into the options provided for the level of detail to be included in the auditor's report with reference to transparency around fraud.	The ATG requests AUASB input and views on the alternative transparency options as presented in the table under paragraph 8 to this Agenda Paper.
<b>Question 2</b>	Does the AUASB support expanded requirements around 2-way communication with TCWG as outlined in Paragraph 12 to this Agenda Paper?	While the ATG is supportive of the proposed changes, the ATG highlights a concern regarding 2-way communication requirements, in that the auditor cannot control the communication by TCWG.

## Background and Previous Discussions on Topic

- 2 In September 2020 the IAASB issued a Discussion Paper (DP), [\*Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit\*](#). In December 2020, after extensive consultation, the AUASB submitted a response to this discussion paper.



- 3 While the AUASB noted in their response to the DP that ISA 240 was largely fit for purpose and while some revisions would be required, a major overhaul was not expected; there were differing views from stakeholders around the globe. The PIOB and other regulators have a strong expectation that ISA 240 would require strengthening in the role of the auditor and the robustness of their audit work.
- 4 Based on an analysis of stakeholder responses to the DP and taking the strong views of the PIOB and other regulators into account, the IAASB issued and approved a project plan to revise ISA 240, the project proposal is more expansive than what the AUASB may have considered necessary, but this was discussed with the AUASB at the December 2021 AUASB meeting.

## **Matters for Discussion and ATG Recommendations**

### *Transparency in Auditor's Reporting*

#### *AUASB matters raised in response to IAASB DP*

- 5 The AUASB's submission to the DP highlighted the following with reference to transparency in reporting:
  - (a) The AUASB and its stakeholders had mixed views about increasing transparency in relation to fraud in the audit report.
  - (b) Some stakeholders called for greater transparency from auditors in relation to identified significant controls' deficiencies and weaknesses.
  - (c) Some stakeholders suggested requiring disclosure of materiality judgements in the auditor report.

#### *Highlights of matters being discussed by the IAASB*

- 6 With respect to the matters outlined in 5b and 5c above, the taskforce is not supporting amendments to the auditor's report. In relation to materiality, the taskforce considers that disclosure of materiality judgements will likely not address concerns about transparency in the auditor's report about fraud-related matters as this matter is broader and relates to the complete audit and not just fraud. In relation to transparency about significant deficiencies in internal control, it was noted that this may widen the expectation gap as users of the financial statements may assume the extent of the auditor's work effort to be significant when in fact, many audits do not adopt a control reliant approach. The ATG supports the position of the taskforce and notes that these suggestions were by some Australian stakeholders and not the strong view of the AUASB.
- 7 With respect to increasing transparency in relation to fraud in the audit report, the ATG notes that the 2 jurisdictions that have such initiatives include the UK and the Netherlands.
  - (a) The UK:
    - As required by ISA (UK) 700, the auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. The explanation shall be specific to the circumstances of the audited entity and take



account of how the auditor planned and performed procedures to address the identification and assessment of the risks of material misstatement.

(b) The Netherlands:

- the auditor shall describe in a separate section of the auditor’s report under the heading “Audit approach to fraud risks”, how the auditor has responded to fraud risks that could lead to a material misstatement. The description may be integrated, if applicable, in the section on key audit matters.
- Application material describes that amount of detail to be provided in the auditor’s report to describe how fraud risks that can lead to a material misstatement during the audit is a matter of professional judgment and may be adapted to the specific circumstances and complexity of the audit. Additionally, for fraud risks that can lead to a material misstatement, but did not require significant auditor attention, the auditor may summarise the work performed, outcomes or observations in an abbreviated form.

8 Given the mixed views on this topic by respondents to the Discussion Paper and by the IAASB, the Fraud Task Force is moving to find an appropriate way forward that balances the different views. The Monitoring Group’s Public Interest Framework highlights that standard-setting should focus primarily on the interests of users of financial statements. Therefore, the Fraud Task Force intends to undertake targeted outreach to users of general-purpose financial reports to obtain their views on specific alternatives. The alternatives being looked at are outlined in the table below (extracted from the IAASB meeting papers):

Alternative	Possible Benefits for Users of the Financial Statements	Possible Challenges for Users of the Financial Statements
<p><b>Alternative 1</b> Detailed description of the fraud risks identified, the auditor’s response and the auditor’s findings/ observations.</p>	<ul style="list-style-type: none"> <li>• Reduces aspects of the expectation gap (knowledge gap) in that users of the financial report understand what the auditor has done in relation to fraud.</li> <li>• Entity specific.</li> <li>• Robustly reflects the nature, timing and extent of the work performed around fraud risk identification, assessment and response, thereby providing greater transparency about the specific audit that was performed.</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor’s reports may become long and difficult to understand because of too much information especially when the communication is not sufficiently entity and audit-engagement specific.</li> <li>• What can be reported by the auditor may be limited because of laws and regulations, auditor liability concerns and concerns about disclosing original information.</li> <li>• The detailed descriptions may provide a “roadmap” of the auditor’s audit procedures to respond to ROMMs due to fraud for management or others committing fraud.</li> </ul>



Alternative	Possible Benefits for Users of the Financial Statements	Possible Challenges for Users of the Financial Statements
<p><b>Alternative 2</b></p> <p>High-level description of the fraud risks identified and how the auditor addressed the fraud risks (e.g., similar to the reporting requirements in the Netherlands).</p>	<ul style="list-style-type: none"><li>• Reduces aspects of the expectation gap (knowledge gap) in that users of the financial report understand what the auditor has done in relation to fraud. However, to a more limited degree than under alternative 1.</li><li>• Entity specific.</li><li>• Provides a high-level overview<sup>1</sup> of potential areas of fraud that the auditor considered and what procedures they performed to deal with these fraud risks. Although the level of detail is less than under alternative 1, the enhanced transparency about the audit that was performed could still be sufficient to meet user needs.</li></ul>	<ul style="list-style-type: none"><li>• Auditor's reports may become long and difficult to understand because of too much information, especially when the communication is not sufficiently entity and audit-engagement specific. However, to a more limited degree than under alternative 1.</li><li>• Communications that are not sufficiently entity and audit-engagement specific may over time become boilerplate.</li><li>• What can be reported by the auditor may be limited because of laws and regulations, auditor liability concerns and concerns about disclosing original information.</li></ul>

<sup>1</sup> The level of detail included may be similar as what would be included in a KAM.



Alternative	Possible Benefits for Users of the Financial Statements	Possible Challenges for Users of the Financial Statements
<p><b>Alternative 3</b></p> <p>Explain to what extent the audit is considered capable of identifying and assessing ROMMs due to fraud (e.g., similar to the reporting requirements in the UK).</p>	<ul style="list-style-type: none"> <li>Limits expectation gap (knowledge gap) but to a lesser degree than the other alternatives.</li> <li>Entity specific but to a lesser degree than the other alternatives.</li> <li>Explains the extent to which the audit is considered capable of identifying and assessing ROMMs due to fraud (especially when viewed together with other reporting requirements, such as KAMs), thereby providing insights in the audit that was performed.</li> </ul>	<ul style="list-style-type: none"> <li>Auditor’s reports may become long and difficult to understand because of too much information especially when the communication is not sufficiently entity and audit-engagement specific. However, to a lesser degree than the other alternatives.</li> <li>Communications that are not sufficiently entity and audit-engagement specific may over time become boilerplate.</li> </ul>
<p><b>Alternative 4<sup>2</sup></b></p> <p>Recognizing that there is a call for more transparency in reporting on fraud, there could be other mechanism(s) to demonstrate the enhanced transparency that is being called for. For example, this transparency could include one or more of the following:</p> <ul style="list-style-type: none"> <li>Emphasizing using the existing requirements for the communication of KAMs when there is a ROMM due to fraud.</li> <li>Strengthened communication and two-way discussions with TCWG about the ROMMs due to fraud, the auditor’s responses to address the assessed ROMMs and the findings from those procedures.</li> </ul> <p>Aside from the mechanisms described above, there could be other mechanisms to achieve the desired result.</p>		

*Input requested from AUASB on Transparency in the Auditor’s Report*

- From the IAASB’s March 2022 meeting papers, a link to some example auditor’s reports in the UK and Netherlands has been provided [here] to provide the AUASB with some insights into the UK and Netherlands disclosures – these examples are optional reading for the AUASB.

