



**Subject:** Agenda for the 106<sup>th</sup> meeting of the AUASB  
**Venue:** ASIC Office, Level 5, 100 Market Street, Sydney  
**Time:** Wednesday 6 March 2019 9:00am – 5:00pm

\* NB: Agenda items 1, 2 & 9 are closed sessions

## DAY 1

Time	Agenda Item No.	Resp.
9.00am	<b>1. Preliminary Session*</b>	
	1.1 Welcome (verbal update)	Roger
	1.2 AUASB Declarations of Interest	Roger
	1.3 Approval of Minutes of Previous AUASB Meetings	Roger
	1.4 Matters Arising from Previous Meetings	Matthew
	1.5 AUASB Speaking Register	Roger
	1.6 Update from the AUASB Chair (verbal update)	Roger
	1.7 AUASB Meeting Register	Matthew
	1.8 NZAuASB Update (verbal update)	Robert
	1.9 Report on IAASB December 2018 Meeting	Matthew
	1.10 AUASB / NZAuASB Technical Team meeting (verbal update)	Matthew
9:45am	<b>2. Audit Quality Plan Update*</b>	
	2.1 FRC Update (verbal update)	Roger
	2.2 ASIC Inspection Report	Roger
	2.3 Parliamentary Joint Committee on Corporations and Financial Services – Report on Audit Quality	Roger
	2.4 Investor Survey	Anne
10:30am	<b>3. Discussion on AUASB ED Process</b>	Roger
11:00am	<i>Morning Tea</i>	
11:15am	<b>4. Quality Management Standards</b>	
	4.1 Explanatory Memorandum and Outreach Plan	Rene / Tim
	4.2 ED 01/19 ASQM 1	Rene
	4.3 ED 02/19 ASQM 2	Marina
	4.4 ED 03/19 ASA 220	Tim
	4.5 ED 04/19 Consequential Amendments	Tim



Time	Agenda Item No.	Resp.
12:45pm	<i>Lunch</i>	
1:15pm	<b>5. ASRE 2410 – Approval of ED 05/19</b>	Anne
2:00pm	<b>6. Agreed-Upon Procedures</b>	Rene
2:45pm	<b>7. Review of March 2019 IAASB Papers</b>	
	7.1 ISA 315	Anne
	7.2 LCE Consultation Paper	Matthew
3:45pm	<i>Afternoon Tea</i>	
4:00pm	7.3 ISA 600	Rene
	7.4 Audit Evidence	Tim
	7.5 EER –Phase 2 (verbal update)	Marina
	7.6 IESBA Code Conforming Amendments	Tim
4:30pm	<b>8. AUASB Technical Work Program Update</b>	
	8.1 AUASB Technical Work Program Update – Q2 2018-19	Matthew
	8.2 AUASB Technical Group presentations at CA ANZ Audit Conferences	Matthew
	8.3 AUASB Forward Agenda	Tim
4:45pm	<b>9. Review*</b>	Roger
5:00pm	<i>Close</i>	



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**AUASB DECLARATION OF INTERESTS**

As at 20<sup>th</sup> February 2019

AUASB Member	Professional Affiliations	Listed Entity Affiliations	Other Relevant Matters
Dr Roger Simnett (Chair)	Fellow, CPA	Nil	Scientia Professor, UNSW Sydney Member, International Auditing and Assurance Standards Board Member, New Zealand Auditing Standards Board Member, International Integrated Reporting Council Working Panel Member, Financial Reporting Council (FRC) Australia Member, World Business Council for Sustainable Development Assurance Working Group
Ms Robin Low (Deputy Chair)	FCA GAICD	Director, AUB Group Limited Director, CSG Limited (CSV) Director, IPH Limited (IPH) Director, Appen Limited (APX)	Director, Public Education Foundation Ltd Director, Primary Ethics Ltd President, Sydney Medical School Foundation Member, CA ANZ Professional Conduct Committee Director, Australian Reinsurance Pool Corporation Director, Gordian Runoff Limited Director, Enstar Australia Holdings Pty Ltd Member, AICD Reporting Committee
Mr Gareth Bird	Member, CA ANZ Member, SAICA (South African Institute of Chartered Accountants)	Nil	Partner, Deloitte
Mr Robert Buchanan	Barrister and Solicitor of the High Court of New Zealand Member of the Institute of Directors in New Zealand	Nil	Chairman, NZAuASB Principal, Robert Buchanan Public Law and Governance (Wellington, New Zealand) Member, Risk and Assurance Committee of the Parliamentary Service (New Zealand) Board member, Low Volume Vehicle Technical Association Inc (a New Zealand not-for-profit entity)

AUASB Member	Professional Affiliations	Listed Entity Affiliations	Other Relevant Matters
			Trustee of a family trust
Ms Jo Cain	GAICD	Nil	Banksia Foundation: Chair Audit and Risk Committee Workways Australia: Member Audit and Risk Committee IAASB Emerging Forms of External Reporting (EER) Project Advisory Panel (PAP): Member International Integrated Reporting Council (IIRC) Technical Review Panel: Member Materiality Counts: Executive Director
Ms Julie Crisp	RCA, ASIC FCA FCPA FGIA GAICD CIA, IIA CGAP, IIA CRMA, IIA Member, ACFE	Nil	Member, Australasian Council of Auditors-General (ACAG)
Dr Noel Harding	CPA	Nil	Associate Professor, UNSW Sydney Associate Editor, Managerial Auditing Journal Member, Editorial Board of International Journal of Auditing Member, Editorial Board of Behavioral Research in Accounting Chair, Communications Committee of American Accounting Association Auditing Section
Ms Carolyn Ralph	Fellow, CA ANZ		Partner, KPMG
Mr Justin Reid	Member, CA ANZ	Nil	Owner at Justin Reid Consulting Director of Technical Audit Solutions Pty Ltd
Mr Rodney Piltz	Member, CA ANZ	Nil	Partner, Ernst & Young
Mr Klynton Hankin	Member, CA ANZ	Nil	Partner, PWC



**Subject:** Minutes of the 105<sup>th</sup> meeting of the Auditing and Assurance Standards Board (AUASB)  
**Venue:** TEQSA, Level 14, 530 Collins Street, Melbourne VIC 3000  
**Date:** Tuesday 4 December 2018 10.00am to 5.30pm and  
Wednesday 5 December 2018 8.30am to 2.30pm

## Attendance

AUASB Members:

- Professor Roger Simnett (Chair)
- Ms Robin Low (Deputy Chair) (Day 1)
- Mr Gareth Bird
- Mr Robert Buchanan
- Ms Jo Cain
- Ms Julie Crisp
- Mr Chris George
- Dr Noel Harding
- Ms Carolyn Ralph
- Mr Justin Reid
- Mr Ashley Wood

AUASB Technical Group:

- Mr Matthew Zappulla
- Ms Rene Herman
- Ms Marina Michaelides
- Ms Anne Waters
- Mr Tim Austin
- Ms Anna Wu

Apologies: Ms Robin Low (Day 2)

Observers: None

## Minutes

### **(Agenda Item 1 – Minute 1234) Agenda and introduction**

The Chair welcomed members to the 105<sup>th</sup> AUASB meeting, the last of 2018.

### **(Agenda Items 1.3 and 1.4 – Minute 1235) Minutes of Previous AUASB Meetings on 12 September 2018 and 29 October 2018**

Draft minutes were discussed and approved, with no changes, by the AUASB Chair.

### **(Agenda Item 2 – Minute 1236) Audit Quality Plan Update (in-camera session)**

The Chair of the Financial Reporting Council (FRC) Bill Edge, provided an update to the AUASB on the FRC's Audit Quality initiatives. The FRC Chair outlined the FRC's holistic approach to understanding and assessing audit quality throughout Australia, including the public-sector, and where the AUASB can assist the FRC in the future. Other FRC priorities were also discussed with AUASB Members, with Mr Edge noting the FRC were very satisfied with the manner in which the AUASB performed its functions in 2018.



**(Agenda Item 3 – Minute 1237) International Matters**

*ISQM 1 Quality Management at the Firm Level*

The AUASB Technical Group (ATG) provided an update on the progress that the IAASB had made in revising proposed ISQM 1 *Quality Management at the Firm Level* since the IAASB September 2018 meeting. The view of the AUASB and the ATG was that the concerns raised by the AUASB in previous meetings regarding the complexity and prescriptive nature of the standard have not been addressed and are unlikely to be addressed by the IAASB before issuance of the proposed standard for exposure.

The AUASB feedback regarding the prescriptive nature of the standard, the repetition of concepts in requirements and application material and the lack of scalability in the standard will be provided to Australasian IAASB Members prior to the December 2018 IAASB meeting.

*ISA 220 Quality Management at the Engagement Level*

The ATG provided a summary of the changes to the draft ISA 220 *Quality Management at the Engagement Level* since the IAASB September 2018 Meeting. The ATG noted that minimal changes had occurred since the September 2018 meeting and the issues brought to the attention of the IAASB from the previous meeting still existed.

In addition to the previous points raised, the AUASB questioned whether the incremental changes in proposed ISA 220 improves audit quality and adds value to stakeholders. The AUASB also discussed the need for more guidance around roles and responsibilities of engagement leaders for engagements with multiple engagement leaders. Overall, the AUASB questioned whether the concepts in proposed ISA 220 appropriately reflected current practice. This feedback will be provided to Australasian IAASB Members prior to the December 2018 IAASB meeting.

*ISQM 2 Engagement Quality Reviews*

The AUASB considered the proposed ISQM 2 *Engagement Quality Reviews (EQR)* exposure draft which the IAASB are looking to approve for exposure at its December meeting, along with ISQM 1 and ISA 220. Some comments were made by the AUASB in relation to the introductory requirements, the engagement quality reviewer's overall conclusion, the stand back requirement and the evaluation of significant judgements. The AUASB suggested further consideration and clarification of these requirements be communicated to the IAASB and that this feedback be provided to Australasian IAASB Members prior to the December 2018 IAASB meeting.

*ISA 315 Identifying and Assessing the Risks of Material Misstatement*

The ATG provided a summary to the AUASB of the broad feedback that has been received by the IAASB in response to the exposure of proposed ISA 315. This feedback included a high level mapping of matters raised by the AUASB to other respondents' comments and Task-Force views.

*IAASB Strategy*

The ATG presented a draft of the IAASB Strategy for 2020-23, which is subject to review and discussion by IAASB members at their December 2018. The AUASB discussed the key elements of the IAASB Strategy, which focuses on three major strategic objectives (developing high-quality international standards; maintaining the relevance of the international standards and supporting their implementation; and informing through outreach and advancing through collaboration). The document also addresses the IAASB's work plan for the 2019-21 years and builds on the stakeholder survey that they conducted earlier this year, to which the AUASB responded and has already considered high-level IAASB initial feedback on responses.

Overall the AUASB supported the main objectives and context presented in the IAASB Strategy, however there were issues raised about the structure of the document and some of the areas of focus in the work plan – for example, whilst Technology is identified as one of the main drivers in the Strategy there is little in the IAASB's work plan to address this topic. Also there was little consideration of the National Auditing Standards-Setters (NSS) initiative, except for the NSS as a form of resourcing IAASB initiatives. The key matters raised as feedback by the AUASB will be summarised and shared with the IAASB.

### *EER Guidance*

The AUASB considered the progress of the IAASB EER draft guidance which will be considered at the December IAASB meeting with a view to exposure of the Phase 1 guidance in January 2019. The AUASB noted the work done since September 2018, with some discussion about ensuring the balance between the guidance being aligned with ISAE 3000 while still specifically addressing the key assurance challenges for EER, mainly through the use of examples in the guidance.

### **(Agenda Item 4 – Minute 1238) Agreed-Upon Procedures**

The AUASB considered the project plan for the release of the Australian Exposure Draft equivalent to Proposed ISRS 4400 *Agreed-Upon Procedures Engagements*. The AUASB will issue a Consultation Paper seeking stakeholder feedback on the Proposed ISRS 4400, with particular emphasis on where ISRS 4400 differs from extant ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

### **(Agenda Item 4 – Minute 1239) Review of AUASB Exposure Draft Process**

As part of the discussions on the plan for the release of ISRS 4400 for exposure in Australia, the AUASB discussed the need to conclude on the exposure process trialled with ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* in July 2018. The AUASB will call for public feedback in early 2019, with a view to having a teleconference to discuss the feedback in February 2019.

Deliberation and determination of the future exposure process for the AUASB will be decided before the exposure of the suite of quality management standards in early 2019.

### **(Agenda Item 5 – Minute 1240) Research Strategy**

The AUASB was presented with a draft of the Evidence-Informed Standard Setting (EISS) Strategy, prepared by the ATG with support from AUASB members. The strategy has been developed based on the comments made by the AUASB in response to the Research Strategy Issues Paper presented to the AUASB at the April 2018 meeting (Agenda Item 5(d)).

AUASB Members were pleased to see that the strategy had expanded since April 2018 to focus on broader concepts of evidence, rather than purely academic research available. The AUASB provided suggestions to clarify parts of the strategy including expanding sections around stakeholder engagement and recognising that insights from AUASB members based on their experience should be recognised as evidence which informs standard-setting.

### **(Agenda Item 6 – Minute 1241) ASA 540 – Approval**

The AUASB approved for issue ASA 540 *Auditing Accounting Estimates and Related Disclosures* as well as Amending Standard ASA 2018-1 *Amendments to Australian Auditing Standards*. The AUASB highlighted some editorial amendments to the related Explanatory Statement. The Standards will be released before the end of 2018 with the Compiled Standards prepared in early 2019.

### **(Agenda Item 7 – Minute 1242) ASRE 2410 – Project Plan**

The AUASB approved the project plan to consider updates to ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* to align the reporting requirements in the standard to the amendments made to the auditor reporting standards in 2015.

This project will be conducted in conjunction with NZAuASB.

### **(Agenda Item 8 – Minute 1243) AUASB Glossary**

The ATG updated the AUASB on the progress made in response to the AUASB request at the September 2018 AUASB meeting, to investigate whether definitions in Australian standards could be amended to reduce the number of duplications of definitions throughout the suite of AUASB standards.

The ATG informed the AUASB that some progress had been made, however other strategic projects were prioritised and the results of the work would not be presented to the AUASB until the March 2019 AUASB meeting.

The ATG proposed a broader quality management exercise to review footnotes and cross-references alongside the review of definitions to identify out of date references. The AUASB agreed to the ATG's



proposed timeline and requested issues with footnotes, cross-references or terms which also exist in IAASB standards to be brought to the attention of the IAASB Technical Staff.

**(Agenda Item 9 – Minute 1244) GS 005 Use of Management’s Experts**

The AUASB approved the project plan to revise GS 005 *Using the Work of a Management’s Expert* and provided input into the composition of the Project Advisory Group.

**(Agenda Item 10 – Minute 1245) Technical Work Program Update**

*AUASB Technical Work Program Update*

AUASB Members were presented with an update of annual performance against the approved version of the 2018-19 AUASB Technical Work Program. No issues or concerns were raised by AUASB members.

*Use of Technology in the Audit, Including Data Analytics*

The ATG provided an update on the outreach that had been undertaken as part of Stage 2 of the strategic project on *Use of Technology in the Audit, Including Data Analytics* presented to the AUASB at the June 2018 AUASB meeting (Agenda Item 5(c)). The outreach included discussions with major auditing firms and public sector auditors as well as engagement with other National Auditing Standard-Setters to gain an understanding of challenges and responses in other countries.

The AUASB were pleased to see that progress was being made on this strategic project, as this is an area where practitioners are looking for the AUASB to demonstrate thought leadership. The ATG will be presenting formally on the work, and the implications for the AUASB at the March or April 2019 AUASB meetings.

*Public Sector Audit Issues*

The ATG updated AUASB Members on recent developments relating to the Public Sector Auditing Issues Strategic Project including: engagement with the Australasian Council of Auditors-General (ACAG) Auditing Standards Committee on Financial Auditing matters impacting the public sector; the ATG’s attendance and presentation at the recent ACAG Analytics Forum; and work that the ATG and AUASB Chair has done in preparing and presenting a paper for the FRC on Public Sector Auditing Issues at the FRC’s November 2018 meeting.

**(Agenda Item 11 – Minute 1246) GS 012 – Project Plan**

The AUASB approved the project plan to revise GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* and provided input into the composition of the Project Advisory Group. Consultation with APRA on the proposed revisions will also occur.

**(Agenda Item 12 – Minute 1247) Assurance Framework Bulletin**

The ATG presented a paper outlining the scope, structure and timing for the preparation of the principles-based Assurance Framework Bulletin, a project approved at the September 2018 AUASB meeting.

AUASB Members provided feedback on the scope and structure, including the use of examples to be included in the publication to assist practitioners with navigating to the appropriate other assurance or related service standard for a range of subject matters.

The first draft of the publication will be brought to the AUASB at the March 2019 AUASB meeting, although input from AUASB Members will be requested during development.

**Next Meeting**

The next regular meeting of the AUASB will be held in Sydney, on Wednesday, 6 March 2019 commencing at 8.30 a.m.





### **Close of Meeting**

The Chair acknowledged and thanked retiring AUASB Members, Chris George and Ashley Wood, for the contributions they have made to the Board over their terms.

The Chair closed the meeting at 2.45 p.m.

### **Approval**

Signed as a true and correct record.