<sup>2</sup> Alternative 4 is for those users of the financial statements that are of the view that more transparency is needed but question whether the auditor’s report is the right place more transparency.



- 10 The ATG requests AUASB input and views on the alternative transparency options as presented in the table above.

## Communication with Those Charged with Governance (TCWG)

### *AUASB matters raised in response to IAASB DP*

- 11 The AUASB's submission to the DP did not highlight significant concerns with communication with TCWG, but did support enhanced communication when fraud is detected, and the impact on the planned audit approach which includes links to ISA 250 and ISA 260.

### *Highlights of matters being discussed by the IAASB*

- 12 Linkages to ISA 250 are not part of the March 2022 IAASB discussions. The Fraud taskforce is proposing the following changes which is more expansive than the AUASB had suggested:

- (a) Closely aligned to the current UK FRC requirements of ISA (UK) 240, expanded extant requirements/new requirement around 2-way communication with TCWG about specific fraud related matters –:
- The fraud risk factors present in the entity, including those that are specific to the entity's business sector
  - Possible areas that are susceptible to misstatement due to management bias.
  - The auditor's evaluation of the components of the entity's system of internal control where such evaluation indicates that one or more fraud risk factors are present, as well as any identified control deficiencies and possible (or actual) misstatements due to fraud arising from those deficiencies, and the remediation to address such deficiencies and possible (or actual) misstatements. Additionally, a new requirement for the auditor to assess whether the remediation measures are appropriate
  - The auditor's assessment of the ROMMs due to fraud

While the ATG is supportive of the proposed changes, the ATG highlights a concern regarding 2-way communication requirements, in that the auditor cannot control the communication by TCWG.

### *Input requested from AUASB on Communication with Those Charged with Governance*

- 13 The ATG requests AUASB input on the suggested expanded requirement around 2-way communication with TCWG as outlined in Paragraph 12 to this Agenda Paper.

## Identifying and Assessing the Risks of Material Misstatement

### *AUASB matters raised in response to IAASB DP*

- 14 As part of the AUASB's submission to the IAASB, in relation to the identification and assessment of ROMM, the AUASB highlighted the following:

- (a) Appropriate risk identification and in-depth knowledge of the entity and its environment is essential to observe fraud red flags;



- (b) The importance of corporate culture;
- (c) Importance of engagement team discussions and knowledge share by senior team members, recognising that specialist may support engagement team discussions but based on the circumstances of the engagement.

### *Highlights of matters being discussed by the IAASB*

15 The Fraud taskforce is proposing the following changes, all of which address AUASB comments:

- (a) Restructure of ISA 240 with a focus on strengthening and enhancing the requirements and application material in making the link to ISA 315 stronger and emphasising the importance of the auditor's knowledge and leveraging that information when identifying and assessing whether there are ROMMs due to fraud.

Such strengthening will include enhancements to reflect more specifically the auditor's "fraud lens" for each of the components of the system of internal control thereby highlighting areas that may be susceptible to fraud, as well as the impact of any related identified deficiencies. The ATG will continue to monitor the progression of these enhancements as scalability and granularity of requirements may become an issue.

Importantly, the Fraud Task Force recognises the need to emphasise the importance of the auditor's understanding of the entity's culture (including tone at the top) when obtaining an understanding of the control environment. Other than the scalability concern, the ATG is supportive of these proposed changes.

- (b) Strengthening requirements to make engagement team discussions more robust including focusing on the individuals at the discussion and frequency of discussions and requiring specific topics to be discussed. The ATG raises for concern scalability considerations, the potential for granular and prescriptive requirements which may be boilerplate. The ATG will continue to monitor this area.

### *Input requested from AUASB on Risk Identification and Assessment matters*

16 The issues being discussed and proposals by the task force are granular in nature and address the matters put forward by the AUASB, so the ATG is not requiring specific input from the AUASB on this area at this time. As the drafting progresses on these areas, the ATG will keep the AUASB informed and seek AUASB input as appropriate.

### **Collaboration with NZAuASB and other standard setters**

17 No specific matters to note at this stage of the project. The AUASB Chair and Deputy Technical Director to continue to influence the direction of the revision to ISA 240 in their capacity as IAASB member and Technical Advisor respectively.

### **Next steps/Way Forward**

18 ATG to continue to monitor and feed into the international standard setting process.





# AUASB Agenda Paper

<b>Title</b>	Audit Evidence	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	International Influence	<b>Agenda Item:</b>	6.0
<b>ATG Staff:</b>	Tim Austin	<b>AUASB Sponsor:</b>	Noel Harding

## Objective

- 1 The objectives of this paper are to:
- Provide a summary of the first iteration of ISA 500 revised by the IAASB, focussing on two matters previously discussed and one new matter for the AUASB's attention;
  - Update the AUASB on whether issues it previously raised in relation to this project have been addressed in this first iteration of ISA 500; and
  - Obtain feedback from AUASB Members on these matters in questions 1-4.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Do AUASB Members consider that the proposed changes to "audit procedures" will negatively impact on the scope of the engagement team definition in the QM suite of standards?	<b>The ATG supports</b> this change to audit procedures if the distinction information and audit evidence is sufficiently in the proposed standard.
<b>Question 2</b>	Do AUASB Members support the combining of paragraphs 7 and 9 from the current ASA 500 into a single requirement?	The <b>ATG supports</b> this version of the paragraph and considers that the sub-paragraphs make it clear that not all attributes of relevance and reliability are applicable in all circumstances.
<b>Question 3</b>	Do AUASB Members agree with the ATG view that "auditor's purpose" be better linked to the application material on persuasiveness of audit evidence?	The <b>ATG supports</b> the inclusion of "auditor's purpose" in this requirement as this drives the level of reliability required. The ATG recommends that the requirement is better linked to application material addressing the persuasiveness of audit evidence.
<b>Question 4</b>	Do AUASB Members have any other matters they would like to raise as part of the review of ISA 500?	N/A.



## Background and Previous Discussions on Topic

- 2 This is the first full version of proposed ISA 500 prepared by the Audit Evidence Taskforce (AETF) and presented to the IAASB. The full version of the standard is available on the [IAASB website](#), along with an issues paper, a mapping of proposed ISA 500 to extant ISA 500 and a summary of how the project addresses the objectives in the project proposal. As the standard is still in development, the **ATG does not recommend** a complete read of the standard at this time.
- 3 This project has been previously discussed at the following AUASB Meetings:
  - (a) 10 March 2021 (Agenda Item 5.2.0) – Discussion on significant developments.
  - (b) 1 and 4 December 2020 (Agenda Item 14.2.0) – IAASB project plan review.
  - (c) 10 June 2020 (Agenda Item 8.3.0) – Verbal update on project progression.
  - (d) 26 June 2019 (Agenda Item 2.3.0) – Feedback on list of issues including prioritisation.
  - (e) 6 March 2019 (Agenda Item 7.4.0) – Update to AUASB on AICPA audit evidence standard.
- 4 At the March 2021 AUASB Meeting, the ATG presented to the AUASB a summary of the significant matters for discussion at the March 2021 IAASB Meeting and requested comments from the AUASB on five key matters:
  - (a) The definition of audit evidence and the meaning of audit procedures;
  - (b) Information intended to be used as audit evidence;
  - (c) The concept of sufficient and appropriate audit evidence and the persuasiveness of audit evidence;
  - (d) The concept of detection risk and designing and performing audit procedures to obtain sufficient and appropriate audit evidence; and
  - (e) Modernising ISA 500 through incorporating technology.
- 5 Feedback was provided by AUASB Members in relation to three of the areas, the proposed definition of audit evidence and the categorisation of audit procedures, the proposed factors for evaluating relevance and reliability and the level of prescriptiveness that the standard was starting to contain. Refer to paragraphs 7-17 below for how these matters have been addressed since the March 2021 IAASB Meeting.
- 6 At the July 2021 IAASB Meeting, the IAASB discussed audit evidence but this was not presented to the AUASB for discussion as the next AUASB Meeting was not held until September 2021. At this July IAASB Meeting, the IAASB AETF presented to the IAASB on the following topics:
  - (a) The purpose and scope of ISA 500;
  - (b) The relevance and reliability of information intended to be used as audit evidence, concluding the work effort in evaluating such information;
  - (c) Reinforcing the exercise of professional skepticism with respect to audit evidence;
  - (d) The concept of detection risk; and
  - (e) The planned approach to address technology.



## Matters for Discussion and ATG Recommendations

### Definition of Audit Evidence and Audit Procedures

- 7 At the previous discussion in March 2021, the AUASB was supportive of the proposed revised audit evidence definition but did raise a concern about some of the changes being made to the concept of audit procedures in conjunction with the changes to the audit evidence definition. Audit procedures is an important concept in the recently issued Quality Management suite of standards as it forms part of the definition of engagement team and assists in distinguishing who is and who is not a member of the engagement team.

#### ASA 220 paragraph Aus12.1

Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert<sup>4, 5</sup> (Ref: Para. A15–A25)

- 8 The AUASB were not supportive of the proposed changes to audit procedures, in particular the proposed categorisation of audit procedures which were quite circular and overcomplicated things without addressing the question, what is an “audit procedure”. The AETF had proposed the following categories of “audit procedures”:
- (a) Risk assessment procedures;
  - (b) Further audit procedures;
  - (c) Other audit procedures that are required by the ISAs to obtain sufficient appropriate audit evidence which are neither risk assessment or further audit procedures such as subsequent events; and
  - (d) Audit procedures to consider the relevance and reliability of information intended to be used as audit evidence.

The intention of the categorisation was to limit the scope of ISA 500 to only procedures where the auditor considered the relevance and reliability of information intended to be used as audit evidence. The ATG and AUASB were not supportive of the categorisation.

- 9 In response to the feedback received, the AETF amended the categorisation but did not remove it. In addition to the categorisation, in proposed ISA 500 the list of procedures (enquiry, inspection observation etc.) have been moved to an appendix. See the below extract of proposed ISA 500 paragraphs A1 and A2.

#### Proposed ISA 500 paragraphs A1&A2

**A1** - Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor’s opinion and report. Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for purposes of the current audit.

**A2** - The auditor obtains audit evidence by designing and performing audit procedures in accordance with the ISAs. Audit procedures may include:

- (a) Risk assessment procedures performed in accordance with ISA 315 (Revised 2019) or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
- (b) Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
  - (i) Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
  - (ii) Substantive procedures, including tests of details and substantive analytical procedures; or
- (c) Other audit procedures that are performed to comply with the ISAs.

The Appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence.



- 10 At this stage of the development of the proposed ISA 500, the **ATG supports** the changes to the audit evidence definition and the changes to audit procedures but will monitor closely audit procedures to identify any unintended consequences for the QM standards. Additionally, the ATG considers it important that the AETF's view that audit evidence is "*the output of an audit procedure and that the term information intended to be used as audit evidence should be used to describe the input to audit procedures*" is communicated clearly in the application material as this is an important clarification when considering the engagement team definition.

#### *Information to be used as audit evidence*

- 11 When this item was presented to the AUASB at the March 2021 Meeting, the AETF had proposed expanding sources of information beyond internal and external information into four different sources (internal, external, another source external to the entity and the auditor, including the firm). The AUASB was not supportive of this change as, like the proposed audit procedures changes, they over complicating the standard.
- 12 In response to the feedback received, the AETF has removed the categories and additionally has proposed a single requirement to evaluate the reliance and reliability of information of all sources, replacing paragraphs 7 and 9 in the extant ISA 500. This new requirement also uses the term "evaluate" rather than "consider".

#### **Proposed ISA 500 paragraph 9**

The auditor shall evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. In making this evaluation, the auditor shall consider: (Ref. Para. A29–A40 and A57–A61)

- (a) The source of the information; and (Ref. Para. A41–A46)
- (b) The attributes of relevance and reliability that are applicable in the circumstances, including, as necessary, accuracy and completeness. (Ref. Para. A47–A56)

- 13 In previous discussions the AUASB had raised concern with combining the evaluation of relevance and reliability into a single requirement as it may result in an expectation that the same amount of work was required by the auditor to consider the reliability of internal information and external information, and that the auditor would lose some of the benefits of using external information as audit evidence as well as resulting in all attributes of reliability being applicable to all information.
- 14 The **ATG supports** this revised paragraph and considers that it addresses the concerns raised previously by the AUASB as, it recognises different sources of information (see extract of proposed paragraph A43 below) and that the source of information affects the nature and extent of the evaluation of reliability.

#### **Proposed ISA 500 paragraph A43**

The source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the audit procedures to evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. It may also affect how the auditor responds to matters such as doubts about the reliability of information intended to be used as audit evidence, or inconsistencies in audit evidence.

- 15 A matter that has been discussed in relation to the evaluation of relevance and reliability has been the "spectrum of reliability" which the ATG considers is addressed in the proposed requirement through the inclusion of the wording "reliable for the auditor's purpose". That is, information intended to be used for risk assessment does not require the same level of reliability as information to be used in a response.
- 16 The ATG supports the inclusion of this in the requirement but views that it can be better linked through to application material that expands the concept of the persuasiveness of audit evidence<sup>1</sup>.

#### *Over prescriptiveness of the standard*

- 17 The ATG will continue to monitor the development of the standard and draw attention to areas which may be becoming over prescriptive. The ATG considers that the IAASB have addressed the

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<sup>1</sup> Refer to paragraphs A10-A15 of proposed [ISA 500 \(IAASB Agenda Item 5-A\)](#).



issue of over prescriptiveness through the removal of several proposed changes in this first iteration of ISA 500, including the categorisation of audit procedures and the sources of information.

## Collaboration with NZAuASB and other standard setters

- 18 The ATG will continue to monitor the development of the proposed ISA 500 and engage where required with other National Standard Setters (specifically in New Zealand and Canada) to coordinate and share feedback across the different territories.

## Next steps/Way Forward

- 19 The ATG will coordinate feedback from the AUASB on the proposed version of ISA 500 following the March 2022 AUASB meeting. A further iteration of the standard will be prepared and presented for the IAASB at its June 2022 meeting – this will be reviewed by the AUASB at its meeting in June 2022 also.
- 20 Currently the IAASB is proposing to have the Exposure Draft of ISA 500 approved at its September 2022 meeting.