Roger Simnett  
*Chair*

Date: 6 March 2019

DRAFT



**Matters Arising from Previous Meetings and Action List**  
**Agenda item 1.4.1: AUASB Meeting 6 March 2019**



**Australian Government**  
**Auditing and Assurance Standards Board**

Status	Definition
Suspended	Will not be actioned in short-term
Pending	Yet to be actioned
Outstanding	Matter ongoing - still to be actioned
In-progress	Progressing as expected
Completed	Matter resolved

Colour	Priority
	High
	Normal

Meeting Date	Action #	Matter Arising	Custodian	Status	Targeted completion	Comments
4&5 Dec 19	105.1	Minor updates to speaking and meeting registers requested by AUASB	Matthew	Completed	6-Mar-19	Refer Agenda Items 1.5 and 1.7. Speaking Register now just includes public events, not all industry forums; Minor amendments made to meeting register based on feedback at December 2018 meeting.
4&5 Dec 19	105.2	Share FRC Literature Review in respect of Audit Quality measures with AUASB Members	Anne	Outstanding	TBD	Awaiting information from FRC Secreteriat
4&5 Dec 19	105.3	Board discussion about the IAASB's direction and the trend of standards no longer being fit for purpose for all stakeholders	Roger	Pending	16-Apr-19	Discussion on this matter to be integrated with review of IAASB Strategy at April 2019 AUASB Meeting.
4&5 Dec 19	105.4	Review of AUP responses and AUASB Submission	Rene	In-progress	6-Mar-19	Refer Agenda item 6
4&5 Dec 19	105.5	Final EISS Strategy to incorporate AUASB Feedback	Anne	In-progress	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.6	Update and review of ASRE 2410 ED	Anne	In-progress	6-Mar-19	Refer Agenda item 5
4&5 Dec 19	105.7	Review of plan for update of all AUASB Guidance Statements	Tim	Pending	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.8	Review and discussion of updated ED process piloted per ISA 315	Anne	In-progress	6-Mar-19	Refer Agenda item 3. Further discussion to also be included on April 2019 AUASB Agenda.
4&5 Dec 19	105.9	Suggestions for Guest Speakers for April meeting from AUASB members	Tim	Pending	16-Apr-19	Guest speakers from ASIC and CPA Canada currently being arranged for April 2019 AUASB Meeting.
4&5 Dec 19	105.10	Draft of Assurance Framework Bulletin	Tim	Pending	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.11	Bookmarking of AUASB Meeting Papers pdf file	Tim	In-progress	6-Mar-19	To be included in 2nd MailOut for March 2019 AUASB Meeting
4&5 Dec 19	105.12	Maintain list of DA references for AUASB Board members in Dropbox	Jean	Pending	TBD	New AUASB Staff Member (Jean) currently working on this task.
4&5 Dec 19	105.13	Updated GS012 project plan and update on PAG	Matthew	In-progress	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.14	QJM Standards - Develop and approve ED's and draft outreach plan	Rene/Marina/Tim	Completed	6-Mar-19	Refer Agenda item 4
4&5 Dec 19	105.15	Update on ISA/ASA 540 Implementation Guidance and Activities	Rene	Pending	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.16	Update on GS 005 PAG	Rene	In-progress	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.17	Public sector PAG Update	Matthew	In-progress	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
4&5 Dec 19	105.18	AUASB review and submission on IAASB 2020-2023 Strategy Consultation Paper	Matthew	Pending	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
12-Sep-18	103.02	Arrange a guest presentation for the December AUASB meeting on data analytics and technology.	Matthew	Pending	16-Apr-19	Deferred to April 2019 AUASB Meeting.
12-Sep-18	103.03	Develop criteria to determine when submissions require AUASB approval as opposed to Chair approval.	Roger	In-progress	16-Apr-19	Discussion on this matter to be included on Agenda for April 2019 AUASB Meeting.
12-Sep-18	103.05	ATG to present plan for response to ASIC inspection findings in relation to "use of experts" and "revenue recognition".	Rene	Completed	4-Dec-18	Covered at December 2018 AUASB Meeting. GS 005 PAG update to be provided at April 2019 AUASB Meeting.
12-Sep-18	103.07	Hold discussion at December AUASB meeting on the implications for the AUSAB framework arising from the FRC/AUASB report on Audit committee chair perception of audit quality.	Anne	Pending	16-Apr-19	Deferred to April 2019 AUASB Meeting, once Investor Survey is completed.
12-Sep-18	103.11	ATG to develop an outline for a principles-based publication which could form part of the AUASB Framework.	Tim	Completed	16-Apr-19	Draft of Assurance Framework Bulletin on Agenda for April 2019 AUASB Meeting. Matter moved to action item 105.10.
13-Jun-18	101.02	Request for AUASB Technical Group Members to attend any Firm data analytics / audit technology related training courses or briefings provided to ASIC	Board Members	In-progress	Ongoing	Data & Analytics training for AUASB staff and Chair being hosted by KPMG on 27 March 2019. Board members to advise Matthew if this opportunity arises.
28-Nov-17	97.05	Technical Group to seek and consider of feedback on ASAE 3450 and monitor NZAuASB project to determine if any amendments are needed to ASAE 3450	Anne	Pending	TBD	Technical group have requested Board Members to identify relevant persons due to the narrow applicability of this standard. NZAuASB to kick off this project shortly.
26-Jul-16	94.01	Revised guidance statement on Questions at AGMs. At November 2017 meeting (M97): - The AUASB did not consider this to be a priority project at this time; and - AUASB technical Group was requested to consider how to raise awareness of the enhanced auditor report in the investor/user community	Anne	Suspended	TBD	AUASB Technical Group to provide plan for updating Guidance Statements at April 2019 AUASB Meeting.



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 1.5.1

**Meeting Date:** 6 March 2019

**Subject:** AUASB Speaking Register

**Date:** 20 February 2019

**Action Required**

**For Information Purposes Only**

<i>Events since last AUASB Meeting</i>			
<b>Presenter</b>	<b>Date</b>	<b>Presenting to</b>	<b>Topic</b>
Roger Simnett	7 & 8 December 2018	ANCAAR Audit Research Forum	Keynote – Reflections from the AUASB: Rebuilding trust and audit quality through evidence-informed standard setting
Roger Simnett	16-19 January 2019	American Accounting Association	Developments in sustainability assurance

<i>Future Events</i>			
<b>Presenter</b>	<b>Date</b>	<b>Presenting to</b>	<b>Topic</b>
Matthew Zappulla Rene Herman	19 March 2019	CA ANZ Audit Conference - Brisbane	ASA 540; ISA 315; LCE Audit Issues
Robin Low Rene Herman Anne Waters Matthew Zappulla	9 & 10 April 2019	CA ANZ Audit Conference - Sydney	Audit Quality Panel; ASA 540; ISA 315; LCE Audit Issues
Rene Herman Anne Waters Roger Simnett	7 & 8 May 2019	CA ANZ Audit Conference - Melbourne	Audit Quality Panel; ASA 540; ISA 315; LCE Audit Issues
Anne Waters	14 May 2019	CA ANZ Audit Conference - Adelaide	ASA 540; ISA 315; LCE Audit Issues
Anne Waters	22 May 2019	CA ANZ Audit Conference - Perth	ASA 540; ISA 315; LCE Audit Issues

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*





## AUASB Meeting Register – March 2019

Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Contact Date
<b>Strategic Stakeholders – Domestic</b>					
ACAG Auditing Standards Committee	Andrew Richardson	Chair	Roger Simnett	Annually	
Australian National Audit Office	Grant Hehir	Auditor-General	Roger Simnett	Annually	07/12/18
ACNC	Gary Johns	Commissioner	Roger Simnett	Annually	
ACNC	Mel Yates	Director	Matthew Zappulla / Tim Austin / Roger Simnett	6 monthly	6/2/2019
AFAANZ Auditing SIG	Robyn Moroney	Chair	Roger Simnett / Noel Harding / Senior Project Manager	6 monthly	23/1/2019
APESB	Nancy Milne	Chair	Roger Simnett	Annually	26/3/2019
APESB	Channa Wijesinghe	CEO	Matthew Zappulla	6 monthly	5/11/2018
APRA	Wayne Byres	Chair	Roger Simnett	Annually	
APRA	Rob Sharma	Head Accounting Services	Matthew Zappulla / Senior Project Manager	6 monthly	
ASIC	James Shipton	Chair	Roger Simnett	Annually	
ASIC	John Price	Commissioner	Roger Simnett	Quarterly	
ASIC	Doug Niven	Head Accountant	Roger Simnett / Senior Project Manager	Quarterly	
CA ANZ	Rick Ellis	CEO	Roger Simnett	Annually	
CA ANZ	Amir Gandhar	Reporting and Assurance Leader	Matthew Zappulla	Quarterly	5/3/2019
CPA Australia	Andrew Hunter	CEO	Roger Simnett	6 monthly	

Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Contact Date
CPA Australia	Gary Pflugrath	Head of Policy and Advocacy	Roger Simnett / Matthew Zappulla	Quarterly	27/2/2019
CPA Australia	Claire Grayston	Senior Policy Advisor	Matthew Zappulla	Quarterly	27/2/2019
IPA	Andrew Conway	CEO	Roger Simnett	Annually	
AICD	Angus Armour	CEO	Roger Simnett	6 monthly	
<b>Strategic Stakeholders – International</b>					
AASB Canada	Ken Charbonneau	Chair	Roger Simnett / Matthew Zappulla	Quarterly	11/3/2019
IAASB (Canada)	Eric Turner	Member	Roger Simnett	Quarterly	11/3/2019
NBA (Netherlands)	Jan Thijs Drupsteen	Director	Roger Simnett / Matthew Zappulla	Quarterly	11/3/2019
NZAuASB	Robert Buchanan	Chair	Roger Simnett	Monthly	12/2/2019
NZAuASB	Sylvia Van Dyk	Director	Matthew Zappulla	Quarterly	12/2/2019
IAASB (Singapore)	Chun Wee Chiew	Member	Roger Simnett	Quarterly	11/3/2019
Nordic Federation	Per Hanstad	CEO	Roger Simnett	Annually	5/11/2018
IAASB (Japan)	Sayaka Sumida	Member	Roger Simnett	Quarterly	11/3/2019
IAASB	Arnold Schilder	Chair	Roger Simnett	Quarterly	11/3/2019
IAASB	Fiona Campbell	Deputy Chair	Roger Simnett	Quarterly	11/3/2019
IAASB Staff	Willie Botha	TD	Roger Simnett / Matthew Zappulla	6 monthly	11/3/2019
IAASB Staff	Beverley Bahlmann	Deputy	Roger Simnett / Matthew Zappulla	6 monthly	11/3/2019
IAASB (South Africa )	Imran Vanker	Member	Roger Simnett	Quarterly	11/3/2019
IIRC	Liz Prescott	Technical Director	Roger Simnett / Marina Michaelides	6 monthly	
<b>Other Stakeholders – Domestic</b>					
Australian Auditor Generals	Auditor Generals	A-G	Roger Simnett / Matthew Zappulla	As required	



Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Contact Date
Heads of Audit	Big 6 accounting firms	N/A	Roger Simnett / Matthew Zappulla	Annually	
ACAG	Rachel Portelli	Secretariat	Matthew Zappulla	Quarterly	
Department of Finance	Stein Helgeby	Deputy Secretary	Roger Simnett	6 monthly	28/2/2019
<b>Other Stakeholders – Domestic (continued)</b>					
AICD	Kerry Hicks	Senior Policy Advisor	Matthew Zappulla / Senior Project Manager	6 monthly	
ASX	Kevin Lewis	Board Member	Roger Simnett	6 monthly	
G100	Andrew Porter	CFO	Roger Simnett	Annually	
IIA	Peter Jones	CEO	Roger Simnett	Annually	

**DATE:** 15 January 2019

**TO:** External Reporting Board  
New Zealand Auditing and Assurance Standards Board (NZAuASB)  
Australian Auditing and Assurance Standards Board (AUASB)  
Chartered Accountants Australia and New Zealand (CA ANZ)

**FROM:** Lyn Provost, IAASB member  
Sylvia van Dyk, Technical advisor

**SUBJECT:** Report on IAASB December 2018 Meeting

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### **Introduction**

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in New York on 10-14 December 2018.
2. This was another successful and important meeting with the Board approving the three quality management standards for exposure. The documents will be exposed in early February 2019 for a 150-day period until the end of June.
3. Other key items on the agenda included an overview of the initial analysis of the comment letters received on proposed ISA 315 (Revised), further consideration of an updated version of the phase 1 EER draft assurance guidance, and a discussion on the Consultation Paper on the IAASB's strategy for 2020-2023 and the related Work Plan for 2020-2021.
4. The full meeting papers can be accessed [here](#).

### **Quality management at the Firm level (ISQM 1)**

5. The Board unanimously approved the ED for exposure. The main matters discussed in finalising the ED were the following:
  - i. The definition of deficiencies, specifically about the threshold of when a finding would be a deficiency. The Board agreed to include a specific question about the appropriateness of the definition in the Explanatory Memorandum.
  - ii. The requirement for the firm to establish additional quality objectives beyond those required by the standard. The Board agreed to retain it in the proposed standard.
  - iii. How to emphasise positive findings and whether to require root cause analysis on positive findings. The Board agreed to raise the prominence of positive findings but not to require root cause analysis on positive findings.
  - iv. The role of in-process reviews in engagement inspections. The Board agreed not to require in-process reviews as part of the cyclical review process.

- v. Requirements on communication with external parties. The Board agreed to simplify the requirements but to keep the reference to transparency reports in the requirement.
  - vi. Network requirements or network services. The Board adjusted the requirement to clearly reflect the expectation that the firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management.
6. The Task Force will develop additional publications that further explain the application of the standard to firms of varying size or complexity, to be released shortly after the ED has been issued. Outreach will include roundtables and webinars, and a discussion at the planned second conference in Paris on audits of less complex entities.

### **Quality management at the engagement level (ISA 220)**

7. The Board also approved this ED unanimously. There were only minor comments and editorial suggestions raised. In finalising the ED, the Board discussed:
- the requirements that address the firm's policies or procedures;
  - the need to clarify the responsibility of the partner versus those of other team members in some of the paragraphs;
  - the difference between the usages of the phrases "the auditor shall determine" and the auditor "shall be satisfied"; and
  - how best to clarify the requirement addressing communications from the firm about its monitoring and remediation process.

### **Engagement Quality Reviews (ISQM 2)**

8. There was one dissenting vote in approving this ED, because of the suggestion in the application material that the Engagement Partner (EP) cannot take on the role of the engagement quality reviewer (EQR) without rotating off for 2 years first, to safeguard against the threat of a lack of objectivity. This prohibition is not included in the IESBA Code which deals with rotation requirements. The IESBA Code allows an EP to take on the role as EQR as long as the cumulative time of the combined roles on the audit is not more than 7 years. The dissenting member agrees with the proposed concept but firmly believes it should be dealt with by the IESBA Code, and not by the IAASB.
9. We hold the same views as the dissenting member, and Lyn debated whether she should vote yes to approve the ED, also because professional scepticism could be more emphasised. Lyn decided to vote yes on the condition that those issues are clearly explored in the explanatory memorandum. We also discussed the long association matter with an IESBA member, and are happy that they have worked closely with the ISQM 2 taskforce on the wording in the ED. The IESBA will consider feedback received on the ED and if necessary, amend the Code.

### Effective implementation dates for ISQM1, ISQM2 and ISA 220 (Revised)

10. The Board discussed the proposed implementation dates of the quality management standards, which given the integrated nature of the quality management projects, need to be coordinated across the three standards.
11. The Task Force considered an implementation period of at least 24 months from the date of final PIOB approval of the standards would be necessary. The Task Force therefore proposed an effective date of June 15, 2022, assuming the standards are approved by the Board in March 2020 and Public Interest Oversight Board approval of the due process is obtained in June 2020.
12. The Board had mixed views about the proposed effective date, with most of the members saying 2022 is too far away, given the public interest in audit quality. Others believed that the firms will need the time to implement the standards, and that time should be allowed for translation in non-English jurisdictions.
13. The Board agreed to lay it out in a balanced way in the Explanatory Memorandum to obtain the views of stakeholders, and to propose an implementation period of approximately 18 months following the approval of the standards by the PIOB, which would be an effective date of December 15, 2021.

### Initial analysis of responses to proposed ISA 315 (Revised)

14. The Board received a high-level overview from the Task Force Chair on the initial analysis of the 68 responses received on proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*.
15. The Board discussed respondents' concerns about the complexity and length of the proposed standard, and potential difficulties in understanding and application in practice, particularly regarding scalability. The Board asked the Task Force to look at ways to address the concerns, highlighting that some of the new definitions or concepts introduced may need to be reconsidered. The Board also acknowledged areas of broad support, including the flowcharts, introductory paragraphs, inherent risk factors, separate assessment of inherent and control risk, risk enhancements to IT and the approach taken to automated tools and techniques.
16. A more detailed analysis, together with proposed changes, for each matter will be presented at the March 2019 IAASB meeting.

### The IAASB's Future Strategy

17. The Board discussed the proposed Consultation Paper on the IAASB's Strategy for 2020-2023 and the related Work Plan for 2020-2021. Overall the Board liked the new format, with lots of support for the shorter document. Feedback was to flesh out the research phase and to do more on technology, delivery, strategic risks, the complexity of the standards and less complex entities.
18. The Board approved the revised Consultation Paper at a conference call in January, for issue during the first week in February 2019. Comments are requested by early June.



## EER Assurance Project

19. The EER Task Force presented an updated draft of the Phase 1 guidance based on the comments received at the September meeting, including those on assertions and how they relate to criteria, and on the materiality process. Overall the Board noted significant improvement, particularly in the understandability and structure of the guidance, but that further work on the drafting is required.
20. Subsequent to the December meeting, the Board discussed and approved a revised draft of the guidance at a teleconference on 31 January 2018. There was good feedback on the questions to be asked, and the Board also discussed innovative ways to get feedback to avoid consultation overload.
21. Given the substantive changes made since the meeting in December, there were mixed views about the draft guidance. Three of the board members voted not to approve the document in a teleconference, but to further discuss the changes at the March meeting. The other 15 members were supportive of the improved draft, noting that there can still be improvements but that it would be helpful to get feedback from practitioners at this stage.
22. Overall there was broad support to release the document for consultation, specifically as a Consultation Paper, and not an exposure draft. The Consultation Paper will be accompanied by an Explanatory Memorandum. The results from both consultations will produce a non-authoritative guidance document that would be issued by the IAASB at the end of phase 2. Feedback on the phase 1 guidance, as well as how the document could be structured when all of the content is developed, will be sought through the consultation. The final form of the guidance (e.g., whether it should be an IAEPN) will only be determined by the IAASB during phase 2.