## Materials Presented

Agenda Item	Description
6.0	Agenda Paper – Audit Evidence

\*SP: AUASB Supplementary Papers Pack



# AUASB Agenda Paper

<b>Title</b>	IAASB Listed Entity/Public Interest Entity (PIE) Project	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	International Influence	<b>Agenda Item:</b>	9
<b>ATG Staff:</b>	Johanna Foyster	<b>AUASB Sponsor:</b>	Bill Edge

## A. Objective

1. To provide the AUASB with an update on the IAASB Listed Entity/PIE project; and
2. To seek AUASB feedback on:
  - (a) the IAASB’s draft project proposal *Narrow Scope Maintenance of Standards Project on Listed Entity and PIE* (project proposal); and
  - (b) initial proposals related to enhanced transparency about independence in the auditor’s report when a firm has applied the independence requirements for PIEs.

## Recommendations and Questions for the Board

Question	Questions for the Board	ATG Recommendation Overview
<b>Question 1</b>	<p>Does the AUASB have any feedback on the IAASB’s project proposal?</p> <p>The AUASB is asked to consider the:</p> <ul style="list-style-type: none"> <li>• key issues identified</li> <li>• proposed actions to address the key issues</li> <li>• proposal for the project to be split into two tracks with different project timelines</li> </ul>	<p>The ATG are satisfied with the approach and proposed actions outlined in the project proposal to address the key issues identified and recommend that the AUASB support the IAASB project proposal.</p> <p>Refer to Section C of this Agenda Paper (Question 1)</p>
<b>Question 2</b>	<p>Does the AUASB have any views on the initial proposals (Options 1-3) to address circumstances when the auditor’s report is used to disclose that specific independence requirements for certain entities (PIEs) have been applied?</p> <p>The AUASB is asked to consider:</p> <ol style="list-style-type: none"> <li>(a) whether the auditor’s report is a suitable vehicle for such public disclose</li> <li>(b) whether to include multiple options in the proposed ED and, if so, whether all three options are to be presented</li> <li>(c) the Board’s preferred Option (and why)</li> </ol>	<p>The ATG support enhanced transparency about independence in the auditor’s report when an auditor has applied the independence requirements for PIEs.</p> <p>The ATG’s preference is to limit the number of options for disclosure to be presented in the proposed ED:</p> <ul style="list-style-type: none"> <li>• The ATG do not agree with Option 3</li> <li>• The ATG do not have a strong view about Option 1 or 2 at this point in time.</li> </ul> <p>Refer to Section C of this Agenda Paper (Question 2)</p>



## B. Background and Previous Discussions on Topic

3. The primary purpose of the IAASB Listed Entity/PIE project is a consequence of the IESBA PIE project and strongly related to the need for consistency across, and interoperability of, IAASB Standards and the IESBA Code.
4. Throughout the IESBA's project there has been extensive consultation and coordination between the IESBA and IAASB. The IAASB actively monitored the IESBA project during 2020-21, considered the potential implications for the IAASB's Standards of adopting the revised IESBA definitions of the terms 'listed entity' and 'public interest entity', and provided input into the IESBA proposals as they were developed.
5. At its October 2021 meeting, the IAASB discussed the developments on the IESBA's PIE project and feedback to be provided to the IESBA to finalise the revised IESBA Code. The IAASB also discussed and agreed on various key aspects to be addressed in the IAASB's project proposal to undertake a narrow scope project related to listed entity/PIE.

For details about the October 2021 IAASB meeting deliberations and matters agreed to, refer to Appendix 1 of IAASB March 2022 Meeting [Agenda Item 3](#) (Issues Paper).

6. The final revisions to the IESBA Code were approved by IESBA at its December 2021 meeting and is expected to be issued in April 2022 following PIOB approval. The revised provisions to the Code will be effective from December 2024. For a high-level summary of the key revisions to the IESBA Code, refer to Appendix 1 of this Agenda Paper.

## C. Matters for Discussion

### *AUASB Question 1 – IAASB Project Proposal*

7. A link to the draft IAASB project proposal is provided [here](#).
8. As the IAASB's listed entity/PIE project originates from the IESBA PIE project, the project plan includes introductory material (Section II of the project proposal) to provide a brief history of the IESBA project and the coordination initiatives between the IESBA and IAASB. This material provides the necessary context for understanding the rationale for the project and the basis for key matters to be considered by the IAASB.
9. In developing its project proposal, the IAASB PIE Working Group (PIE WG) reviewed and applied the key principles of the Monitoring Group's Public Interest Framework<sup>1</sup> (PIF) in addressing public interest matters.
10. *Key Issues Identified*
  - (a) Increased complexity and inconsistent application if key concepts in IAASB Standards and the IESBA Code do not align.
  - (b) A need for more robust and consistent guidelines to establish the need for differential requirements in standards.
  - (c) A need for enhanced transparency in the auditor's report about the relevant ethical requirements for independence applied in performing audits of PIEs, in response to the new IESBA Code requirement for firms to publicly disclose this information.

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<sup>1</sup> Public Interest Framework (PIF) published by the Monitoring Group in July 2020, as part of their report *Strengthening the International Audit and Ethics Standard-Setting System*.





11. *Scope and Project Output* – the project is a narrow scope project focussed on:
- (a) making a limited number of targeted revisions to the ISQMs and ISAs only,<sup>2</sup> arising from revisions to the IESBA Code as a result of the IESBA’s PIE project; and
  - (b) developing an objective and guidelines to establish when differential requirements are appropriate in the ISQMs and ISAs.

12. *Proposed Actions to address the Key Issues*

The table included in paragraph 28 of the project proposal outlines the proposed actions to be undertaken to address the key issues identified. The Key actions are:

- (a) Consider adopting the revised IESBA definition of PIE into the ISQMs/ISAs.
- (b) Consider adopting the revised IESBA definition of ‘publicly traded entity’ into the ISQMs/ISAs, to replace ‘listed entity’.
- (c) Develop guidelines to assist the IAASB in identifying when differential requirements for certain entities may be appropriate in ISQMs/ISAs.
- (d) Undertake a case-by-case analysis of existing differential requirements<sup>3</sup> for listed entities to determine:
  - (a) whether those requirements should be extended to apply to all categories of PIE; and
  - (b) the impact on extant differential requirements of adopting the definition of ‘publicly traded entity’ to replace ‘listed entity’.
- (e) Update relevant application material in standards as appropriate.
- (f) Determine whether the auditor’s report is a suitable location for enhanced transparency about the relevant ethical requirements for independence applied in the audit of PIEs and, if so, how this is to be achieved.

13. *Proposed Project Timeline - 2 Tracks with different timelines*

For IAASB Standards to remain consistent with the revised IESBA Code (effective from December 2024), the IAASB is proposing to split the project into two tracks:

- (a) *Track 1* - fast track revisions to ISA 700 and ISA 260 related to the new IESBA Code requirement for public disclosure when an auditor has applied the independence requirements for PIEs, with an effective date that aligns with the revised IESBA Code.
- (b) *Track 2* - explore the remaining narrow scope amendments to the ISQMs/ISAs in response to the revised IESBA Code, with a later effective date.

*ATG Recommendation:*

14. The ATG are satisfied with the approach and proposed actions outlined in the project proposal to address the key issues identified, and recommend that the AUASB support the IAASB project proposal.

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<sup>2</sup> Paragraph 26 of the IAASB’s draft project proposal explains why other IAASB Standards are excluded from the scope.

<sup>3</sup> Currently, the only standards with differential requirements are: ISQM 1, ISA 260, ISA 700, ISA 701 and ISA 720.



## ATG Comments:

15. Due to the strong coordination between the IAASB and IESBA on the project, and the fact that the IAASB at its October 2021 meeting considered and agreed on the key aspects to be included in the project plan, there is nothing new or contentious in the IAASB's project proposal.
16. Although the ATG would have preferred all aspects of the project to be completed simultaneously on the same timeline to reduce the work effort related to two separate rounds of public consultation in response to two separate EDs, the ATG note that this issue was extensively discussed at the October 2021 IAASB meeting and that the vast majority of IAASB members supported the split approach.
17. The ATG note that adoption of the revised IESBA definition of 'publicly traded entity' into the ISQMs/ISAs to replace 'listed entity' may result in changes in the underlying entities to which requirements in the ISQMs/ISAs apply -
  - Additional entities being scoped into the definition of publicly traded entity that are not included in the extant definition of listed entity.
  - The new definition of publicly traded entity includes as an example a listed entity as defined by relevant law or regulation. Therefore, depending on how the term listed entity is defined in law or regulation, the notion of a listed entity may be broader or narrower in future.

Refer to Appendix 2 of this Agenda Paper for a comparison of the new and extant definitions of PIE, listed entity and publicly traded entity.

18. The ATG note that at the time of approving and issuing the revised Auditor Reporting Standards in 2016/17, the AUASB committed to revisiting the scope of ASA 701 (KAM reporting) and whether the definition of listed entity in the ASAs is fit for purpose and whether KAM reporting should be expanded beyond listed entities to PIEs. These two questions are therefore directly relevant and the IAASB's Listed Entity/PIE project is therefore timely. As part of the AUASB's international influencing strategy, the ATG will monitor international developments and provide timely input/feedback to the IAASB to ensure Australian concerns are addressed. Once the IAASB has completed its deliberations, the ATG will revisit the scope of ASA 701.

## *AUASB Question 2 – Enhanced Transparency in the Auditor's Report when an auditor has applied the Independence Requirements for PIEs*

19. The revised IESBA Code includes a new requirement that when a firm has applied the independence requirements for PIEs, the firm shall *publicly disclose* that fact *in a manner deemed appropriate* taking into account the timing and accessibility of the information to stakeholders (IESBA Code, paragraph R400.20).
20. The Code does not specify the mechanism for public disclosure and IESBA will not provide any further guidance until the IAASB has fully explored whether and, if so, how the auditor's report should disclose this additional information. For this purpose, the IAASB has to follow its own due process in order to consider its stakeholders' interests in addressing public interest issues related to proposed revisions to ISA 700.
21. The PIE WG has started developing proposals for enhanced transparency about independence in the auditor's report. To fast-track the project, the IAASB is asked to



provide feedback at its March 2022 meeting on three proposed options to help inform the PIE WG in developing an ED, which it plans to take to the June 2022 IAASB meeting for discussion and approval. The 3 options are:

- a. Option 1 – A requirement for the auditor to disclose if specific independence requirements for audits of financial statements of certain entities, as set out in the relevant ethical requirements, were applied;
- b. Option 2 - A requirement that when the relevant ethical requirements require transparency about the specific independence requirements applied, the auditor shall disclose this fact in the auditor’s report; and
- c. Option 3 – Application material that explains how the auditor may disclose that specific independence requirements were applied when the relevant ethical requirements require transparency about specific independence requirements applied.

Refer to paragraphs 33-50 of IAASB March 2022 Meeting [Agenda Item 3](#) (Issues Paper) for a more detailed discussion on each alternative, suggested ISA 700 drafting and suggested wording for the auditor’s report.

22. The ED will include questions to seek views on whether the auditor’s report is a suitable vehicle for such disclosures and, if so, the preferred options for how ISA 700 may address such disclosure. The proposed ED will provide alternatives and for each alternative the drafting for ISA 700 and an illustration of the disclosure in the auditor’s report. The ED will also ask for feedback on proposed changes to ISA 260 to explain how the auditor may communicate with TCWG in such circumstances.

#### ATG Recommendation

23. The ATG support enhanced transparency about independence in the auditor’s report when an auditor has applied the independence requirements for PIEs.

The ATG’s preference is to limit the number of options for disclosure to be presented in the proposed ED:

- The ATG do not agree with Option 3
- The ATG do not have a strong view about Option 1 or 2 at this point in time.

#### ATG Comments:

24. The ATG support the proposal related to enhanced transparency in the auditor’s report where relevant ethical requirements include differential reporting requirements - rather than referencing the whole set of relevant ethical requirements (i.e. the IESBA Code).
25. The ATG’s preference would be to limit the proposed options for disclosure to be presented in the proposed ED, and:
  - Not include an Option 3. Whilst Options 1 and 2 impose a requirement to provide a statement in the auditor’s report that specific independence requirements were applied, Option 3 only includes application guidance to suggest how such disclosures could be made in the auditor’s report, which could lead to inconsistencies in practice as the Code does not specify the location of the disclosure. If the objective is for the



auditor's report to be used as the vehicle for the IESBA Code requirement for public disclosure, then it needs to be a requirement in ISA 700.

- Options 1 and 2 disclosures are very similar and therefore there may be merit in seeking the views of stakeholders on both Options in the ED, to inform the IAASB's final decision:
  - Option 1 will apply to PIEs as well as entities that are not a PIE but where the auditor has determined it appropriate to apply the specific independence requirements for PIEs to the entity<sup>4</sup>.
  - Option 2 is conditional upon the relevant ethical requirements requiring public disclosure of the specific independence requirements applied for PIEs.

As the IESBA Code requires disclosure when a firm has applied the independence requirements for PIEs, it is irrelevant whether or not the entity is a PIE as defined or treated as a PIE by the auditor (after consideration of factors listed in the Code). The ATG would like to see further explanatory material included in the ED to explain the difference between Options 1 and 2 in light of the IESBA requirement in paragraph R400.20 of the revised Code.

## D. Collaboration with NZAuASB and Other Standard Setters

NZAuASB - The NZAuASB at its February 2022 meeting discussed if and how the NZ approach to defining a PIE should be amended considering the revised IESBA PIE approach. The topic of PIEs will be discussed at the April 2022 NZAuASB/NZASB joint meeting. The AUASB will continue to monitor NZAuASB developments and work with the NZAuASB in considering whether to adopt/adapt IAASB narrow scope amendments to ISQMs/ISAs.

APESB - The AUASB will continue to monitor and work with the APESB in finalising its revisions to the APESB Code in response to the revised IESBA Code (for example to refine local definitions of PIE and listed entity).

## E. Next steps/Way Forward

- PIOB approval of the final revised IESBA Code is expected April 2022.
- The APESB will consider proposed revisions to the APESB Code for the definition of Listed Entity and PIE at its March and June 2022 meetings.
- Planned timing for key project milestones:

*Track 1* – revisions to ISA 700, ISA 260)

June 2022 - IAASB approval of ED (90-day comment period)

June 2023 - IAASB approval of final revised ISAs (effective date Dec 2024)

*Track 2* – other revisions to ISQMs/ISAs in response to IESBA's PIE Project

Sept 2023 - IAASB approval of ED (90-day comment period)

Sept 2024 - IAASB approval of final revised ISQMs/ISAs (effective date > Dec 2024)

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<sup>4</sup> The IESBA Code, paragraph 400.19 A1 encourages a firm to determine whether to treat other entities as PIEs for the purposes of Part 4A of the Code.



## Appendix 1

### Key revisions to the IESBA Code - December 2021 (effective December 2024):

- (a) Introducing an overarching objective for use by both the IAASB and IESBA in establishing differential requirements in their standards for PIEs.
- (b) Providing guidance on factors to consider in determining the level of public interest in the 'financial condition' of an entity, which may be wider than the public interest in the financial statements.
- (c) Broadening the definition of a PIE to include additional categories (for example deposit takers and insurers). IESBA decided to not include collective investment schemes and post-employment benefit schemes within the global list.
- (d) Replacing the term 'listed entity' with a newly defined term, 'publicly traded entity' which is included as one of the mandatory categories of entities of the PIE definition.
- (e) Including guidance that encourages local ethics standard setting bodies to more explicitly define the categories of PIEs, with examples of entities that may be added to the mandatory global list of PIE categories.
- (f) Including guidance encouraging firms to determine if any additional entities should be treated as PIEs, as well as factors for firms to consider in making this determination.
- (g) Requiring that when a firm has applied the independence requirements for PIEs, the firm publicly disclose that fact in a manner deemed appropriate.