## Next meeting

23. The next physical meeting will be held 11-15 March 2019 in Toronto.



# AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.**  
**Meeting Date:** 6 March 2019  
**Subject:** Audit Quality Update  
**Date Prepared:** 27 February 2019

Action Required

For Information Purposes Only

## Agenda Item Objectives

1. To update the AUASB on audit quality initiatives, including providing an overview of recent scrutiny into audit quality concerns. This is for the AUASB's information.

## FRC Australia update – verbal update on FRC meeting held 28 February 2019.

### Scrutiny on Audit Quality - Australia

#### ASIC Audit Inspection Program Report

2. The ASIC Audit Inspection Program Report was issued in January 2019. The inspection program was for audits undertaken in the 18 months to 30 June 2018.

Overall results	Big 6	Other firms	All firms (overall)
% of 347 key audit areas reviewed where the auditor did not obtain reasonable assurance	20% (23% previous program)	29% (31% previous program)	24% (25% previous program)
Number of audits reviewed	78	20	98

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3. Areas of audit for highest level of inspection findings which are consistent with prior inspection findings:

- audit of asset values, particularly impairment of non-financial assets (26% of files inspected had a finding, an improvement from 37% in the previous inspection period);
- audit of revenue, including accounting policy choices, substantive analytical procedures and tests of details (29% of files inspected had a finding, an improvement from 34% in the previous inspection period).

These two areas make up 50% of the key audit areas reviewed.

Another interesting observation is that in the 11 engagements where it reviewed the audit work for investments and financial instruments, 38% resulted in a finding.

4. ASIC also highlighted the following areas for the continued focus required by auditors:

- “Maintaining a strong culture of audit quality” as an area for improvement
- The sufficiency and appropriateness of audit evidence
- Professional scepticism
- Appropriate use of the work of experts and other auditors

5. 20 firms in total were inspected – largest six firms, eight other national and network firms, 6 smaller firms.

6. Financial Report surveillance program identified material changes to 4% of financial reports reviewed.

7. Chair of AUASB released a [media release](#) concerning the inspection report

Parliamentary Joint Committee on Corporations and Financial Services – statutory oversight of AISC

8. The committee was fulfilling its duty in conducting an inquiry into the activities of ASIC or other parties under the ASIC act. This encompasses the FRC, the AUASB, and the AASB.

9. The committee focused on:

- ASIC’s functions and conduct since the GFC, particularly its oversight role
- The areas which the committee consider have not been given adequate attention throughout recent investigations that is audit quality and integrity.

10. The chairs of the FRC, the AUASB and the AASB were questioned and are quoted in the report.

link to report:

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Corporations\\_and\\_Financial\\_Services/No1of45thParliament/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/No1of45thParliament/Report)

11. Chapter 2 of the report includes a comprehensive analysis of their ongoing concerns in relation to audit quality namely:

- ASIC inspection findings – notes that they are a matter of concern, and also that no statistical comparisons can be made.
- Limitations on the auditing system ie. Expectation gap, dominance of big 4, independence concerns, percentage of audit vs advisory for big 4.
- Discusses the FRC's and ASIC's conflicting views on audit quality.
- Makes reference to the UK parliamentary committee finding, namely that conflicts of interest cannot be managed but must be removed, and that the audit firms be required to divest themselves of their other businesses.

#### 12. The committee's view

- “Conflicting views of the FRC and ASIC” require further examination. Points to the risk-based nature of ASIC's inspection program does not allow conclusions to be drawn on whether there is an issue with audit quality.
- Encourages ASIC, perhaps in consultation with the FRC, to devise and conduct, alongside or within its current audit inspection program, a study which will generate results which are comparable over time to reflect changes in audit quality.
- The structure of the audit industry and associated conflicts of interest in Australia merit serious review.

#### 13. Recommendations

ASIC devise and conduct, alongside or within its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality.

#### 14. Link to article

<https://www.afr.com/business/accounting/deeprooted-problems-pwc-kpmg-ey-deloitte-face-serious-audit-market-review-20190217-h1bcp1>

#### ACCC review of big 4

15. The competition regulator is probing the big four consulting firms Deloitte, EY, KPMG and PwC over allegations the firms operate as a cartel, or in an anti-competitive manner, in the way they sell audit and consulting services.

#### 16. Link to article

<https://www.afr.com/business/accounting/deloitte-ey-kpmg-pwc-probed-by-accr-over-cartel-conduct-20190212-h1b5yk>

## Reviews into audit quality in the UK

17. A number of reviews have been undertaken with proposals which if adopted will have a significant impact on the audit market in the UK, and other jurisdictions.
18. The UK already has mandatory audit firm rotation every 10 years. In response to serious concerns over audit quality three reviews are underway.
19. The Competition and Markets Authority (CMA) is proposing legislation to:

- separate audit from consulting services
- introduce measures to substantially increase the accountability of audit committee chairs for audit appointment
- impose a joint audit regime giving firms outside the big 4 a role in auditing the UK's biggest companies.

Stakeholders were invited to respond to these proposals by end of January 2019.

20. John Kingman's review of the UK FRC;

- Recommended FRC be replaced with an independent statutory regulator, accountable to Parliament called the Audit, Reporting and Governance Authority.
- John Kingman was also asked to consider whether there is any case for change in the way in which audits are currently procured, and audit fees and scope are set, particularly for major companies of public interest. He reported that in his personal view there is an argument there should be model whereby auditors are appointed by an independent body which also sets the audit fee. However this needs further consideration. [link](#)

21. Sir Donald Brydon is to conduct a independent review into the quality and effectiveness of audit in the UK. This has just started and will be reported on by the end of 2019. It is focusing on the audit expectation gap, and examines the need for changes in the scope of an audit and how it can better serve the public interest. [link](#)



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **3.0**

**Meeting Date:**            Wednesday 6 March 2019

**Subject:**                    Discussion on AUASB ED process

**Date Prepared:**            27 February 2019

**Prepared by:**              Matthew Zappulla

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

1. To discuss issues raised by AUASB members about the AUASB Exposure Draft (ED) process raised in correspondence with AUASB members in February 2019.
2. To discuss experiences of AUASB Technical Group (ATG) staff when instigating the ED process for the current IAASB Quality Management standards (ISQM 1, ISQM 2, ISA 220 and conforming amendments).
3. Agree the principles that the AUASB should apply when evaluating due process of AUASB Exposure Drafts in future.
4. Advise AUASB members on how the ATG has applied these principles to the current IAASB Quality Management standards, which are scheduled for review and approval at the March 2019 AUASB Board meeting (**Refer Agenda Item 4**).

## Background

1. At its meeting on 17 April 2018 the AUASB considered alternative exposure draft (ED) processes for issuing an Australian ED equivalent to an IAASB ED and agreed to pilot issuing the IAASB ED concurrently as an Australian ED (including all known Australian amendments) for ED ISA 315 *Identifying and Assessing the Risks of Material Misstatement*.
2. At its meeting on 4 December 2018 the AUASB requested the ATG to analyse the results of the pilot and to consider if this process was to be adopted for the upcoming Quality Management standards and / or permanently.
3. The ATG prepared and distributed a paper to AUASB members on 4 February 2019 to seek feedback on the change to ED process (the 'ED process paper'). This paper was also designed to guide the ATG on which ED process should be applied to the IAASB Quality Management' (the 'QM Standards') so they could prepare the board papers for the first AUASB meeting for the year.

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4. The ED process paper presented two options for the AUASB to consider:
  - a. Process A - issue an Australian ED based on the final ISA standard (the current process)
  - b. Process B - issue the Australian ED concurrently with the equivalent IAASB ED, including all known Australian amendments.
5. The majority of AUASB members expressed support for applying Option B in future. No AUASB members supported retaining the existing AUASB exposure process where we issue an Australian ED based on the final ISA standard. But when it came to the detail associated with the ED process the feedback from AUASB members on the ATG's paper was mixed, with some members expressing different perspectives about the current due process the AUASB has in place when considering IAASB EDs.
6. Two AUASB members shared a view that a third option was preferable or should be considered – that the AUASB issue the IAASB ED and not an AUASB formatted ED for exposure.
7. Some AUASB members suggested further clarification is required on how the AUASB segment their deliberations and communications to stakeholders about any 'significant issues' they may have with a proposed IAASB standard, and what may be any Australian 'compelling reasons', either for regulatory/legal reasons or due to local principles or practices.
8. Whilst the issue of when the AUASB re-exposes proposed standards was not explicitly dealt with in the ED Process Paper, there were some comments from AUASB members requesting greater clarity around when this may be necessary.
9. Concern was expressed by a number of AUASB members that the revised ED process adopted for ISA/ASA 315 did not illicit responses from two large audit firms (although it was noted in the paper that the overall number of responses and level of engagement from stakeholders for this ED was at or above the level the AUASB experienced for previous EDs).
10. Following this feedback, the AUASB Chair communicated to the AUASB on 12 February 2019 that due to the different views on this issue expressed by AUASB members this item would be included for discussion on the March 2019 AUASB Agenda. The 'Matters to Consider' below summarise the actions the ATG has undertaken in the last few weeks leading up to the March 2019 AUASB Meeting as a result of this issue.
11. To facilitate the process that ATG staff should apply in the preparation of the QM Standards the AUASB Chair and Technical Director considered the above feedback from Board Members, as described in the matters to consider below.

### **Matters to Consider**

1. Whilst feedback on the different elements in the ED process paper was mixed, the ATG did identify common principles supported by a majority of AUASB members when it comes to the AUASB's ED process. These have been summarized below
  - (a) To maximise the AUASB's ability to influence the IAASB as early as possible in the ED process:
    - (i) As part of the regular activities of the AUASB and before the IAASB issues its ED, the ATG and AUASB members should identify all 'significant issues' they believe exist within each proposed IAASB Standard, including those that may potentially result in an Australian 'compelling reason' due to local principles or practices.
    - (ii) The AUASB should expose its proposed standards in parallel with the equivalent IAASB standard rather than wait until the IAASB has been finalised.
  - (b) To ensure IAASB EDs are made available to our constituents as promptly as possible the ATG should ensure IAASB EDs are ready for AUASB review and approval as soon as practicable after their release by the IAASB.

- (c) To aid the efficiency of AUASB Board and staff time the ED process selected should limit duplication of effort by the ATG staff and ensure Board deliberations on the ED are well-organized and effective.
  - (d) To facilitate the engagement of AUASB members in the ED process sufficient time must be scheduled at AUASB meetings for members to consider the ‘significant issues’ and potential Australian ‘compelling reasons’ as part of the IAASB ED review process by the AUASB. This process includes reviewing the status of the significant issues previously identified, to determine whether these have been adequately addressed in the IAASB ED.
  - (e) To generate the greatest opportunity for feedback by our constituents, the AUASB ED process needs to include appropriate outreach activities that enable all types of stakeholders to provide feedback.
2. The ATG will ensure the existing guidelines for re-exposure of AUASB Standards are reviewed as part of any future revision of the AUASB’s standard setting process and work closely with the NZAuASB to ensure consistency on this matter as required by our XRB/AUASB Protocol.
  3. With the exception of the current QM Standards, based on the current IAASB timetable the next IAASB ED the AUASB are likely to have to consider for exposure is ISA 600 on Group Audits in December 2019. There is some possibility a re-exposure of ISA 315 by the IAASB, which may also be something the AUASB needs to consider this year. Accordingly, the ATG have focused on what to do immediately relating to the exposure of the QM Standards, with further deliberations to clarify the due process of the AUASB standards setting process to be held with AUASB members over the next few months.
  4. For the current AUASB proposed standards subject to review, the ATG considered all the feedback provided by AUASB Members in response to the ED process paper as summarized in the ‘Background’ above. With a clear preference expressed to issue the Australian ED concurrently with the equivalent IAASB ED, the ATG have developed the EDs for the QM Standards as outlined in **Agenda Item 4** using the principles outlined above and in consultation with the AUASB Chair:
    - (a) The IAASB EDs for the QM Standards were released on 8 February 2019 and the ATG received word versions of these EDs on 20 February 2019. In order to expose them to Australian Stakeholders as promptly as possible these EDs have been prepared by the ATG in AUASB ED format for review and approval at this first AUASB Meeting for the year in March 2019.
    - (b) Acknowledging the difficulty associated with the size and complexity of the QM Standards (over 200 pages, splitting ASQC 1 to both ASQM 1 and ASQM 2, etc.) and the large number of existing modifications to the extant standards which will need to be considered when issuing the standards in Australia. Definitions, requirements and application material and other explanatory material of the EDs has not been deleted or amended to reflect Australian laws and regulations or principles and practices. Automatic wording changes such as ISA to ASA have been made.
    - (c) This decision was reached on the basis that there is insufficient time for the AUASB to deliberate on the nature and extent of changes required to the proposed versions of ASQM 1, ASQM 2 and ASA 220 at our March meeting and it was impractical to delay the release of these EDs until after our next AUASB meeting in April.
    - (d) However, to ensure AUASB members have clarity on how the AUASB is addressing any significant issues previously identified with these QM standards, and what changes to the Australian versions of these standards may be required under our existing compelling reason test, the ATG has prepared in the board papers for Agenda Item 4 summaries highlighting each of these elements. The process used is described in further



detail in the board paper at Agenda Item 4.1.0 (“Australian Exposure of Quality Management Standards”) paragraph 9.

- (e) The explanatory memorandum for the QM Standards at Agenda Item 4.1.1 has been drafted to ensure AUASB constituents have clarity about this process and how it relates to the AUASB’s review of the QM Standards.
5. The AUASB Technical Director is currently in the process of contacting the major audit firms who did not respond to our request for comment on the ED for ISA/ASA 315 to ascertain their rationale for not providing the AUASB with a submission. Feedback from these firms will be considered and shared with the AUASB.

### **Questions for the AUASB**

1. Do AUASB members agree with the common principles drawn from members’ feedback summarised above? If not, which principles need amendment and what principles are missing from this summary?
2. Do AUASB agree with the manner the ATG have applied the principles to the review of QM Standards at **Agenda Item 4** as described above? If not, what elements relating to the process of exposing the QM Standards would AUASB members like to change?
3. Are AUASB members satisfied with the manner in which other feedback about the ED process has been or will be addressed by the ATG?



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **4.1.0**

**Meeting Date:**            6 March 2019

**Subject:**                    Australian Exposure of Quality Management Standards

**Date Prepared:**            18 February 2019

**Prepared by:**              Tim Austin

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

1. The objectives of **Agenda Item 4** are to approve:
  - (a) AUASB Explanatory Memorandum *Quality Management at the Firm and Engagement Level – Australian Exposure* (**Agenda item 4.1.2**);
  - (b) ED 01/19 Proposed ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements* (**Agenda Item 4.2.1**);
  - (c) ED 02/19 Proposed ASQM 2 *Engagement Quality Reviews* (**Agenda Item 4.3.1**);
  - (d) ED 03/19 Proposed ASA 220 *Quality Management for an Audit of a Financial Report and other Historical Information* (**Agenda Item 4.4.1**); and
  - (e) ED 04/19 Proposed Auditing Standard 2019-X *Amendments to Australian Auditing Standards – Conforming amendments* (**Agenda Item 4.5.1**).
2. To consider and provide feedback to the ATG on the Outreach Plan for these EDs (**Agenda item 4.1.1**).
3. As outlined in the “Discussion on AUASB ED process” paper at **Agenda Item 3**, due to the need to issue the Quality Management Exposure Drafts as soon as possible to allow sufficient time for stakeholders to consider the extensive changes made to these proposed standards, the AUASB Technical Group will not be requesting AUASB Members to provide additional wording for compelling reasons at this stage, except as described in paragraph 4 below. This discussion will be deferred to a future AUASB Meeting.
4. In place of potential Australian additions, deletions and amendments, the ATG has proposed including a placeholder and accompanying statement, where relevant, indicating that the following

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paragraph will be considered for modification in-line with the *Compelling Reasons* test. Further information on compelling reasons considered for the suite of Quality Management EDs can be found in paragraphs 12 and 24-27 of this Board Meeting Summary Paper.

### **Questions for the AUASB**

5. The AUASB is asked to provide responses to questions 1-14. The questions are collated in this paper to provide AUASB members with a steer when reading the papers throughout Agenda Item 4. The questions will appear, where relevant, in Agenda Item 4 papers.

#### **Questions**

##### **Comment Date**

1. Does the AUASB support the proposed Australian comment date of 25 May 2019?

##### **Outreach Plan (Agenda Item 4.1.1)**

2. Does the AUASB have any feedback on the proposed ATG Outreach Plan?

##### **ED 01/19 ASQM 1 (Agenda Item 4.2.1)**

3. Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on whether this standard is expect to result in improved quality engagements?
4. Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on the usefulness of introductory paragraphs as such an introduction appears to be a trend coming through the standards?
5. Does the AUASB consider it appropriate to include additional wording into questions 6(b)(ii) and 6(d)(ii) enquiring whether stakeholders understand the requirements in relation to the firm establishing quality objectives and designing and implementing responses additional to those required by the standard?

6. Does the AUASB consider it appropriate to include an additional question in ED -1/10 in relation to stakeholders' support of documentation requirements particularly those related to the monitoring and remediation process?