For further detail about the December 2021 IESBA meeting, deliberation of final proposals and decisions, refer to Appendix 2 of IAASB March 2022 Meeting [Agenda Item 3](#) (Issues Paper). For the December 2021 approved revisions to the paragraphs in the IESBA Code relevant to the IAASB, refer to IAASB March 2022 Meeting [Agenda Item 3B](#).



## Appendix 2

### Revised IESBA definitions for ‘listed entity’ and ‘Public Interest Entity’ (PIE)

In December 2021 IESBA approved revisions to the definitions of listed entity and PIE in the IESBA Code which will be effective from December 2024.

Current definition in IESBA Code	New IESBA definition
<p><b>Listed entity:</b></p> <p>An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.</p>	<p><b>Publicly traded entity<sup>5</sup>:</b></p> <p>An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.</p> <p>A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</p>
<p><b>Public Interest Entity</b></p> <p>(a) A Listed Entity*; or (b) An entity:</p> <p>(i) Defined by regulation or legislation as a public interest entity; or</p> <p>(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.</p> <p>* Includes a listed entity as defined in Section 9 of the Corporations Act</p> <p>Other entities might also be considered to be Public Interest Entities, as set out in paragraphs 400.8 to AUST 400.8.1 A1</p>	<p><b>Public Interest Entity</b></p> <p>For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:</p> <p>(a) A publicly traded entity;</p> <p>(b) An entity one of whose main functions is to take deposits from the public;</p> <p>(c) An entity one of whose main functions is to provide insurance to the public; or</p> <p>(d) An entity specified as such by law, regulation or professional standards to meet the purpose set out in paragraph 400.10</p>

In addition to the definitions and requirements above in the IESBA Code, the **APESB Code** currently includes:

**AUST R400.8.1** A requirement for Firms to determine whether other entities are PIEs because they have large number and wide range of stakeholders. These are mainly APRA regulated entities i.e. financial institutions, such as banks and insurance companies, and pension funds.

<sup>5</sup> Terminology changed from listed entity to publicly traded entity



# AUASB Agenda Paper

<b>Title</b>	<b>LCE Consultation Paper – Further considerations</b>	<b>Date:</b>	8 March 2022
<b>Strategic Objective/s:</b>	Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required. Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance	<b>Agenda Item:</b>	8
<b>ATG Staff:</b>	Rene Herman	<b>AUASB Sponsor:</b>	Michelle Shafizadeh

## Objective

- 1 AUASB to consider and provide input into the Audit Technical Group's (ATG) recommendations on Part B of the LCE Consultation Paper as outlined in paragraphs 6 - 9 of this Agenda Paper.

## Question for the Board

Question No.	Question for the Board
Question 1	Does the AUASB support the ATGs recommendations, as outlined in paragraphs 6 -9 of this Agenda Paper, on options for further exploration by the AUASB to assist Australian LCE audits (Part B of the LCE Consultation Paper)?

## Background and previous discussions on the topic

- 2 At the September 2021 AUASB meeting the AUASB approved to issue the [Consultation Paper Auditing of Financial Statements of Less Complex Entities \(ISA for LCE\); and Consideration of Possible alternative options for Australian LCE audits](#) (Consultation Paper), with two objectives:
  - Objective 1: Exposure of ED ISA – LCE (Section A of the Consultation Paper)



- Objective 2: Seeking feedback from stakeholders on the proposed options for further exploration by the AUASB to address challenges associated with the audits of LCEs in Australia (Section B of the Consultation Paper)

- 3 In relation to Objective 1 and Objective 2, there was extensive outreach undertaken in Q4 2021. A summary of outreach activities is contained in the December 2021 AUASB meeting papers at Agenda Item 10.
- 4 At the December AUASB meeting there was a detailed discussion regarding Objective 1 of the Consultation Paper and on 31 January 2022, the AUASB submitted their response to the IAASB on the ED-ISA 600. The ATG will continue to monitor the progression of the IAASB on this project and influence the international standard setting process. The AUASB agreed that objective 2 would be discussed and evaluated at the March 2022 AUASB meeting.

## **Matters for Discussion and ATG Recommendations**

### ***Part I – Summary of stakeholder feedback (roundtables and submissions to AUASB Consultation Paper) and Recommendations from the ATG***

- 5 The purpose of Part B of the Consultation Paper was to seek feedback from stakeholders on the proposed options for further exploration by the AUASB to address challenges associated with the audits of LCEs. From all outreach sessions and written submissions received there was very little feedback received by the ATG in relation to all options proposed by the AUASB at paragraph 26 of the Consultation Paper. The ATG draws the AUASB's attention to paragraph 26 and Appendix 2 of the [Consultation Paper](#) (for ease of reference duplicated at Appendix 1 to this Agenda Paper).
- 6 Stakeholders did not raise any 'burning platforms' and there were no credible solutions proposed by participants that would be readily viable for the AUASB to further explore. At the outreach sessions, the ATG raised the following matters for stakeholder input/discussion/consideration:
  - (a) Further **consideration of assurance products**, recognising that Review Engagements are not currently widely used in the Australian market and that this may stem from a user perception issue or a lack of understanding of the different assurance offerings and how they can be applied. Comments from stakeholders included:
    - (i) little support for a new assurance product noting that any new assurance products may widen the expectation gap and cause more confusion in the market
    - (ii) the need to improve the understanding of all parties in the financial reporting ecosystem regarding different levels of assurance that can currently be provided including understanding audit, reviews, AUPs and multi-scope.

#### *Recommendation from the ATG:*

The ATG did not receive any priority calls from stakeholders in relation to this proposed consideration, accordingly, the ATG does not currently consider there to be strong benefits to stakeholders to warrant further exploration of this area.

- (b) The possible need for **legislative reform** as the requirement for a reasonable assurance engagement may not always be the optimal solution e.g.: there may be scenarios where review engagements or AUP engagements may provide a more targeted/effective outcome. While there was limited support from stakeholders in this area, many noted that legislative reform in the short to medium term is a highly unlikely approach and questioned whether there could be any meaningful change in this area (too slow to be meaningful).

*Recommendation from the ATG:*

The ATG recognises the need to continue to build on government relationships with legislative drafters and the deregulation taskforce specifically on future legislation. The ATG recognises that it is essential that the requirements contained in legislation, contracts or other formal agreements which mandate the performance of an assurance engagement be appropriate to meet the needs of users, be clear and achievable.

- (c) The need for **non-authoritative support materials** akin to the AUASB's GS 009 *Auditing Self-Managed Superannuation Funds* and more recent AUASB Bulletins which provide real-time information on current assurance issues. Additionally, there may be a need for 'worked example guides' as practitioners do not always know what success looks like (e.g. documentation for execution of planning for an LCE audit).

*Recommendation from the ATG:*

While there was some limited support for this area, there were no suggestions made by stakeholders, with no specific areas seen to be problematic. As such, the ATG do not consider there to be any 'burning' need that would generate significant benefit to stakeholders to warrant current AUASB resources in this area. Stakeholders recognise that efforts in this area may be outside of the AUASB's remit.

- (d) More **education and training** around the auditing standards, stakeholders expressed mixed views as to whether the difficulties in scaling the requirements in auditing standards are an artefact of the requirements themselves (as is widely believed) or knowledge/understanding of those requirements.

*Recommendation from the ATG:*

While there was some limited support for this area, there were no suggestions made by stakeholders, with no specific areas seen to be problematic. As such, the ATG do not consider there to be any 'burning' need that would generate significant benefit to stakeholders to warrant current AUASB resources in this area. Stakeholders recognise that efforts in this area may be outside of the AUASB's remit.

- (e) The need for some **targeted revisions of the ISAs** through application material, which may require a revisit of the compelling reasons test [see comment from AASB Canada in paragraph 8 below]. There was no support by stakeholders for this suggestion.

*Recommendation from the ATG:*

The ATG does not support limited targeted revisions to the ASAs as it is seen to undermine the purpose of having globally accepted consistent standards and is seen to be ISA minus.

## **Part II – Overall Recommendations from the ATG**

- 7 Based on the limited stakeholder feedback/input we received, as summarised in paragraph 6 of this paper, other than 6(b) above, the ATG recommends the AUASB **'park' further work and resources in this area and continue to monitor IAASB developments in terms of the separate LCE standard**. While the IAASB has yet to analyse responses to the proposed LCE standard, the ATG notes that there were several other jurisdictions that held similar views to the AUASB, in that the proposed LCE standard in its current form was not seen to be a viable effective solution for LCE auditors. It is not currently known how the IAASB will respond to stakeholder comments.
- 8 As per 6(b) above, the ATG recognises the need to continue to **build on government relationships with legislative drafters and the deregulation taskforce** specifically to drive direction on future legislation regarding assurance requirements.
- 9 The ATG recommends a clear focus on the **implementation of the Quality Management suite of standards** which are aimed comprehensively and actively at improvement in Quality (both at the firm and engagement level) through greater accountability, improved focus on leadership and culture and continuous improvement.

## **Collaboration with NZAuASB and other standard setters**

- 10 The ATG understands that the **NZAuASB** will still be consulting on NZ specific areas for further investigation (outside of the LCE Standard), however such outreach has yet to commence.
- 11 **AASB Canada** in their consultation paper on the IAASB's ED-ISA LCA included 2 additional options to further explore in Canada: targeted revisions to standards as well as targeted non-authoritative guidance. The AASB has yet to fully analyse the responses received to these options, however at a high level the ATG understands that any limited targeted revisions to the ISAs was not a supported proposition as it seen to undermine the purpose of having globally accepted consistent standards. There was some support for targeted non-authoritative guidance. The ATG will continue to monitor progress of the AASB in this regard.

## **Next steps/Way Forward**

- 12 ATG to recommence work on communications with legislators and continue to monitor IAASB developments with reference to the proposed LCE standard.

## Appendix 1

### Extract of paragraph 26 from the Consultation Paper

In our efforts to date, we have recognised there is no simple solution. The AUASB has not yet decided on a future course of action and remain open as to what are the most appropriate actions recognising that the path forward may not only be the responsibility of the AUASB. The AUASB in its initial consultations about this topic has identified several possible options for further exploration in Australia. This stage of consultation is about exchanging ideas and the AUASB encourages stakeholders to share their thoughts and views on some of the ideas outlined below:

(a) *Standard-Setting Activities - AUASB*

- Adopt the ISA – LCE when issued by the IAASB, subject to modifications under the compelling reason test.
- Limited targeted revisions to the ASAs subject to the compelling reason test. For example, where practitioners experience significant challenges in applying a requirement in an ASA to an entity's less-complex elements, the ASA could possibly be revised to deal with the challenge by including additional application and other explanatory material focused on describing considerations specific to LCEs.
- Revision of the Review Standard to increase the level of robustness of procedures.
- Education regarding review and multi-scope type engagements, so the product of such engagements is better understood to meet user needs. A multi-scope engagement is where the engagement may require the auditor to address one or more of the following matters:
  - More than one subject matter (e.g. historical financial information and internal controls);
  - More than one level of assurance (e.g. reasonable and limited assurance); or
  - An engagement comprising both assurance and agreed-upon procedures.

(b) *Other Activities with a linkage to AUASB standards<sup>1</sup>*

- Developing (or supporting other groups in developing) targeted non-authoritative guidance to assist practitioners in applying the ASAs to LCE audits. Such non-authoritative guidance could include specific industry guides / practice aids, work programs, templates, software solutions.
- Education and training of complex standards. For example, what might the application of ASA 540 Auditing Accounting Estimates and Related Disclosures look like for a less-complex entity/less complex accounting estimate.
- Investigation of a new / different level of assurance product, something more than limited assurance but not as high as reasonable assurance.

(c) *Activities outside of standard setting<sup>2</sup>*

- Engage with those responsible for drafting legislation, at Commonwealth and State levels to consider the needs of users in specific market segments with appropriate regulators e.g. SMSFs with ASIC and ATO, small NFPs/charities with ACNC. Investigation whether there may be a need in some scenarios for a multi-scope engagement for example, reasonable assurance over cash balances and the related internal controls, but limited assurance over the remainder of the financial report.
- Consider introducing a level of audit practitioner other than a Registered Company Auditor. For example, SMSF auditors are approved SMSF auditors as approved by ASIC. This may alleviate the pressure on the diminishing pool of registered company auditors.
- Consider further revision or introduction of new auditing or assurance reporting thresholds / consideration of alignment with some accounting framework thresholds, thereby reducing the number of entities that require an audit.

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<sup>1</sup> These activities will require the AUASB to work with others.

<sup>2</sup> These activities will require the AUASB to work with others.

## **Questions on Australian options to further explore (from Consultation Paper)**

*All questions relate to paragraph 26 of the Consultation Paper*

### *General*

1. Besides the matters identified in paragraph 26 of this Consultation Paper, what other options or matters, the AUASB should consider as it deliberates the direction of its work in this area?
2. If the most appropriate way forward is a combination of options, how should the AUASB prioritise them?

### *Standard-Setting Activities - AUASB*

3. Please rank the relative importance of the topics outlined in paragraph 26 (a) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.
4. Do you consider making limited, targeted revisions to the ASAs, specific to LCEs, is an appropriate possible solution? If yes, please provide specific reference to specific requirements within the standards where attention is needed (i.e. standard x, paragraph y). Please explain your reasoning.
5. Do you consider developing targeted non-authoritative guidance, specific to LCEs, is an appropriate solution? If yes, please provide specific details as to the form and required content of such guides.
6. Recognising the AUASB standards currently facilitate reasonable assurance, limited assurance and agreed-upon procedures engagements, do you consider users, including legislators, understand the range of services that can be provided? If not, what can be done to assist users in understanding the 'right service'?

### *Other Activities with a linkage to AUASB standards*

7. Please rank the relative importance of the topics outlined in paragraph 26 (b) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.
8. Do you consider developing specific industry guides / practice aids, work programs, templates, software solutions, specific to LCEs, is an appropriate solution? If yes, please provide specific details as to the form and required content of such guides as well as the bodies that should be involved in undertaking such work.
9. Do you consider education and understanding of the scalability of the ASAs impacts LCE auditors? If yes, what form of education would be beneficial?
10. The AUASB standards provide for a reasonable and limited assurance engagements. Should a different tier of assurance should be further explored?

### *Activities outside of standard setting*

11. Please rank the relative importance of the topics outlined in paragraph 26 (c) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.