##### **ED 02/19 ASQM 2 (Agenda Item 4.3.1)**

7. Does the AUASB consider it appropriate to include an additional question in ED 02/19 to address whether the requirement in ASQM 2 for the EQR to determine whether the requirements of ASQM 2 have been fulfilled and completed should actually reside in ISQM 1 or ASA 220?

##### **ED 03/19 ASA 220 (Agenda Item 4.4.1)**

8. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on situations where somebody other than the engagement partner signs the audit report?
9. Does the AUASB consider it appropriate to amend Question 4 of ED 03/19 to draw attention to the AUASB's issues with the Engagement Team definition?
10. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on whether the proposed changes will contribute to improved audit quality in Australia?

11. Has the AUASB identified any significant issues in ED 03/19 which have not been listed in this paper? If yes, do the specific questions appropriately bring this issue to stakeholder's attention?  
**ED 04/19 Conforming Amendments**
12. Are there any other conforming amendments as a result of the changes proposed in ED 01/19, ED 02/19 and ED 03/19 which have not been identified in ED 04/19?  
**Compelling Reasons Assessment**
13. Does the AUASB support the ATG's approach to the assessment of compelling reasons at this point in time?
14. Does the AUASB agree with the "Aus. Statements" in each of the exposure drafts? Do AUASB Members have any other paragraphs which they would considered appropriate to include an "Aus. Statement"?

## **Background**

### ***Exposure by IAASB***

6. At its December 2018 meeting, the IAASB approved for issue three EDs for managing quality at the firm and engagement levels. The three international exposure drafts are:
  - (a) Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements* ([ED-ISQM 1](#));
  - (b) Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* ([ED-ISQM 2](#)); and
  - (c) Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* ([ED-220](#)).

They were released by the IAASB in February 2019 with comments due to the IAASB by 1 July 2019.
7. Alongside the exposure drafts, an overall [Explanatory Memorandum](#) (EM) was released by the IAASB which included:
  - (a) Background as to why the project was undertaken to revise the suite of quality management standards;
  - (b) Significant matters for consideration by stakeholders, which included scalability of the three standards;
  - (c) The linkages between the three standards; and
  - (d) The IAASB's deliberations around an effective date for the standards.

### ***Effective Date***

8. At this stage, no effective date for the standards has been proposed by the IAASB. Instead the standards have been exposed with the statement "*the standards will be effective 18 months after the final approval by the Public Interest Oversight Board (PIOB)*". Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB. The ATG has aligned the

effective date wording in the Australian EDs with international and have included a footnote in each ED and the EM with further information.

### ***Format of Exposure Drafts***

9. Based on discussions with the AUASB Chair in February 2019, the ATG has converted the IAASB EDs into Australian EDs for exposure. An Australian EM covering all four EDs will be prepared by the ATG following the format established when the EM for ED 01/18 ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (ED 01/18) was approved and issued by the AUASB in July 2018.
10. As previously highlighted in paragraphs 3 and 4, the approach to compelling reasons will be to include a statement in the Australian ED flagging that the below paragraph will be considered for modification and may have an addition, deletion or amendment in line with the AUASB's *Compelling Reasons* test. A more in-depth explanation and consideration of this approach is included in paragraphs 24-27.
11. Refer to the "Discussion on AUASB ED process" paper at **Agenda Item 3**, which discusses the AUASB ED process and the decisions that led to the format of the EDs presented as part of this Agenda Item.

### **Matters to Consider**

#### ***Comment Date***

12. The IAASB has requested comments to be provided by 1 July 2019. To allow sufficient time for the ATG to prepare the submission to the IAASB and for the AUASB to deliberate the content, including consideration of significant issues and potential compelling reason amendments raised through the consultation process, the ATG proposes an Australian comment date of 25 May 2019.
13. A two day AUASB meeting is scheduled for 12-13 June 2019 (mail outs 29 May and 5 June). If the EDs are approved and released shortly after the March 2019 AUASB meeting, this should give stakeholders sufficient time (i.e. approx. 75 days) to respond.

#### **Questions**

1. Does the AUASB support the proposed Australian comment date of **25 May 2019**?

#### ***Exposure Draft Questions***

14. The questions for each of the exposure drafts have been drawn from the international questions to allow the submission prepared by the AUASB to align with the feedback requested by the IAASB, streamlining the submission preparation process.
15. Additional Australian specific questions have also been included. These questions are drawn from the Australian specific questions approved by the AUASB when ED 01/18 was issued.
16. The proposed EDs for each standard will be accompanied by a covering paper which will outline the major issues identified and discussed by the AUASB and ATG during the development of the EDs and the ATG's assessment as to whether the IAASB's questions appropriately draw stakeholder's attention to these issues. Where relevant, additional questions have been proposed by the ATG.

### ***ATG Outreach Plan***

17. The ATG has prepared an outreach plan for Phase 1 (exposure of standards) to ensure that relevant stakeholders impacted by the changes are made aware of the extent of the proposed changes and have sufficient time to provide feedback to the AUASB.
18. Due to the magnitude of the proposed changes in the EDs and the pervasive impact that the changes may have on how firms of all sizes operate, an extensive outreach plan is proposed and AUASB feedback is requested on this plan.
19. An important point for consideration is whether the *Quality Management* standards should exist in both the AUASB and APESB Frameworks. At this point in time, the existing ISQC 1 is also released as APES 320 *Quality Control for Firms* by the APESB. The ATG has initiated discussions with APESB staff on this matter and will have a solution for the AUASB to consider before approval of the final standards.
20. A final version of the ATG Outreach Plan, incorporating AUASB feedback, will be brought to the AUASB for approval at the April 2019 AUASB Meeting. The draft ATG Outreach Plan is presented as Attachment 1, Agenda Item 4.1.1.

### **Questions**

2. Does the AUASB have any feedback on the proposed ATG Outreach Plan? **Agenda Item 4.1.1**

### ***Co-ordination with NZAuASB***

21. The ATG has discussed the exposure of the *Quality Management* suite of standards with relevant NZAuASB staff. To avoid a double-up of work effort, where relevant, materials will be shared between the Technical Groups.
22. The NZAuASB has shared their outreach plan with the ATG. The NZAuASB have a number of activities planned which include:
  - (a) A webinar to provide an overview of the standards to be hosted April;
  - (b) Half day workshops on ISQM 1 specifically targeting SMPs; and
  - (c) Teleconferences for all other stakeholders to provide feedback on the issues asked for comment.
23. The AUASB webinar proposed in the outreach plan will be hosted once roundtable and other outreach has been completed. The AUASB webinar will focus on the key issues identified during outreach and will seek additional feedback from a broader range of stakeholders on these areas. The AUASB and NZAuASB webinars will be complementary rather than a duplication.

### ***“Compelling Reasons” Assessment***

24. Within the body of each ED, paragraphs that will be considered for modification (addition, deletion or amendment) in-line with the AUASB’s *Compelling Reasons* test have been identified with either of the follow *Modification Statements*:
  - (a) Where the ATG considers an existing modification to the extant standard may still be relevant the *modification statement* will be:

**Aus    The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect principles and practices considered**

appropriate in Australia are still applicable to the below paragraph. See Table 1 for more information;

OR

**Aus** The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect Australian laws and regulations are still applicable to the below paragraph. See Table 1 for more information;

(b) Where the ATG considers there may be a new modification required to comply with the AUASB's *Compelling Reasons* test the *modification statement* will be:

**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect principles and practices considered appropriate in Australia. See Table 2 for more information.

OR

**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations. See Table 2 for more information.

25. For example, ED 01/19 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* has a number of paragraphs relating to the International Code of Ethics. Rather deleting or amending the IAASB ED wording, to highlight that an Australian specific amendment to the proposed standard may be required the relevant paragraphs in the ED will appear as follows.

Introduction	
<b>Scope of this Auditing Standard</b>	
1	...
2	...
<b>Aus</b>	<b>The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations See Table 2 for more information.</b>
3	Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM.

26. To support each of the *Modification Statements*, an attachment has been prepared and will be issued alongside each ED and will include two tables.
- (a) **Table 1** – Australian modification to the extant QM Standards and whether they may be applicable to the ED; and
- (b) **Table 2** – Possible modifications to the ED identified by the ATG or AUASB. These are not drawn from existing modifications to the extant ASQC 1<sup>1</sup> and ASA 220<sup>2</sup>.

The purpose of the tables will be to provide more information to stakeholders about why each of the *Modification Statements* have been included. Under the *Conformity with International Standards* section in each ED a *Table of Amendments* has been included which will indicate which paragraphs

<sup>1</sup> ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

<sup>2</sup> ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

are being considered for modification and a short rationale on why they are proposed for amendment.

27. The approach of including *Modification Statements* rather than adding, deleting or amending paragraphs is, in the ATG's view, the most efficient and effective approach for both the ATG and AUASB. This is based on:
- (a) Due to the extensive changes in the standards from extant standards, it is important to provide Australian stakeholders with as much time as possible to review and consider the EDs. This process gives the stakeholders time to review the EDs and also indicates where the AUASB will be deliberating further on Australian modifications and gives stakeholders the opportunity to agree or disagree with the assessment or identify other areas of possible modification.
  - (b) The QM Standards are likely to be subject to significant change – As seen with ASA 540 *Auditing Accounting Estimates and Related Disclosures*, the redrafting from exposure to final was significant. Based on the comments received on exposure of ISA 315 *Identifying and Assessing the Risks of Material Misstatement* a significant re-draft is also expected. This trend is expected to continue with Quality Management EDs.  
  
Drafting and deliberating Aus. modifications for paragraphs which, based on recent experience, could change entirely is not an effective use of AUASB time. Identifying areas of the standards and principles/concepts in those standards which may require modification leaves the AUASB in a more agile position to respond to the final standard.
  - (c) Over this AUASB meeting and the next (April 2019), AUASB and ATG resources are constrained, with a number of other AUASB EDs and Submissions due over the same period, and an IAASB meeting occurring over this period. The AUASB does not have the capacity to sufficiently deliberate all compelling reasons and the wording of possible modifications whilst still allowing stakeholders sufficient time to read the EDs and provide considered feedback.

#### Questions

- 3. Does the AUASB support the ATG's approach to the assessment of compelling reasons at this point in time?
- 4. Does the AUASB agree with the "Aus. Statements" in each of the exposure drafts? Do AUASB Members have any other paragraphs which they would like considered for a *Compelling Reason* in the future?

#### **AUASB Technical Group Recommendations**

- 28. Once all AUASB Member feedback has been appropriately addressed, the ATG recommends the AUASB approve the Quality Management suite of exposure drafts and related materials for issue.



## Questions

5. Does the AUASB approve for issue:
- a) Explanatory Memorandum *Quality Management at the Firm and Engagement Level – Australian Exposure*;
  - b) ED 01/19 ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements*;
  - c) ED 02/19 ASQM 2 *Engagement Quality Reviews*;
  - d) ED 03/19 ASA 220 *Quality Management for an Audit of a Financial Report and other Historical Information*; and
  - e) ED 04/19 Proposed Auditing Standard 2019-X *Amendments to Australian Auditing Standards – Conforming amendments*?

## Material Presented

Agenda Item 4.1.0	AUASB BMSP QM Standards (This Paper)
Agenda Item 4.1.1	AUASB (Draft) Outreach Plan
Agenda Item 4.1.2	Explanatory Memorandum <i>Quality Management at the Firm and Engagement Level – Australian Exposure</i>
Agenda Item 4.2.1	ASQM 1 – ED Questions aligned to Issues
Agenda Item 4.2.2	ASQM 1 – Table of Australian Modifications
Agenda Item 4.2.3	ED 01/19 ASQM 1 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements</i>
Agenda Item 4.3.1	ASQM 2 – ED Questions aligned to Issues
Agenda Item 4.3.2	ASQM 2 – Table of Australian Modifications
Agenda Item 4.3.3	ED 02/19 ASQM 2 <i>Engagement Quality Reviews</i>
Agenda Item 4.4.1	ASA 220 – ED Questions aligned to Issues
Agenda Item 4.4.2	ASA 220 – Table of Australian Modifications
Agenda Item 4.4.3	ED 03/19 ASA 220 <i>Quality Management for an Audit of a Financial Report and other Historical Information</i>
Agenda Item 4.5.1	ED 04/19 Proposed Auditing Standard 2019-X <i>Amendments to Australian Auditing Standards – Conforming amendments</i>

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**Action Required**

<b>No.</b>	<b>Action Item</b>	<b>Deliverable</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Status</b>
1.	Responses from AUASB to questions asked throughout Agenda Item 4.	Responses to questions	AUASB	6 March 2019	N/A
2.	Approval from the AUASB to issue the four EDs.	Approval of EDs	AUASB	6 March 2019	N/A

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## Attachment to AUASB BMSP

<b>AGENDA ITEM NO.</b>	<b>4.1.1</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	Draft Outreach Plan Quality Management Standards
<b>Date Prepared:</b>	18 February 2019
<b>Prepared By:</b>	Tim Austin

### Matters to Consider

#### *Overview*

1. The AUASB Technical Group (ATG) has prepared the below draft outreach plan for phase 1 (exposure of standards) to ensure that relevant stakeholders impacted by the changes are made aware of the extent of the proposed changes and have sufficient time to provide feedback to the AUASB.
2. Due to the magnitude of the proposed changes in the EDs and the pervasive impact that the changes may have on how firms of all sizes operate, an extensive outreach plan is proposed and AUASB feedback is requested.
3. An important point for consideration is whether the Quality Management standards should exist in both the AUASB and APESB frameworks. At this point in time, the existing ISQC 1 is also released as APES 320 *Quality Control for Firms* by the APESB. The ATG has initiated discussions with APESB staff and will have a solution for the AUASB to consider before approval of the final standards.
4. A final version of the ATG Outreach Plan, incorporating AUASB feedback, will be brought to the AUASB for approval at the April 2019 AUASB Meeting. The ATG is planning the following activities.

Activity	Target	Proposed Timing
<u>Roundtables</u> – Melbourne, Sydney and Perth	All practitioners	April / May 2019
<u>Webinar</u> summarising feedback from roundtables seeking additional feedback on specific issues.	All practitioners	Early-Mid May 2019
<u>Large National Networks</u> and <u>Emerging Issues Group</u> presentations focused on discussing scalability of the QM standards.	SMP practitioners	April/May
<u>Specific outreach</u> to CPA, CAANZ and IPA about member's feedback on the standard, in particular issues with scalability.	All practitioners	March-May
<u>APESB discussion</u> on proposed ASQM 1 and APES 320.	APESB Staff	On-going

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### ***Considerations in Developing the Outreach Plan***

5. In developing the outreach plan, the ATG has considered:
- Who are the key stakeholders in relation to this project;
  - What are the key risks/issues; and
  - How can the risks/issues be mitigated or removed.

#### *Stakeholders*

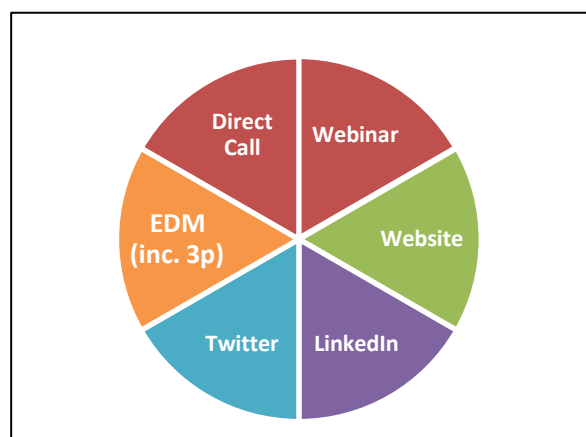
6. The key stakeholders identified by the ATG are:
- Assurance practitioners – In particular small and medium practitioners with regards to scalability of the standards.
  - Accounting bodies – CA ANZ, CPA Australia & IPA – representing practitioners.
  - Other Standards-Setters – APESB, NZAuASB and AASB (Canada).
  - Regulators – ASIC, APRA, ACNC.

#### *Risk/Issues and Possible Mitigations*

<b>Risks/Issues</b>	<b>Mitigation</b>
Stakeholders unaware of the planned outreach	Detailed communications plan developed by AUASB-AASB Communications Manager
Stakeholders unable to attend roundtables	Webinar to be hosted by ATG, which will be recorded and made available for stakeholders on AUASB website
Insufficient feedback from SMPs	Targeted outreach at Large National Networks and Emerging Issues Group and coordination with Professional Bodies.
Roundtables not engaging for stakeholders	Roundtables to be broken up into sections to allow stakeholders to attend the sections relevant to them.

#### *Communications Plan*

7. The AUASB-AUASB Communications Manager has prepared the below engagement approach to support the AUASB outreach. The approach focuses on consistent messaging across multiple platforms and includes metrics to track the impact of each of the forms of messaging.
8. The AUASB-AASB Communications manager will track the outlined communication mediums and channels and present results to the ATG to improve future outreach plans.



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Channel	Frequency	Metrics
Website	Latest News; Events announcement x 1	Page traffic
LinkedIn	3 posts ([1] awareness, [2] peak, [3] last minute)	Engagement metrics per post
Twitter	As above, shortened content (character restriction)	Engagement metrics per post
EDM (Email Direct Marketing)	<ul style="list-style-type: none"> <li>• Direct email announcement to AUASB database seeking input</li> <li>• Third-party request to announce through other government agencies (ASIC, APRA, ACNC) in a co-branded email announcement</li> </ul>	Open Rates, Click Through Rate, Total Third Party Channel Audience
Direct Call	Direct call to key stakeholders to get them & their associates involved with input	No. of calls made, No. of committed stakeholders
Webinar	If AUASB does not host own, seek permission from other NSS or IAASB to republish their video on the AUASB YouTube channel (in addition to website)	Video views

Draft

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March 2019

# **Explanatory Memorandum**

## ***Quality Management at the Firm and Engagement Level – Australian Exposure***

Issued by the Auditing and Assurance Standards Board



## Obtaining a Copy of this Explanatory Memorandum

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Explanatory Memorandum Exposure Draft: *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement***

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*Important Note and Disclaimer*

This Explanatory Memorandum is issued by the AUASB to provide information to auditors and assurance practitioners about the AUASB's exposure in Australia of the IAASB's proposed Quality Management suite of standards.