# AUASB Agenda Paper

<b>Title</b>	<b>FRC and Audit Quality</b>	<b>Date:</b>	8 March 2022
<b>Strategic Objective/s:</b>	Identify and implement initiatives to enhance Audit Quality	<b>Agenda Item:</b>	9
<b>ATG Staff:</b>	Anne Waters	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

1. The objective of this agenda item is to provide an update on initiatives to enhance audit quality and recent developments relating to audit quality by or on behalf of the FRC.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Do you have any feedback on the current or planned initiatives to enhance audit quality being undertaken by the AUASB and/or FRC in this paper?	No action required – for information only

## Background and previous discussions on the topic

2. The AUASB has the following strategic objectives relevant to audit quality:
  - (a) Number 4 - In conjunction with the Financial Reporting Council (FRC) identify and implement initiatives to enhance audit quality in Australia.
  - (b) Number 7 - Monitor the Australian Assurance environment and build strong stakeholder relationships to inform our AUASB priorities and facilitate consistent implementation of the AUASB standards.
3. Initiatives to enhance audit quality will also result in positioning the AUASB as an important stakeholder and authority in relation to the interpretation of our standards.
4. The following projects facilitate the achievement of these objectives and are important in supporting auditors in achieving enhanced audit quality.
  - (a) Taking a leading role in the implementation of the [FRC Audit Quality Action Plan](#);
  - (b) Monitoring and responding to findings from the ASIC Inspection Program relevant to our Auditing Standards;

- (c) Responding to recommendations of the PJC's Inquiry into the Regulation of Auditing in Australia relevant to the AUASB; and
- (d) Proactively issuing guidance to assist auditors in applying our standards and to respond to emerging issues i.e. Implementation support for ASA 315<sup>1</sup>, Quality Management Standards and Technology publications.

## **Matters for Discussion**

### ***The FRC Audit Quality Action Plan***

- 5. The FRC, with assistance from the AUASB, has been implementing its [FRC Audit Quality Action Plan](#) (Action Plan) in response to ongoing concerns about the results of ASIC Audit Inspection Program.
- 6. Actions since previous update:
  - (a) Planning on an alternate approach from the surveys conducted previously, to explore perceptions of audit quality of Audit Committee Chairs has commenced.
  - (b) Refer below for guidance issued by the AUASB to enhance audit quality.

### ***Monitoring and responding to findings from the ASIC Inspection Program***

- 7. The AUASB Bulletin [Supporting Auditors in Enhancing Audit Quality](#) was issued on 1 December 2021. The AUASB staff have been considering if there is further communications / guidance which may assist, in particular in relation to auditing accounting estimates. The AUASB Chair and staff are in discussions with representatives from the big 6 firms and ASIC on this issue.
- 8. The following technology based guidance have been issued which respond to some ASIC inspection findings:
  - (a) General IT Controls – based on ASA 315.
  - (b) Reliability of Data Used in an Audit of a Financial Report

### ***Responding to recommendations of the PJC's Inquiry into the Regulation of Auditing in Australia***

- 9. At its 30 November 2021 meeting the AUASB agreed that sufficient preparatory has been conducted on recommendation 8 (going concern and fraud) and it was appropriate to continue to provide input into the IAASB's projects whilst we wait for a formal government response.

### ***Issuing guidance to assist auditors***

- 10. ASA 315 implementation support:

A dedicated [webpage](#) has been set up for which includes guidance authored by AUASB staff, the IAASB and CPA Canada. Guidance authored by AUASB staff:

- (a) FAQs on the main features and changes to ASA 315;
- (b) A bulletin [Scalability Considerations for Audits of Less Complex Entities](#);

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<sup>1</sup> ASA 315 *Identifying and Assessing the Risks of Material Misstatement*



- (c) FAQs on General IT Controls to be issued shortly (with assistance from members of the Technology PAG)
- (d) An upcoming staff bulletin / communication focusing on key elements designed to enhance audit quality.

11. Quality Management Standards implementation support:

A [dedicated webpage](#) has been set up which includes guidance issued to date by the AUASB and IAASB. To date the following has been completed / commenced:

- (a) Issued five “awareness videos”.
- (b) Working with the Professional Bodies to support their educative and implementation support initiatives.
- (c) Plans for a communication designed to highlight the key benefits of the QMS designed to enhance AQ, to encourage implementation by smaller firms.

12. As detailed above a technology publication *Reliability of Data Used in an Audit of a Financial Report* to be issued shortly.



# AUASB Agenda Paper

<b>Title</b>	AUASB Academic Scholar update	<b>Date:</b>	8 March 2022
<b>Strategic Objective:</b>	5. Demonstrate thought leadership through evidence-based research.	<b>Agenda Item:</b>	10
<b>ATG Staff:</b>	Anne Waters	<b>AUASB Sponsor:</b>	Dr. Noel Harding

## Objective

- 1 The objective of this agenda item is to update the AUASB about the AUASB Academic Scholar role.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Are there future topics where the AUASB would benefit from research and the appointment of an academic scholar?	The AUASB staff are currently considering future topics where there is benefit in proactive engagement with the academic community

## Background and Previous Discussions on Topic

- 2 The AUASB's [evidence informed standard setting \(EISS\) strategy](#) directs AUASB activities to ensure that standard-setting deliberations and decisions are informed by relevant and reliable evidence. The AUASB must have a robust and transparent evidence gathering process to inform and support decision making that:
  - (a) Contributes to the development, issuing, and maintenance in the public interest, of high-quality Australian auditing and assurance standards and guidance; and
  - (b) Meets user needs and enhances audit and assurance consistency and quality.
- 3 The EISS strategy is integral to the AUASB achieving its Strategic Objectives and consists of the following three elements:
  - (a) The knowledge and experience of informed parties; including AUASB members;
  - (b) Research activities; and
  - (c) Information collection through stakeholder engagement.



- 4 To facilitate research activities and engagement with academics who specialise in audit and assurance research, the AUASB and staff engage with the academic community in several ways. One way is the AUASB academic scholar program whereby the AUASB appoint an academic scholar who works with the AUASB and staff on mutually agreed research topics. The academic scholar role is a part time honorary role. Previous scholars have been:
- (a) Prof. Elizabeth Carson – who conducted some auditor reporting research and also authored [AUASB Research Report 3: Audit Market Structure and Competition in Australia: 2012 – 2018](#), and [AUASB Research Report 4: The Provision of Non-Audit Services by Audit firms in Australia](#) which were referred to extensively by a number of parties in submissions to the PJC Inquiry into Regulation of Auditing in Australia.
  - (b) Dr. Amanda White – who specialises in educative initiatives and filmed a number of short videos of AUASB staff promoting audit quality and new standards.
- 5 Our current scholar is Dr. Shan Zhou who focuses on research on Extended External Reporting which is a strategic priority area for the AUASB. Dr. Shan Zhou is currently completing a literature review on the reporting and assurance of climate related and other non-financial information which will be issued as an AUASB Research Report. AUASB staff with support from AUASB board member Dr. Noel Harding, will continue to work with Dr. Shan Zhou on mutually beneficial future topics to support the AUASB in this important area.
- 6 Research authored by AUASB scholars are posted on our [AUASB Research Centre](#).

## Matters for Discussion

- 7 The AUASB staff are currently considering future topics where there is benefit in proactive engagement with the academic community. The identification of topics will be based on the IAASB and the AUASB's future workplan. Refer to IAASB's [Strategy for 2020- 2023](#) , IAASB's [Detailed Work Plan for 2022-2023](#), and AUASB [2021-22 AUASB Work Program](#).
- 8 Once research topics are identified we will engage with the academic community to identify academics who specialise in the area. Based on this we will consider if there is mutual benefit (i.e. for the AUASB and scholar) in appointing a scholar. We will also explore other formats / title for the scholar role, depending on seniority and experience (in consultation with Dr. Noel Harding).

## Collaboration with NZAuASB and other standard setters

- 9 N/A

## Next steps/Way Forward

- 10 N/A