This Explanatory Memorandum does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.



**Explanatory Memorandum Exposure Draft: *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement***

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## EXPLANATORY MEMORANDUM

### Exposure Draft: *Quality Management Standards*

#### Purpose

1. The International Auditing and Assurance Standards Board (IAASB) have issued three Exposure Drafts for managing quality at the firm and engagement levels:
  - (a) Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control (ISQC) 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements ([ED-ISQM 1](#));
  - (b) Proposed International Standard on Quality Management 2, Engagement Quality Reviews ([ED-ISQM 2](#)); and
  - (c) Proposed International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements ([ED-220](#)).

These EDs replicated and been exposed in Australian format, as explained below.

2. The AUASB is seeking feedback from stakeholders on the Australian EDs to inform us when developing our response to the IAASB, and when considering whether there are any compelling reasons for the proposals to be modified for application in Australia. For further information on the compelling reasons test, refer to the Australian [Principles of Convergence](#).
3. The aim of this Explanatory Memorandum is to provide stakeholders with information about the development of the EDs, the key changes from the extant (where applicable) and links to information that will be helpful when considering the proposed changes. .

#### Composition of the Exposure Drafts and this Explanatory Memorandum

4. Four exposure drafts have been issued for comment by the AUASB, these exposure drafts are:
  - (a) ED 01/19 Proposed ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of a Financial Report, or Other Assurance or Related Services Engagements*;
  - (b) ED 02/19 Proposed ASQM 2 *Engagement Quality Reviews*;
  - (c) ED 03/19 Proposed ASA 220 *Quality Management for an Audit of a Financial Report and other Historical Financial Information*; and
  - (d) ED 04/19 *Proposed Auditing Standard 2019-X Amendments to Australian Auditing Standards – Conforming amendments*.
5. ED 01/19 proposes amendments to ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, including a change in title.
6. ED 02/19 proposes the introduction of a new standard which focuses on *Engagement Quality Reviews*. Engagement quality control requirements which exist in the extant ASQC 1 and ASA 220 will be moved to this new standard.
7. ED 03/19 proposes amendments to ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, including a change in title.

**Explanatory Memorandum Exposure Draft: *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement***

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8. ED 04/19 proposes conforming amendments, as a result of ED 01/19, ED 02/19 and ED 03/19, to:
- (a) *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards;*
  - (b) *ASA 210 Agreeing the Terms of Audit Engagements;*
  - (c) *ASA 230 Audit Documentation;*
  - (d) *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report;*
  - (e) *ASA 260 Communication With Those Charged with Governance;*
  - (f) *ASA 300 Planning an Audit of a Financial Report;*
  - (g) *ASA 500 Audit Evidence;*
  - (h) *ASA 540 Auditing Accounting Estimates and Related Disclosures;*
  - (i) *ASA 600 Special Considerations-Audits of a Group Financial Report;*
  - (j) *ASA 610 Using the Work of Internal Auditors;*
  - (k) *ASA 620 Using the Work of an Auditor's Expert;*
  - (l) *ASA 700 Forming an Opinion and Reporting on a Financial Report;*
  - (m) *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report;* and
  - (n) *ASA 720 The Auditor's Responsibilities Relating to Other Information.*
9. Where appropriate, IAASB resources have been referred to throughout ED 01/19, ED 02/19, ED 03/19 and this Explanatory Memorandum. The IAASB resources which accompany the IAASB EDs, listed below, are available on the IAASB website:
- [Overall Explanatory Memorandum](#) for the IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews
 

This memorandum explains the significant issues common to the three exposure drafts, including listing the conforming amendments. It also gives details about the proposed effective dates, the rationale behind not including an effective date and the implementation period. This memorandum should be read in conjunction with the explanatory memorandums for each of the three proposed standards.
  - Proposed International Standard on Quality Management 1 – [ISQM 1](#)
    - Draft [Frequently Asked Questions](#) Regarding ISQM 1
    - [Draft Examples](#) on How the Nature and Circumstances of the Firm and the Engagements it Performs Affect Implementation of ISQM 1
  - Proposed International Standard on Quality Management 2 – [ISQM 2](#)
  - Proposed International Standard on Auditing 220 (Revised) – [ISA 220 \(Revised\)](#)

## **Explanatory Memorandum Exposure Draft: *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement***

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### **What are the key changes?**

#### **Key changes from ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

10. The key changes introduced from extant ASQC 1 by the IAASB are:
  - A new proactive risk-based approach to firms' systems of quality management
  - Modernising the standard for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers
  - Increasing firm leadership responsibilities and accountability, and improving firm governance
  - More rigorous monitoring of quality management systems and remediation of deficiencies.
11. For more information on the key changes, refer to the IAASB's Explanatory Memorandum to ISQM 1, contained within the [IAASB ED](#).
12. Alongside the IAASB ED and Explanatory Memorandum the IAASB has released:
  - (a) Draft FAQs
 

The Draft Frequently Asked Questions prepared by a Task Force of the International Auditing and Assurance Standards Board regarding ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, provides further clarity on various matters contained within ED – ISQM 1.
  - (b) Draft Examples
 

The Draft examples: *How the Nature and Circumstances of the Firm and the Engagements it Performs Affect the Implementation of Proposed ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, prepared by a Task Force of the International Auditing and Assurance Standards Board is intended to illustrate how ED ISQM 1 can be applied in a scalable manner by firms with varying circumstances.

#### **Key proposals of ASQM 2 *Engagement Quality Reviews***

13. The key changes introduced from extant ASQC 1 and ASA 220 by the IAASB are:
  - Extending the requirement for an engagement quality review to engagements in addition to audits of a financial report
  - Enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer
  - Enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including nature, timing and extent of the engagement quality review procedures performed; and
  - Consideration of the effect of engagement quality reviews, and other forms of engagement reviews, on the appropriate exercise of professional scepticism by engagement teams.

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### **Key changes from extant ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information***

14. The key changes introduced from extant ASA 220 by the IAASB are:
- Modernising the standard to acknowledge different audit delivery models. Including material outlining that regardless of location of engagement team members, the work of any individual undertaking audit procedures need to be appropriately directed and supervised.
  - Removal of material that allowed engagement team members to rely on the firm's system of quality control, unless information from the firm or other parties suggested otherwise.
  - Strong emphasis on the Engagement Partner's overall responsibility for managing and achieving audit quality. This includes wording throughout the standard that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to manage and achieve quality. A new stand-back provision has also been included.
  - Material relating to relevant ethical requirements has been strengthened with more focus on the engagement partner's role in dealing with relevant ethical requirements.
  - Inclusion of a new section relating to engagement resources which includes human, technological and intellectual resources, and the engagement partner's responsibility to determine whether the resources assigned are sufficient and appropriate.
15. For more information on the key changes, refer to the IAASB's Explanatory Memorandum to ISA 220, contained within the [IAASB ED](#).

### **Questions asked by the IAASB and AUASB on Exposure**

16. A number of questions have been asked by the IAASB and the AUASB on exposure, which are listed below and in the relevant EDs. Questions on each of the EDs will be used to inform the AUASB when responding to the IAASB on their equivalent ED. Australian specific questions will be used when considering whether to amend the standards when adopted in Australia.

#### *Overall*

1. Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?
2. In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

#### *ED 01/19 – Proposed ASQM 1*

3. Does ED ASQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:
  - (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?
  - (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the

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engagement level? If not, what further actions should the IAASB take to improve the standard?

- (c) Are the requirements and application material of proposed ED ASQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?
4. Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?
5. Is the application material in ED ASQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?
6. Do you support the eight components and the structure of ED ASQM 1?
7. Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?
8. Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:
- (a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?
- (b) Do you support the approach for establishing quality objectives? In particular:
- (i) Are the required quality objectives appropriate?
- (ii) Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?
- (c) Do you support the process for the identification and assessment of quality risks?
- (d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:
- (i) Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?
- (ii) Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?
9. Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?
10. With respect to matters regarding relevant ethical requirements:

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- (a) Should ED ASQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?
  - (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?
11. Has ED ASQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management?
12. Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?
13. Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?
14. In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:
- (a) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?
  - (b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?
  - (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?
  - (d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:
    - (i) Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?
    - (ii) Is the manner in which ED ASQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?
  - (e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?
15. Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?
16. Do you support the proposals addressing service providers?

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17. With respect to national standard setters and regulators, will the change in title to “ASQM” create significant difficulties in adopting the standard at a jurisdictional level?

*ED 02/19 – Proposed ASQM 2*

18. Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED ASQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED ASQM 2 should deal with the remaining aspects of engagement quality reviews?
19. Are the linkages between the requirements for engagement quality reviews in ED ASQM 1 and ED ASQM 2 clear?
20. Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?
21. Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED ASQM 2?
- (a) What are your views on the need for the guidance in proposed ASQM 2 regarding a “cooling off” period for that individual before being able to act as the engagement quality reviewer?
- (b) If you support such guidance, do you agree that it should be located in proposed ASQM 2 as opposed to the APESB Code?
22. Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ASA 220 (Revised)?
23. Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional scepticism? Do you believe that ED ASQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?
24. Do you agree with the enhanced documentation requirements?
25. Are the requirements for engagement quality reviews in ED ASQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

*ED 03/19 – Proposed ASA 220*

26. Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED 03/19), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ASA appropriately reflect the role of other senior members of the engagement team, including other partners?



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27. Does ED 03/19 have appropriate linkages with the ASQM 1 and ASQM 2? Does you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?
28. Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED 03/19)
29. Does ED 03/19 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
30. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED 03/19)
31. Does ED 03/19, together with the overarching documentation requirements in ASA 230, include sufficient requirements and guidance on documentation?
32. Is ED 03/19 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

*Australian Specific Questions*

33. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
34. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
35. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
36. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where those costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
  - c. Whether expected costs outweigh the benefits to the users of audit services?
37. Are there any other significant public interest matters that constituents wish to raise?

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### **Background**

#### **IAASB**

17. The project to revise ISQC 1 and ISA 220 was initiated by the IAASB in December 2016. The need to revise the standards was based on findings from the post-implementation review of the suite of ISAs, post the clarity project.
18. A key finding from the post-implementation review was that additional guidance was needed to demonstrate how ISQC 1 and ISA 220 could be applied proportionately by small and medium sized practitioners (SMPs) and that various aspects of the standards could be made more robust.
19. A strategic objective of the IAASB is to ensure the International Standards on Auditing (ISAs) continue to form the basis for high quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments.

#### **AUASB**

20. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when preparing its submissions to the IAASB. The AUASB makes formal submissions on EDs issued by the IAASB to contribute to the setting of international auditing and assurance standards.
21. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:  
  
[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)
22. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
23. The AUASB will adopt the Quality Management Standards into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001*. Prior to implementation, the AUASB is required to consult with stakeholders and accordingly now issues Exposure Draft ED 01/19, ED 02/19, ED 03/19 and ED 04/19 for public exposure and comment. All comments received from stakeholders are considered by the AUASB when providing comments to the IAASB and prior to finalisation of the proposed revised standard.

#### **The AUASB's approach**

##### *Exposure Draft Protocols*

24. The AUASB has developed ED 01/19, ED 02/19, ED 03/19 and ED 04/19 based on the relevant IAASB equivalents, as noted earlier. The AUASB has Australianised the IAASB Exposure Drafts so that they appear like an Australian Standard which includes terminology changes to comply with requirements relating primarily to legislative instruments. Such changes are mechanical in nature and do not change the meaning from the equivalent ISA.
25. Within the body of each ED, paragraphs that will be considered for modification (addition, deletion or amendment) in-line with the AUASB's Compelling Reasons test have been identified with either of the follow Modification Statements:

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- (a) Where the AUASB considers an existing modification to the extant standard may still be relevant the modification statement will be:

**Aus The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect principles and practices considered appropriate in Australia may still applicable to the below paragraph. See Table 1 for more information;** or

**Aus The AUASB will deliberate whether a modification in the extant ASQC 1/ASA 220 made to reflect Australian laws and regulations may still applicable to the below paragraph. See Table 1 for more information;**

- (b) Where the ATG considers there may be a new modification required to comply with the AUASB's Compelling Reasons test the modification statement will be:

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect principles and practices considered appropriate in Australia. See Table 2 for more information.** or

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations. See Table 2 for more information.**

26. To support each of the Modification Statements, an attachment has been prepared and will be issued alongside each ED and will include two tables.
- (a) Table 1 – Australian modification to the extant QM Standards and whether they may be applicable to the ED; and
- (b) Table 2 – Possible modifications to the ED identified by the ATG or AUASB. These are not drawn from existing modifications to the extant ASQC 1 and ASA 220.
27. The purpose of the tables will be to provide more information to stakeholders about why each of the Modification Statements have been included. Under the Conformity with International Standards section in each ED a Table of Amendments has been included which will indicate which paragraphs are being considered for modification and a short rationale on why they are proposed for amendment.

#### *General*

28. ED 01/19, ED 02/19, ED 03/19 and ED 04/18 will be open to stakeholders for a **70 day comment period** closing on 25 May 2019. This is to allow stakeholders time to respond to the AUASB on the EDs, and for the AUASB to conduct further outreach and to collate all feedback into our submission to the IAASB due on 1 July 2019.
29. At the completion of the exposure period, the AUASB will consider stakeholders' submissions:
- (a) to inform us when developing our response to the IAASB on their ED; and
- (b) where the AUASB determines that a compelling reason exist, to inform us as to whether modifications may be required when we are adopting the final standard.

#### **Outreach Activities**

30. In addition to the public exposure process, during April and May 2019 the AUASB will be conducting roundtable consultative meetings and a webinar on the suite of Quality Management EDs. Announcement about dates and locations will be announced shortly after the EDs are issued by the AUASB.

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### **Application**

31. At this stage, no effective date for the standards has been proposed by the IAASB. Instead the standards have been exposed with the statement “*the standards will be effective 18 months after the final approval by the Public Interest Oversight Board (PIOB)*”. Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

### **Website Resources**

32. The AUASB welcomes stakeholders’ input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

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## Attachment to AUASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	<b>4.2.1</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	ASQM 1 - Significant issues identified by the AUASB
<b>Prepared by:</b>	Rene Herman
<b>Date Prepared:</b>	22 February 2019

### Objective

- The objective of this paper is to outline the significant issues raised by the AUASB and ATG during the development of Proposed ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, determine whether any other issues have been identified since the last review of the proposed standard in December 2018 and whether the questions in ED 01/19 appropriately draw stakeholder's attention to areas of interest.

### Matters to Consider

- A table has been prepared in paragraph 3, which aligns each of the issues raised by the AUASB to a question in ED 01/19. Based on the analysis in the table, the ATG recommends the inclusion of additional question in ED 01/19 to draw stakeholder attention to the following issues:
  - Overall objective of improved quality engagements?
  - Helpfulness of introductory paragraphs and appendix?
  - Quality objectives and responses additional to those set out in the standard?
  - Documentation requirements?

### Questions

- Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on whether this standard is expect to result in improved quality engagements?
- Does the AUASB consider it appropriate to include an additional question in ED 01/19 to understand stakeholders' views on the usefulness of introductory paragraphs as such an introduction appears to be a trend coming through the standards?
- Does the AUASB consider it appropriate to include additional wording into questions 6(b)(ii) and 6(d)(ii) enquiring whether stakeholders understand the requirements in relation to the firm establishing quality objectives and designing and implementing responses additional to those required by the standard?

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4. Does the AUASB consider it appropriate to include an additional question in ED -1/10 in relation to stakeholders' support of documentation requirements particularly those related to the monitoring and remediation process?

### AUASB Table Aligning Questions to Issues

3. The following table summarises whether issues identified by the AUASB through the September and November 2018 AUASB meetings have been appropriately addressed by the questions raised in ED 01/19 or whether additional questions should be raised on exposure.

Issue Raised	Brief Description	Addressed by Question
Prescriptiveness and Scalability	The AUASB does not have a clear understanding of the linkage of the original objectives to revise ISQC 1 and how the proposed revisions to ISQM 1 will result in improved audit quality. The AUASB has serious concerns that the very prescriptive approach to each component of the System of Quality Management (SOQM) may be detrimental to audit quality. For SMPs specifically this prescriptive QMA approach is less scalable than the current principles in extant ISQC 1 and may increase compliance costs and time at the firm level without necessarily achieving improved audit quality.	<p>ATG considers the issue is partly addressed by question 1(c) and question 5.</p> <p><i>1(c): Are the requirements and application material of proposed ED-ASQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?</i></p> <p><i>5: Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?</i></p> <p><b>The ATG consider that an additional question on audit quality could be raised (Question 1):</b></p> <p><b><i>Do you consider that the proposed revisions to ISQM 1 will result in improved quality engagements?</i></b></p>
Principles verses Prescriptiveness	IAASB standards are meant to be principles-based and as such, the QCTF's intended approach for Firms to apply professional judgement to the quality objectives, risks and associated responses for each component. The AUASB does not understand how the current drafting of proposed ISQM 1 can be considered to be principles-based. The AUASB considers the objectives embedded in each component of the SOQM to be compliance based with a very prescriptive approach to each component of the System of Quality Management (SOQM)	<p>ATG considers the issue is addressed in questions 4 and 6</p> <p><i>4. Do you support the eight components and the structure of ED-ASQM 1?</i></p> <p><i>6: Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:</i></p> <p><i>(a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?</i></p> <p><i>(b) Do you support the approach for establishing quality objectives? In particular:</i></p> <p><i>(i) Are the required quality objectives appropriate?</i></p> <p><i>(ii) Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?</i></p>

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Issue Raised	Brief Description	Addressed by Question
		<p>(c) <i>Do you support the process for the identification and assessment of quality risks?</i></p> <p>(d) <i>Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:</i></p> <p>(i) <i>Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?</i></p> <p>(ii) <i>Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?</i></p>
Introductory paragraphs and appendix	The introductory paragraphs and appendix are largely repetitive of the requirements and application material, albeit in a summary form. Since the length of the standard is already of concern, the AUASB considers these paragraphs to be duplicate and questions the need for them.	<p><b>ATG consider that an additional question can be raised (Question 2):</b></p> <p><b><i>Do you support the introductory paragraphs and appendix and do you find them helpful?</i></b></p>
Application material	The proposed standard appears to contain far too much guidance in its application material. It seems as though the QCTF is trying to cater for every question that may arise or situation within the application guidance. The standard could possibly be almost half the length if a more streamlined approach to the nature and extent of guidance provided was taken. We would encourage the IAASB/QCTF to consider whether a lot of this content could be moved to a 'best practice' type guide as opposed to being in the standard itself.	<p>ATG considers that issue is addressed in question 3:</p> <p><i>3. Is the application material in ED-ASQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?</i></p>

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Issue Raised	Brief Description	Addressed by Question
Legally enforceable standards.	The AUASB raises concern as to how compliance with this standard can be demonstrated particularly in jurisdictions where standards are legally enforceable. The AUASB considers that firms may be inappropriately held to account and set up to fail, particularly with the drafting and requirements of the likes of paragraphs 10(c), 29 and A57 – that require the firm to determine whether it is appropriate to establish quality objectives beyond those required by the standard in order to achieve the objectives of the standard.	<p>ATG considers that the issue is partly addressed through 6(b)(ii) and 6(d)(ii):</p> <p><i>6(b)(ii). Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances</i></p> <p><i>6(d)(ii): Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard</i></p> <p><b>ATG recommends an additional question is raised immediately following these questions (Question 3):</b></p> <p><b><i>Do stakeholders understand what this means and what work effort is required to meet these requirements?</i></b></p>
Monitoring Activities	The AUASB considers the drafting of the requirements of paragraphs 46 and 47 difficult to understand. Additionally, the AUASB considers the requirements of paragraph 68(c)iii to be overly granular.	<p>The ATG considers that the question is partly addressed in question 12(a):</p> <p><i>12(a): Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?</i></p> <p><b>ATG recommends an additional question is raised (question 4):</b></p> <p><b><i>Do stakeholders support the documentation requirements particularly those related to the monitoring and remediation process?</i></b></p>

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## Attachment to AUASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	<b>4.2.2</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	ISQM 1 Australian modifications
<b>Prepared by:</b>	Rene Herman
<b>Date Prepared:</b>	19 February 2019

### Matters to Consider

#### *Part A – General*

1. The AUASB is requested to review the compelling reason tables included below and provide feedback.
  - (a) Table 1 reflects the existing AUS paragraphs within extant ASQC 1 and determines whether these paragraphs are still necessary in the context of the proposed ASQM 1.
  - (b) Table 2 reflects paragraphs within the proposed ASQM 1 that the ATG considers may need to be deleted/modified for the Australian environment. The paragraphs relate to content that is either:
    - (i) APESB Code related; or
    - (ii) subject matter is not applicable within the Australian context

#### *Part B – NZAuASB*

2. The NZAuASB will consider New Zealand amendments as part of their Exposure Outreach. The NZAuASB has issued the IAASB ED with no amendments.

#### *Part C – “Compelling Reasons” Assessment*

3. Refer Table below.

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**TABLE 1 – AUS PARAGRAPHS FROM EXTANT ASQC 1**

**Australian modifications from extant ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagement and Related Services Engagements.***

Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
<b>Introduction</b>			
Aus 1.1	<p><b>Deleted paragraph 1</b></p> <p>This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality control for audits and reviews of <b>financial statements</b>, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.</p> <p><b>ED ISQM 1 paragraph 1:</b></p> <p>This International Standard on Quality Management (ISQM) deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. ISQM 23 deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews. This ISQM is to be read in conjunction with relevant ethical requirements.</p>	<p>This Auditing Standard, ASQC 1 (the Standard), deals with the firm’s responsibilities for its system of quality control for audits and reviews of <b>financial reports and other financial information</b>, other assurance engagements and related services engagements. This Standard is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are <b>defined in ASA 102.</b><sup>*</sup></p>	<p>Y – placeholder to paragraph 1. Note, the linkage to ASA 102 now will come through in paragraph 3 of ED ASQM 1 – refer table 2 below.</p>

<sup>3</sup> **Proposed ISQM 2, Engagement Quality Reviews**

<sup>\*</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.*

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
<b>Authority of this Auditing Standard</b>			
Aus 4.1	<p>Deleted paragraph 4</p> <p>This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as size and operating characteristics of the firm, and whether it is part of a network.</p> <p><b>ED ISQM 1 introductory paragraphs 4 and 5:</b></p> <p>This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies).</p> <p>Scalability</p> <p>This ISQM requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management, taking into account:</p> <ul style="list-style-type: none"> <li>a) The nature and circumstances of the firm, including whether it is part of a network or uses service providers; and (Ref: Para. A22)</li> <li>b) The nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are performed. (Ref: Para. A23)</li> </ul>	<p>This Standard applies to all firms of assurance practitioners in respect of audits and reviews of <b>financial reports and other financial information</b>, other assurance engagements and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</p>	<p>N – proposed wording of ED ASQM 1 paragraphs 4 and 5 cover this appropriately.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	Accordingly, the complexity and formality of firms' systems of quality management will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements.		
Aus 4.2	N/A – additional material	The requirements of this Standard apply to a firm, not to the individual auditor(s) within the firm.	N – standard is clear enough in the scope paragraph 4.
<b>Definitions</b>			
Aus 12.1	N/A – additional definition	Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.	Y – ASQM 1 is a legislative instrument – suggest including definitions.  Refer to placeholder in ED ASQM 1 under the title of Definitions.
Aus 12.2	N/A – additional definition	Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures).	Y – ASQM 1 is a legislative instrument – suggest including definitions  Refer to placeholder in ED ASQM 1 under the title of Definitions.
Aus 12.3	Deleted paragraph 12(a)	Date of report <b>means the date the assurance practitioner signs the report.</b>	Y – ASQM 1 is a legislative instrument –

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<p>Date of report – The date selected by the practitioner to date the report.</p> <p><b>ED ISQM 1</b> does not contain a definition of date of report.</p>		<p>suggest including definitions. Note that ED ISQM 1 does not include a definition.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.4	<p><b>Deleted paragraph 12(b)</b></p> <p>Engagement documentation – The record of work performed, <b>results obtained</b>, and conclusions the practitioner reached (terms such as “working paper” or “workpapers” are sometimes used).</p> <p><b>ED ISQM 1</b> uses the same definition</p>	<p>Engagement documentation means the record of work performed, <b>relevant evidence obtained</b>, and conclusions the assurance practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).</p>	<p>N – this is not considered to be a compelling reason amendment.</p>
Aus 12.5	<p><b>Deleted paragraph 12(c)</b></p> <p>Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p><b>ED ISQM 1 definition, paragraph 19(c):</b></p> <p>The partner or other individual, appointed by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body</p>	<p>Engagement partner means the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. <b>Engagement partner should be read as referring to a public sector equivalent where relevant.</b></p>	<p>N – ISQM 1 now references public sector.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	Footnote to Paragraph 19(c): “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.		
Aus 12.6	<p><b>Deleted paragraph 12(f)</b></p> <p>Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)<sup>4</sup></p> <p><b>ED ISQM 1 paragraph 19(f) definition:</b></p> <p>All partners and staff performing the engagement, and any individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm <b>and also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)<sup>5</sup></b></p>	Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.	<p>Y – Australia does not allow direct assistance of internal audit.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>

<sup>4</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

<sup>5</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
Aus 12.7	<p><b>Deleted paragraph 12(g)</b></p> <p>Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.</p> <p><b>ED ISQM 1 paragraph 19(h) definition:</b></p> <p>A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.</p>	<p>Firm means a sole practitioner, partnership or corporation or other entity of <b>assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.</b></p>	<p>N. Professional accounts automatically replaced by assurance practitioners in the AUASB macros and public sector now referenced.</p>
Aus 12.8	<p>N/A – additional definition</p>	<p>Limited assurance engagement means an assurance engagement where the assurance practitioner’s objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner’s conclusion. A limited assurance engagement is commonly referred to as a review.</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.9	<p>N/A – additional definition</p>	<p>Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).</p>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.10	<p>Deleted paragraph 12(m)</p>	<p>Partner means any individual with authority to bind the firm with respect to the performance of <b>an audit, review, other assurance engagement or related</b></p>	<p>Y – only partly as public sector is now referenced.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<p>Partner – Any individual with authority to bind the firm with respect to the performance of a <b>professional services engagement</b>.</p> <p><b>ED ISQM 1 paragraph 19(l)</b> – same definition but with a footnote noting “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant..</p>	<p><b>services engagement. Partner should be read as referring to a public sector equivalent where relevant.</b></p>	<p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.11	<p><b>Deleted paragraph 12(o)</b></p> <p>Professional Standards – IAASB Engagement Standards, as defined in the <i>IAASB’s Preface to the International Quality Control, Auditing Review, Other Assurance and Related Services Pronouncements</i>, and relevant ethical requirements.</p> <p><b>ED ISQM 1 paragraph 19(o) – same definition</b></p>	<p><b>AUASB Standards means standards issued by the AUASB, comprising:</b></p> <ul style="list-style-type: none"> <li><b>(a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:</b> <ul style="list-style-type: none"> <li>• <b>Auditing Standards made under section 336 of the Corporations Act 2001;</b> <ul style="list-style-type: none"> <li>• <b>ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement; and</b></li> <li>• <b>ASA 810 Engagements to Report on Summary Financial Statements.</b></li> </ul> </li> <li><b>(b) Standards on Review Engagements;</b></li> <li><b>(c) Standards on Assurance Engagements; and</b></li> <li><b>(d) Standards on Related Services.</b></li> </ul> </li> </ul>	<p>Y – ASQM 1 is a legislative instrument – suggest including definitions within the standard.</p> <p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
Aus 12.12	<p><b>Deleted paragraph 12(q)</b></p> <p>Relevant ethical requirements – Ethical requirements to which the engagement team and engagement</p>	<p>Relevant ethical requirements means <b>relevant ethical requirements as defined in ASA 102.</b></p>	<p>Y – legislative instrument</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<p>quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants’ <i>Code of Ethics for Professional Accountants</i> (IESBA Code) together with national requirements that are more restrictive.</p> <p><b>ED ISQM 1 paragraph 19(s):</b></p> <p>Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.</p>		<p>Refer to placeholder in ED ASQM 1 under the title of Definitions.</p>
<p>Aus 12.13</p>	<p><b>Deleted paragraph 12(s)</b></p> <p>Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an <b>employee</b> (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of <b>historical financial information</b>, or other assurance or related services engagements, or of an organization that provides relevant quality control services.</p>	<p>Suitably qualified external person means an individual outside the firm with the competence and capabilities to act as an engagement partner. For example:</p> <ul style="list-style-type: none"> <li>• a partner of another firm, or</li> <li>• a <b>member</b> (with appropriate experience) of a professional accountancy body* whose members may perform audits and reviews of <b>financial reports and other financial information</b>, other assurance engagements or related services engagements, or</li> </ul>	<p>N.</p> <p>Note, ED ISQM 1 does not contain definition and the ED only references the term ‘suitably qualified’ in application material paragraphs A47 and A62 and not in the context of acting as an engagement partner.</p>

\* For example, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<p><b>ED ISQM 1</b> does not contain definition and the ED only references the term ‘suitably qualified’ in application material paragraphs A47 and A62 and not in the context of acting as an engagement partner.</p>	<ul style="list-style-type: none"> <li>a <b>member</b> (with appropriate experience) of an organisation that provides relevant quality control services.</li> </ul>	
<b>Relevant Ethical Requirements</b>			
Aus 24.1	<p><b>Deleted paragraph 24</b></p> <p>At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independences from all firms personnel required to be independent by relevant ethical requirements. (Ref: Para A10-A11)</p> <p><b>ED ISQM 1 paragraph 33(d):</b></p> <p>Obtaining, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p>	<p>At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, <b>and applicable legal and regulatory requirements.</b> (Ref: Para. A10-A11)</p>	<p>Y – to include reference to applicable legal and regulatory requirements.</p> <p>Refer placeholder at ED ASQM 1 paragraph 33(d).</p>
<b>Engagement Performance</b>			
Aus 34.1	N/A – additional material	<p>The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. A36 A40)</p>	<p>N – ATG to take forward as a response to the IAASB’s. No placeholder at this stage.</p>
<b>Applying, and Complying with, Relevant Requirements</b>			
<i>Considerations specific to Public Sector Entities</i>			
Aus A1.1	N/A – additional material	<p>For assurance engagements conducted in the public sector by Auditors General pursuant to legislation, public sector auditors should have regard to the relevant public sector mandate and address any threats in that context. Requirements relating to independence (paragraphs 21 25), acceptance and</p>	<p>Y – ATG still to link to appropriate paragraph of ED ASQM 1.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
		continuance of client relationships and specific engagements (paragraphs 26 28), and complaints and allegations (paragraphs 55 56) may not be consistent with the Auditors General legislative mandate in all circumstances.	
<b>Relevant Ethical Requirements</b>			
Aus A7.1	<p><b>Deleted paragraph A7</b></p> <p>The IESBA Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> <li>(a) Integrity ;</li> <li>(b) Objectivity;</li> <li>(c) Professional competence and due care;</li> <li>(d) Confidentiality; and</li> <li>(e) Professional behaviour</li> </ul> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>	The firm is required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits and reviews, other assurance engagements and related services engagements, as defined in ASA 102.	<p>Y- refer A67 in table 2 below.</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102.</p>
	<p><b>Deleted paragraph A8</b></p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.</p>	[Deleted by the AUASB. Refer ASA 102]	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. See table 2 below.</p>

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
	<p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>		
	<p><b>Deleted paragraph A9</b></p> <p>The fundamental principles are reinforced in particular by:</p> <ul style="list-style-type: none"> <li>• The leadership of the firm;</li> <li>• Education and training</li> <li>• Monitoring; and</li> <li>• A process for dealing with non-compliance</li> </ul> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document.</p>	<p>[Deleted by the AUASB. Refer ASA 102]</p>	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. See table 2 below.</p>
<p>Aus A10.1</p>	<p><b>Deleted paragraph A10</b></p> <p>The definitions of “firm”, “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISQC. For example, the IESBA Code defines the “firm” as:</p> <ul style="list-style-type: none"> <li>(a) A sole practitioner, partnership or corporation of professional accountants;</li> <li>(b) An entity that controls such parties through ownership, management or other means; and</li> <li>(c) An entity controlled by such parties through ownership, management or other means.</li> </ul> <p>The IESBA Code also provides guidance in relation to the terms “network” and “network firm”. In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.</p>	<p>Independence (Ref: Para. 21)</p> <p>Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> Part 2M.3 Division 3, and relevant ethical requirements.*</p>	<p>Y</p> <p>This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102.</p> <p>Refer placeholder to attach Australian extant text to paragraph 32(a) by way of a footnote to the word independence in paragraph 32(a):</p> <p>32. The firm shall establish the following quality objectives that address the fulfilment of responsibilities in</p>

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	<p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– included as an attachment to this document</p>		<p>accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics: (Ref: Para. A67)</p> <p>(a) The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence.</p>
<p>Aus A12.1</p>	<p><b>Deleted paragraph A12</b></p> <p>The IESBA Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.</p> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– but no specificity on familiarity threats</p>	<p>A familiarity threat may be created by using the same senior personnel on an assurance engagement over a long period of time.</p>	<p>Y – new application material paragraph associated to A68.</p> <p>Refer placeholder to A68.</p>
<p>Aus A13.1</p>	<p><b>Deleted paragraph A13</b></p> <p>Determining appropriate criteria to address familiarity threats may include matters such as:</p> <ul style="list-style-type: none"> <li>• The nature of the engagement, including the extent to which it involves a matter of public interest; and</li> </ul>	<p>Determining appropriate criteria to address familiarity threats may include matters such as:</p> <ul style="list-style-type: none"> <li>• The nature of the engagement, including the extent to which it involves a matter of public interest; and</li> <li>• The length of service of the senior personnel on the engagement.</li> </ul>	<p>N</p> <p>See above – already covered.</p>

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	<ul style="list-style-type: none"> <li>The length of service of the senior personnel on the engagement.</li> </ul> <p>Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.</p> <p><b>ED ISQM 1</b> contains considerable ethical application material paragraphs A 67- A74– but no specificity on familiarity threats</p>	<p>Examples of safeguards <b>that might be appropriate to address familiarity threats</b> include rotating the senior personnel or requiring an engagement quality control review.</p>	
Aus A14.1	<p><b>Deleted paragraph A13</b></p> <p>The IESBA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IESBA Code requires the rotation of key audit partners<sup>6</sup> after a pre-defined period, normally no more than seven years, and provide related standards and guidance. National requirements may establish shorter rotation periods.</p> <p><b>ED ISQM 1</b> No specific paragraphs on familiar but partner rotation paragraphs at paragraph</p>	<p>A familiarity threat is particularly relevant in the context of <b>financial report</b> audits of listed entities. <b>For these audits, relevant ethical requirements and the Corporations Act 2001 specify partner rotation requirements.</b></p>	<p>Y</p> <p>Attach application material to paragraph A68:</p> <p>.....</p> <ul style="list-style-type: none"> <li>Set rotation periods for the engagement partner and other senior personnel for all engagements performed by the firm, including other assurance or related services engagements.</li> </ul> <p>Refer placeholder to A68.</p>
<b>Engagement Performance</b>			
Retention of Engagement Documentation (Ref: Para. 47)			
Aus A61.1	N/A – additional material	For audits or reviews of financial reports conducted under the <i>Corporations Act 2001</i> (the Act),	Y – Corporation Act specific

<sup>6</sup> As defined in the IESBA Code

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
		section 307B of that Act requires an auditor or member of an audit firm to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until: <ul style="list-style-type: none"> <li>(a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or</li> <li>(b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers.</li> </ul>	Placeholder into ED ISQM 1 paragraph A111
Aus A61.2	N/A – additional material	Relevant law or regulation, other than the <i>Corporations Act 2001</i> , may require the retention of audit working papers for specified periods.	Placeholder into ED ISQM 1 paragraph A111
<b>Engagement Performance</b>			
Ownership of engagement documentation			
Aus A63.1	<p><b>Deleted paragraph A63</b></p> <p>Unless otherwise specified by law or regulation, engagement documentation <b>is</b> the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, <b>in the case of assurance engagements</b>, the independence of the firm or its personnel.</p> <p><b>ED ISQM 1, paragraph A112</b> – same as extant</p>	Unless otherwise specified by law or regulation, engagement documentation <b>remains</b> the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed or the independence of the firm or its personnel.	N
<b>Engagement Performance</b>			

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Extant ASQC 1 Paragraph number	IAASB Text (if applicable) from Extant ISQC 1	Australian text	Placeholder in ED
Considerations Specific to Public Sector Organisations			
Aus A68.1	N/A – additional material	In the public sector, an auditor appointed under statute (for example, an Auditor General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement.	AUASB to determine placing.

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**TABLE 2– PARAGRAPHS FROM PROPOSED AQQM 1 THAT MAY NEED DELETION OR MODIFICATION FOR THE AUSTRALIAN ENVIRONMENT (if not already considered in table 1 above)**

Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group’s comments
3	Law, regulation or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this ASQM.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph 3.
A2	The APESB Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ASQM, the consistent performance of quality engagements forms part of the professional accountant’s responsibility to act in the public interest.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A2.
A14	The APESB Code provides guidance in relation to the terms “network” and “network firm.”	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A14.
A15	The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the APESB Code defines the term “professional accountant” and further explains the scope of provisions in the APESB Code that apply to individual professional accountants in public practice and their firms.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A15.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group’s comments
A16	The APESB Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the APESB Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the APESB Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A16.
A45	Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances when complaints or allegations arise, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm. For example, sections 260 and 360 of the APESB Code address the approach to be taken by the firm or its personnel in responding to non-compliance or suspected non-compliance with laws or regulations, which may include communications external to the firm that are addressed through the firm’s policies or procedures for external communication in paragraph 41(c).	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A45.
A67	The APESB Code sets out the fundamental principles of ethics that establish the standard of behaviour expected of a professional accountant and establishes the Australian Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The APESB Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A67.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	Australian Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.	
A70	Various provisions of the relevant ethical requirements may apply only to personnel and not the firm itself. For example, Part 2 of the APESB Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the APESB Code (e.g., policies or procedures addressing section 260 of the APESB Code regarding non-compliance with laws and regulations).	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph 70.
A72	Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the APESB Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A72.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
A74	Relevant ethical requirements may specify how the firm is required to respond to a breach. The APESB Code sets out requirements for the firm in the event of a breach of the APESB Code and includes specific requirements addressing breaches of the Australian Independence Standards, which includes requirements for communication with external parties	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A74.
A82	Professional standards or legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make enquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ASA 3007 requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The APESB Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial reports.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A82.
A86	There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A86.

<sup>7</sup> ASA 300, Planning an Audit of a Financial Report, paragraph 13(b)

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	requirements. The APESB Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.	
A90	In some circumstances, a threat to the firm's integrity may arise as a result of being associated with the subject matter of the engagement. Relevant ethical requirements may include requirements addressing circumstances when the firm becomes associated with information that is false or misleading. For example, the APESB Code contains requirements addressing circumstances when the professional accountant becomes associated with information that contains a materially false or misleading statement, contains statements that have been provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A97.
A97	In performing related services engagements, a practitioner is not required to gather evidence to express an opinion or conclusion on the information. However, the practitioner may form conclusions related to the performance of the engagement, for example, in a compilation engagement the practitioner may conclude that the compiled financial information is misleading and be required to take the appropriate actions set out in ISRS 4410 (Revised). <sup>8</sup>	This paragraph will be considered in the context of Australia not having a related services engagement ASRS 4410. Placeholder to paragraph A97.

<sup>8</sup> International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, paragraphs 34–36

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
A171	<p>As described in paragraph A65, objectivity is a fundamental principle of the APESB Code, and the provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. For example, a self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> <li>• An inspection of an engagement was: <ul style="list-style-type: none"> <li>○ In the case of an audit of a financial report, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or</li> <li>○ For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.</li> </ul> </li> <li>• Another type of monitoring activity had participated in designing, executing or operating the response being monitored.</li> </ul>	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A171.
A213	<p>In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the APESB Code requires documentation of particular matters, including certain situations</p>	This paragraph will be considered in the context of Relevant Ethical Requirements as defined in ASA 102. Placeholder to paragraph A213.

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Paragraph from proposed ASQM 1	IAASB Text from proposed ASQM 1	Audit Technical Group's comments
	related to conflicts of interest, non-compliance with laws and regulations and independence.	

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**Appendix 1:**

*Exerts from ED ISQM 1 in relation to Ethical Requirements (A67 – A74)*

**Relevant Ethical Requirements** (Ref: Para. 32–33)

- A1. The IESBA Code sets out the fundamental principles of ethics that establish the standard of behavior expected of a professional accountant and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the International Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.
- A2. In some cases, the firm may determine that it is appropriate to design and implement responses that are more specific than the provisions of relevant ethical requirements. For example, having regard to the nature and circumstances of the firm and its engagements, a firm may:
- Prohibit the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
  - Set rotation periods for the engagement partner and other senior personnel for all engagements performed by the firm, including other assurance or related services engagements.
- A3. Other components include responses that may affect or relate to the relevant ethical requirements component. For example, the following are examples of responses for information and communication and resources that may address assessed quality risks for relevant ethical requirements:
- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
  - Providing training for personnel on relevant ethical requirements.
  - Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
  - Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
  - Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner related to:

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- Personal or firm situations that may create threats to independence, for example, financial interests, loans, employment relationships or personal appointments.
- Client engagements, including non-assurance engagements. For example, this may include the scope of services, fees or information about long association.
- Business relationships.
- Any breaches of the relevant ethical requirements, including those related to independence.
- Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

Furthermore, the individual in the firm assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures addressing communication of breaches of independence requirements and determining that appropriate actions have been taken to address the causes and consequences of the breach.

- A4. Various provisions of the relevant ethical requirements may apply only to personnel and not the firm itself. For example, Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the IESBA Code (e.g., policies or procedures addressing section 260 of the IESBA Code regarding non-compliance with laws and regulations).
- A5. The applicability of the relevant ethical requirements to others (i.e., the network, network firms, personnel in the network or network firms, or service providers) depends on whether those requirements contain specific provisions addressing others, and how the firm uses others in its system of quality management. For example:
- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms.
  - The definition of engagement team under relevant ethical requirement may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.

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- The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.
- A6. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the IESBA Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.
- A7. The policies or procedures addressing breaches of the relevant ethical requirements, including those related to independence, may address matters such as:
- The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;
  - The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;
  - The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;
  - Determining whether to report a breach to external parties; and
  - Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.
- A8. Relevant ethical requirements may specify how the firm is required to respond to a breach. The IESBA Code sets out requirements for the firm in the event of a breach of the IESBA Code and includes specific requirements addressing breaches of the International Independence Standards, which includes requirements for communication with external parties

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EXPOSURE DRAFT

**ED 01/19**

(March 2019)

# **Proposed Auditing Standard ASQM 1** *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

Issued for Comment by the Auditing and Assurance Standards Board



**Australian Government**

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**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 27 May 2019. Comments should be addressed to:

The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

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**Proposed Auditing Standard ASQM 1**  
***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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**Proposed Auditing Standard ASQM 1*****Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***


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**Proposed Auditing Standard ASQM 1**  
***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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## PREFACE

### Reasons for Issuing ED 01/19

The AUASB issues exposure draft ED 01/19 of proposed Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

### Main Proposals

This proposed Auditing Standard represents the Australian equivalent of the IAASB's Exposure Draft ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (comments due 1 July 2019) and will replace the current ASQC 1 issued by the AUASB in January 2010.

This proposed Auditing Standard contains differences from the current ASQC 1, which are detailed in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Quality Management 1 (ISQM 1).

### Proposed Effective Date

Systems of quality management in compliance with this Auditing Standard are required to be established by [date]\*.

### **Main changes from existing ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (January 2010)**

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (January 2010), are included in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Quality Management 1 (ISQM 1).

The main changes from existing ASQC 1 include:

- A new proactive risk-based approach to firms' systems of quality management

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB. The AUASB intends to align the operative date with that of the final ISQM 1.

## **Proposed Auditing Standard ASQM 1**

### ***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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- Modernising the standard for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers
- Increasing firm leadership responsibilities and accountability, and improving firm governance
- More rigorous monitoring of quality management systems and remediation of deficiencies

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASQC 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* by no later than 27 May 2019. The AUASB is seeking comments from respondents on the following questions:

### **Questions Extracted from the International IAASB's Explanatory Memorandum**

#### ***Overall Questions***

1. Does ED-ASQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:
  - (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?
  - (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?
  - (c) Are the requirements and application material of proposed ED-ASQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?
2. Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?
3. Is the application material in ED-ASQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

#### ***Specific Questions***

4. Do you support the eight components and the structure of ED-ASQM 1?
5. Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?
6. Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:
  - (a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?
  - (b) Do you support the approach for establishing quality objectives? In particular:



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- (i) Are the required quality objectives appropriate?
  - (ii) Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?
  - (c) Do you support the process for the identification and assessment of quality risks?
  - (d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:
    - (i) Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?
    - (ii) Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?
7. Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?
8. With respect to matters regarding relevant ethical requirements:
- (a) Should ED-ASQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?
  - (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?
9. Has ED-ASQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management?
10. Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?
11. Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?
12. In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:
- (a) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?
  - (b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?
  - (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?
  - (d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:

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- (i) Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?
  - (ii) Is the manner in which ED-ASQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?
  - (e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?
13. Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?
  14. Do you support the proposals addressing service providers?
  15. With respect to national standard setters and regulators, will the change in title to “ASQM” create significant difficulties in adopting the standard at a jurisdictional level?

**Australian Specific questions**

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

## Proposed Auditing Standard ASQM 1

### *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

## Conformity with International Standards on Quality Control

This Auditing Standard conforms with International Standard on Quality Control ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that are expected to be added/deleted/amended to this Auditing Standard are identified with the prefix “Aus”. These paragraphs have been marked as a placeholder and are subject to AUASB deliberations on ‘Compelling Reasons Test’ in the Principles of Convergence with the IAASB Standards. Refer [here](#) for an outline of the Compelling Reason Test.

## Table of Amendments

Paragraph or Section impacted	Basis for amendment
1	The paragraph is to be considered in the context of Relevant Ethical Requirements as defined in ASA 102.
Definitions	Definitions may be added, deleted or amended based on the following: <ul style="list-style-type: none"> <li>ASQM 1 is a legislative instrument and accordingly some definitions are required to be included within a legislative instrument;</li> <li>Terms are not appropriate in the Australian context;</li> <li>Relevant Ethical Requirements are defined in ASA 102 (no such international equivalent); and</li> <li>Australian legal or regulatory requirements</li> </ul>
3	Relevant Ethical Requirements are defined in ASA 102 (no such international equivalent)
32(a)	This paragraph is to be considered in the context of Australian legal or regulatory requirements
33(d)	This paragraph is to be considered in the context of Australian legal or regulatory requirements
A2, A14-A16, A45, A67, A68, A70, A72, A74, A82, A86, A90	These paragraphs are to be considered in the context of Relevant Ethical Requirements as defined in ASA 102.
A97	This paragraph is to be considered in the context of the example not being applicable in Australia
A111	This paragraph is to be considered in the context of Australian legal or regulatory requirements
A171, A213	These paragraphs are to be considered in the context of Relevant Ethical Requirements as defined in ASA 102.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISQM 1 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISQM 1.

## AUDITING STANDARD ASQM 1

### *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

#### Application

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other historical financial information;
  - (d) an audit or review other than of historical financial information;
  - (e) other assurance engagements; and
  - (f) related services engagements.

#### Operative Date

- Aus 0.2 Systems of quality management in compliance with this Auditing Standard are required to be established by [date] <sup>\*</sup>.

#### Introduction

##### Scope of this Auditing Standard

**Aus The AUASB will deliberate whether a modification in the extant ASQC 1 made to reflect Australian laws and regulations is still applicable to the below paragraph. See Table 1 in the attachment to this exposure draft for more information**

1. This Australian Standard on Quality Management (ASQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial reports, and other financial information, other assurance or related services engagements. ASQM 2<sup>1</sup> deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews. This ASQM is to be read in conjunction with relevant ethical requirements.
2. Other pronouncements of the Australian Auditing and Assurance Standards Board (AUASB) include requirements for engagement partners and other personnel regarding quality management at the engagement level. ASA 220,<sup>2</sup> for example, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report and the related responsibilities of the engagement partner.  
(Ref: Para. A1)

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<sup>\*</sup> The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB. The AUASB intends to align with the IAASB in this regard.

<sup>1</sup> Proposed ASQM 2, *Engagement Quality Reviews*

<sup>2</sup> Proposed ASA 220, *Quality Management for an Audit of a Financial Report*

## **Proposed Auditing Standard ASQM 1**

### ***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations. See Table 2 in the attachment to this exposure draft for more information.

3. Law, regulation or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ASQM.
4. This ASQM applies to all firms performing audits or reviews of a financial report, other financial information, other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ASQM applies).

#### *Scalability*

5. This ASQM requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management, taking into account:
  - (a) The nature and circumstances of the firm, including whether it is part of a network or uses service providers; and (Ref: Para. A22)
  - (b) The nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are performed. (Ref: Para. A23)

Accordingly, the complexity and formality of firms' systems of quality management will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial reports of listed entities or entities that are of significant public interest, will likely need to have a more complex and more formal system of quality management than a firm that performs only reviews of financial reports or compilation engagements.

6. The nature and circumstances of the firm and its engagements may change over time. This ASQM requires the firm to identify such changes and respond appropriately.

#### **The Firm's System of Quality Management**

7. The purpose of a system of quality management is to support the consistent performance of quality engagements, by providing the firm with reasonable assurance that the objectives of the system, stated in paragraph 18(a) and (b), are achieved. The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and, when applicable to the type of engagement, exercising professional scepticism. (Ref: Para. A2–A4)
8. This ASQM requires professional judgement to be exercised in designing, implementing and operating the firm's system of quality management. A system of quality management is a continual and iterative process and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. However, for the purposes of this ASQM, a system of quality management addresses the following eight components, which are highly integrated: (Ref: Para. A4–A5)
  - (a) Governance and leadership;
  - (b) The firm's risk assessment process;
  - (c) Relevant ethical requirements;
  - (d) Acceptance and continuance of client relationships and specific engagements;

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- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process.

A further description of each of the eight components and their interrelationships is included in Appendix 1.

9. The firm's governance and leadership component establishes the environment in which the system of quality management operates because this component addresses the firm's culture, decision-making process, actions, organisational structure and leadership. This standard requires that the firm's leadership demonstrate a commitment to quality through their actions and behaviours and establish the expected behaviour of personnel within the firm.
10. In taking a risk-based approach to quality management, the firm applies the firm's risk assessment process to the other components. The firm's risk assessment process consists of:
  - (a) Establishing quality objectives. The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 18(a) and (b), are achieved. The firm is required to establish the quality objectives set out in this ASQM and additional quality objectives beyond those required by this ASQM, when those objectives are necessary to achieve the objective of this ASQM.
  - (b) Identifying and assessing risks to the achievement of the firm's quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to provide a basis for designing and implementing responses.
  - (c) Designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the firm's responses to address the assessed quality risks will be based on, and responsive to, the reasons for the assessments given to the quality risks. The firm is required to include the responses required by this ASQM, which are organised by component, in its responses to its assessed quality risks. The responses required by this ASQM are relevant to every firm's system of quality management, and are therefore applicable to all firms. However, the responses required by this ASQM alone will not be sufficient to address all of the firm's assessed quality risks for the quality objectives that are required to be established by this ASQM.
11. This ASQM includes components that address specific topics that are fundamental for the performance of audits or reviews of financial reports and other financial information, other assurance or related services engagements (i.e., relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, and engagement performance). In addition, it includes components for resources and information and communication, which are necessary to enable the operation of all the other components of the system of quality management.
12. This ASQM requires the firm to evaluate the design, implementation and operation of its system of quality management through a monitoring and remediation process, which involves:
  - (a) Designing and performing monitoring activities and evaluating the findings from such activities, the results of external inspections and other relevant information to determine whether deficiencies exist in the system of quality management;

## **Proposed Auditing Standard ASQM 1**

### ***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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- (b) Investigating the root cause(s) of the identified deficiencies and evaluating the severity and pervasiveness of the identified deficiencies; and
- (c) Remediating the identified deficiencies.

The findings arising from the monitoring may also highlight positive practices that the firm uses to enhance its system of quality management. The monitoring and remediation process provides information that is the basis for the evaluation of whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.

13. All of the components of the system of quality management operating together enable the consistent performance of quality engagements and contribute to the firm achieving the objective of this ASQM. Accordingly, other pronouncements of the AUASB, such as ASA 220,<sup>3</sup> are premised on the basis that the firm is subject to the ASQMs or to national requirements that are at least as demanding.

#### *Networks*

14. In some circumstances, the firm may belong to a network. This ASQM includes requirements for firms that operate as part of a network, in recognition that networks may establish requirements regarding the firm's system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation and operation of its system of quality management. Network requirements or network services are further described in paragraph 58 of this ASQM. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that operate as part of the network. Notwithstanding the firm's compliance with the network requirements or use of the network services, the firm remains responsible for its system of quality management.

#### *Service Providers*

15. This ASQM also includes requirements for circumstances when the firm intends to obtain or use resources provided by a service provider in its system of quality management.

#### **Authority of this ASQM**

16. This ASQM contains the objective of the firm in following this ASQM, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ASQM, and definitions.  
(Ref: Para. A6–A9)

#### **Effective Date**

17. [Deleted by the AUASB. Refer Aus 0.2]

#### **Objective(s)**

18. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial reports, and other financial information, other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:

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<sup>3</sup> Proposed ASA 220, paragraph 3



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### ***Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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- (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

## **Definitions**

**Aus The AUASB will deliberate whether a modification in the extant ASQC 1 made to reflect Australian laws and regulations or principles and practices is still applicable to the below paragraph. See Table 1 in the attachment to this exposure draft for more information**

19. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ASQM) – This exists when:
    - (i) A quality objective required to achieve the objective of this ASQM is not established;
    - (ii) A quality risk has not been appropriately identified or assessed, such that a response that addresses that risk has not been appropriately designed or implemented; or
    - (iii) A response to address an assessed quality risk is not properly designed, implemented or operating effectively. (Ref: Para. A10)
  - (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
  - (c) Engagement partner<sup>4</sup> – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
  - (d) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
  - (e) Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.
  - (f) Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an external expert engaged by the firm or by a network firm, and also excludes individuals within the client’s internal audit function who provide direct assistance

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<sup>4</sup> “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

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on an audit engagement when the external auditor complies with the requirements of ASA 610.5

- (g) External inspections – Inspections or investigations undertaken by an external oversight authority related to the firm’s system of quality management or engagements performed by the firm. (Ref: Para. A11)
- (h) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A12)
- (i) Listed entity – 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.
- (j) Network firm – A firm or entity that belongs to a network.
- (k) Network<sup>6</sup> – A larger structure: (Ref: Para. A13–A14)
  - (i) That is aimed at cooperation, and
  - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (m) Personnel – Partners and staff.
- (n) Professional judgement – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.
- (o) Professional standards – AUASB Engagement Standards, as defined in the AUASB’s Preface to the Australian Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements, and relevant ethical requirements.
- (p) Quality objectives – The objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.
- (q) Quality risks – Risks arising from conditions, events, circumstances, actions or inactions that may adversely affect the achievement of a quality objective(s).
- (r) Reasonable assurance – In the context of the ASQMs, a high, but not absolute, level of assurance.
- (s) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial reports and other financial information, other assurance or related services engagements. Relevant ethical

<sup>5</sup> ASA 610, *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted.

<sup>6</sup> As defined in the Accounting and Professional Ethics Standards Board’s *Code of Ethics for Professional Accountants (including International Independence Standards)* (APESB Code)

## **Proposed Auditing Standard ASQM 1**

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requirements ordinarily comprise the provisions of the APESB Code related to audits or reviews of financial reports and other financial information, other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A15–A16, A67)

- (t) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address an assessed quality risk: (Ref: Para. A17–A18, A62)
  - (i) Policies are statements of what should, or should not, be done to address an assessed quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
  - (ii) Procedures are actions to implement policies.
- (u) Staff – Professionals, other than partners, including any experts the firm employs.
- (v) System of quality management – A system designed, implemented and operated by a firm to provide reasonable assurance that:
  - (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

## **Requirements**

### **Applying, and Complying with, Relevant Requirements**

20. The individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm’s system of quality management shall have an understanding of this ASQM relevant to their responsibilities, including the application and other explanatory material, to understand the objective of this ASQM and to apply its requirements properly. (Ref: Para. A19)
21. The firm shall comply with each requirement of this ASQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A20)

### **System of Quality Management**

22. The firm shall design, implement and operate a system of quality management that complies with the requirements of this ASQM. The requirements are designed to enable the firm to achieve the objective stated in this ASQM. The proper application of the requirements in this ASQM is expected to provide a sufficient basis for the achievement of the objective of this standard. In applying the requirements of this ASQM, the firm shall exercise professional judgement, taking into account the nature and circumstances of the firm and its engagements, such that the objective of this ASQM is achieved. (Ref: Para. A21–A24)

### **Governance and Leadership**

23. The firm shall establish the following quality objectives that address the aspects of the firm’s environment that support the design, implementation and operation of the other components of the system of quality management, including the firm’s culture, decision-making process, actions, organisational structure and leadership:

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- (a) The firm's culture promotes a commitment to quality, including recognising and reinforcing the importance of professional ethics, values and attitudes throughout the firm and emphasising the responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management. (Ref: Para. A26–A28)
  - (b) The firm has leadership who is responsible and accountable for quality. (Ref: Para. A36)
  - (c) The firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements. (Ref: Para. A29–A30)
  - (d) The firm has an organisational structure with appropriate assignment of roles, responsibilities and authority that supports the firm's commitment to quality and the design, implementation and operation of the firm's system of quality management. (Ref: Para. A31–A32)
  - (e) The firm plans for its resource needs, including financial resources, and obtains, allocates or assigns resources in a manner that supports the firm's commitment to quality and enables the design, implementation and operation of the firm's system of quality management. (Ref: Para. A33–A35)
  - (f) The firm fulfills its responsibilities in accordance with law, regulation and professional standards that relate to the governance and leadership of the firm, if applicable. (Ref: Para. A25)
24. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the governance and leadership quality objectives, the firm shall include the following responses:
- (a) Assigning ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). The individual(s) to whom such responsibility and accountability is assigned shall: (Ref: Para. A36)
    - (i) Have the appropriate experience and knowledge to fulfill the assigned responsibility.
    - (ii) Demonstrate a commitment to quality through their actions and behaviours, including recognising and reinforcing the importance of professional ethics, values and attitudes, and establishing the expected behaviour of personnel relating to the performance of engagements and activities within the system of quality management. (Ref: Para. A26–A28)
    - (iii) Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the following matters to personnel who fulfill the requirements in paragraph 25: (Ref: Para. A37–A39)
      - a. The system of quality management as a whole; and
      - b. Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for compliance with independence requirements and the monitoring and remediation process.

**Proposed Auditing Standard ASQM 1*****Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

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- (b) Establishing policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the matters set out in paragraph 24(a)(iii), in order to hold individuals accountable for the responsibilities assigned to them. (Ref: Para. A40–A43)
  - (c) Establishing policies or procedures for dealing with complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the firm that enable reporting by personnel or external parties to appropriate individual(s) without fear of reprisal and enabling the investigation and resolution of the complaints and allegations. (Ref: Para. A44–A47)
25. The personnel assigned operational responsibility for the matters set out in paragraph 24(a)(iii) shall have: (Ref: Para. A39)
- (a) The appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility;
  - (b) A direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management; and
  - (c) An understanding of their assigned responsibilities and accountability for such responsibilities.

**The Firm's Risk Assessment Process**

26. The firm shall establish the quality objectives required by this ASQM. The firm shall also establish additional quality objectives beyond those required by this ASQM, when those objectives are necessary to achieve the objective of this ASQM. (Ref: Para. A48–A51)
27. The firm shall understand the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives, taking into account the nature and circumstances of the firm and its engagements, to provide the basis for the identification and assessment of quality risks. (Ref: Para. A48, A52)
28. Based on the understanding obtained in paragraph 27, the firm shall identify those quality risks, before consideration of any responses, that: (Ref: Para. A48, A53–A54)
- (a) Have a reasonable possibility of occurring; and (Ref: Para. A55)
  - (b) If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s). (Ref: Para. A56–A57)
29. The firm shall assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses. (Ref: Para. A48, A58)
30. The firm shall design and implement responses to address the assessed quality risks, including the responses required by this ASQM. The design of the responses shall be based on, and responsive to, the reasons for the assessments given to the quality risks. (Ref: Para. A48, A59–A64)

***Changes in the Nature and Circumstances of the Firm or its Engagements***

31. The firm shall identify changes in the nature and circumstances of the firm or its engagements and modify the quality objectives, quality risks or responses, as appropriate, in response to such changes. (Ref: Para. A48, A65–A66)

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**Relevant Ethical Requirements**

**Aus** The AUASB will deliberate whether a modification in the extant ASQC 1 made to reflect Australian laws and regulations is still applicable to the below paragraph. See Table 1 in the attachment to this exposure draft for more information

32. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, which, as defined, include the principles of professional ethics: (Ref: Para. A67)
- (a) The firm, its personnel and others subject to relevant ethical requirements understand the relevant ethical requirements, including those related to independence.
  - (b) The firm, its personnel and others subject to relevant ethical requirements fulfill their responsibilities in relation to the relevant ethical requirements, including those related to independence.
  - (c) The firm, its personnel and others subject to relevant ethical requirements identify and appropriately respond to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.
33. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the relevant ethical requirements quality objectives, the firm shall include the following responses: (Ref: Para. A68–A69 and A75)
- (a) Identifying the relevant ethical requirements and determining the applicability of the relevant ethical requirements to the firm, its personnel and others, including, as applicable, the network, network firms, personnel in the network or network firms, or service providers. (Ref: Para. A15, A70–A71)
  - (b) Establishing policies or procedures that address the identification and evaluation of threats to compliance with the relevant ethical requirements and how identified threats should be addressed. (Ref: Para. A72)
  - (c) Establishing policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches. (Ref: Para. A73–A74)

**Aus** The AUASB will deliberate whether a modification in the extant ASQC 1 made to reflect Australian laws and regulations is still applicable to the below paragraph. See Table 1 in the attachment to this exposure draft for more information

- (d) Obtaining, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.

**Acceptance and Continuance of Client Relationships and Specific Engagements**

34. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances: (Ref: Para. A76)
- (a) The firm obtains sufficient appropriate information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) and based on such information makes appropriate judgements about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A77–A82)

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- (b) The firm makes appropriate judgements about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements when determining whether to accept or continue a client relationship or specific engagement, including that the firm has: (Ref: Para. A83)
    - (i) Resources to perform the engagement; and (Ref: Para. A84)
    - (ii) Access to information to perform the engagement, or to the persons who provide such information.
  - (c) The firm's financial and operational priorities do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A85–A86)
  - (d) The firm responds appropriately in circumstances when the firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. (Ref: Para. A87–A88)
35. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the acceptance and continuance quality objectives, the firm shall include policies or procedures that address circumstances when the firm is obligated by law or regulation to accept the client relationship or specific engagement, if applicable. (Ref: Para. A89–A90)

**Engagement Performance**

36. The firm shall establish the following quality objectives that address the performance of quality engagements:
- (a) Personnel understand and fulfill their responsibilities in connection with the engagement, including, as applicable:
    - (i) The engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement; and (Ref: Para. A91)
    - (ii) The appropriate direction and supervision of the engagement team and review of the work performed. (Ref: Para. A92–A93)
  - (b) Engagement teams exercise appropriate professional judgement and, when applicable to the type of engagement, professional scepticism, in planning and performing engagements such that conclusions reached are appropriate. (Ref: Para. A94–A97)
  - (c) The engagement documentation is appropriately assembled and retained.
37. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the engagement performance quality objectives, the firm shall include the following responses:
- (a) Establishing policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A92–A93)

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- (b) Communicating to engagement teams their responsibility for planning and performing the engagement in accordance with professional standards and applicable legal and regulatory requirements.
  - (c) Establishing policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented. (Ref: Para. A95, A98–A99)
  - (d) Establishing policies or procedures addressing differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm's system of quality management, including those who provide consultation. (Ref: Para. A95, A100)
  - (e) Establishing policies or procedures addressing engagement quality reviews in accordance with ASQM 2, and that require an engagement quality review for:
    - (i) Audits of financial reports of listed entities;
    - (ii) Audits of financial reports of entities that the firm determines are of significant public interest; and
    - (iii) Audits or other engagements for which:
      - a. An engagement quality review is required by law or regulation; or
      - b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.
  - (f) Establishing policies or procedures addressing assembly and retention of documentation that require:
    - (i) The engagement files to be assembled within an appropriate period of time after the engagement reports have been finalised; and (Ref: Para. A108)
    - (ii) The engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A109–A112)

**Resources**

- 38. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including human resources, technological resources, and intellectual resources, in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A113–A116)
  - (a) The firm hires, develops and retains personnel, including engagement partners, who have the competence and capabilities to: (Ref: Para. A117–A119)
    - (i) Consistently perform quality engagements, including knowledge or experience regarding professional standards and applicable law or regulation relevant to the engagements the firm performs; or
    - (ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.



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- (b) The firm assigns an engagement partner and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A120)
  - (c) The firm assigns human resources to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities. (Ref: Para. A120)
  - (d) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A121–A123)
  - (e) The firm obtains or develops, implements and maintains appropriate technological resources to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: Para. A124–A131)
  - (f) The firm obtains or develops, implements and maintains appropriate intellectual resources to enable the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: Para. A132–A133)
  - (g) Personnel appropriately use the firm’s technological and intellectual resources.
39. The firm shall design and implement responses to address the quality risks identified and assessed by the firm relating to the resources quality objectives.

**Information and Communication**

40. The firm shall establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management: (Ref: Para. A135)
- (a) The firm has an information system that supports the system of quality management by identifying, capturing, processing and maintaining relevant and reliable information, whether from internal or external sources. (Ref: Para. A136–A138)
  - (b) The firm communicates relevant and reliable information to personnel, the nature, timing and extent of which is sufficient to enable personnel to understand and carry out their responsibilities relating to the performance of engagements or activities within the system of quality management. (Ref: Para. A139)
  - (c) The firm’s culture promotes and emphasises the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A139)
  - (d) Personnel communicate relevant and reliable information to the firm when performing engagements or activities within the system of quality management. (Ref: Para. A139)
  - (e) The firm communicates relevant and reliable information to external parties regarding the firm’s system of quality management, as the firm determines appropriate. (Ref: Para. A142–A153)
41. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the information and communication quality objectives, the firm shall include the following responses:

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- (a) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated by the firm with engagement teams. (Ref: Para. A140)
  - (b) Communicating the responsibility for implementing the firm's responses to relevant personnel, including engagement teams. (Ref: Para. A141)
  - (c) Establishing policies or procedures that address the nature, timing and extent of communication and matters to be communicated with external parties, including:
    - (i) Communication to external parties in accordance with law, regulation or professional standards. (Ref: Para. A142)
    - (ii) Communication with the network. (Ref: Para. A143)
    - (iii) Communication with service providers. (Ref: Para. A144)
    - (iv) Other communication to external parties about the firm's system of quality management, in a transparency report or otherwise, when the firm determines it appropriate to do so, taking into account: (Ref: Para. A145, A149–A153)
      - a. Whether there are external parties who may use such information to support their understanding of the quality of the engagements performed by the firm; and (Ref: Para. A146–A147)
      - b. The nature and circumstances of the firm, including the nature of the firm's operating environment. (Ref: Para. A148)

**Monitoring and Remediation Process**

- 42. The firm shall establish the following quality objectives that address the firm's monitoring and remediation process that enable the evaluation of the design, implementation and operation of the components of the system of quality management to determine whether the quality objectives have been achieved: (Ref: Para. A154–A155)
  - (a) The firm's monitoring and remediation process provides relevant, reliable and timely information about the design, implementation and operation of the components of the system of quality management.
  - (b) The firm takes appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
  - (c) The individual(s) assigned ultimate responsibility and accountability for the system of quality management evaluates whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
- 43. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the monitoring and remediation quality objectives, the firm shall include the responses in paragraphs 44–57.

***Designing and Performing Monitoring Activities***

- 44. The firm shall determine the nature, timing and extent of the monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. In designing and implementing the monitoring activities, the firm shall take into account: (Ref: Para. A156–A159)
  - (a) For a response, the related assessed quality risk(s), the reasons for the assessments given to the quality risk(s) and the design of the response; (Ref: Para. A160–A161)

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- (b) For monitoring activities over the firm's risk assessment process, the design of that process;
  - (c) Changes in factors that have affected the firm's system of quality management or changes in the system of quality management; (Ref: Para. A162)
  - (d) Previous monitoring activities and remedial actions, including whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management; and (Ref: Para. A163–A164)
  - (e) Other relevant information, including concerns identified regarding the commitment to quality of the firm or its personnel and information from external inspections. (Ref: Para. A165–A167)
45. The firm's monitoring activities shall include the inspection of engagements to determine whether the responses that are required to be implemented at the engagement level have been implemented. Engagement inspections may include the inspection of in-process or completed engagements. In determining the nature, timing and extent of the inspection of engagements, the firm shall: (Ref: Para. A168–A170)
- (a) Take into account the relevant factors in paragraph 44; and
  - (b) Include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.
46. The firm shall establish policies or procedures that:
- (a) Require those performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
  - (b) Address the objectivity of the individuals performing the monitoring activities. Such policies or procedures shall prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement. (Ref: Para. A171)

*Evaluating Findings and Identifying Deficiencies*

47. The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A165, A172–A177)

*Evaluating Identified Deficiencies*

48. The firm shall establish policies or procedures addressing:
- (a) The investigation of the root cause(s) of the identified deficiencies, including that the nature, timing and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity; and (Ref: Para. A178–A182)
  - (b) The evaluation of the severity and pervasiveness of the identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the system of quality management as a whole. (Ref: Para. A183)

*Responding to Identified Deficiencies*

49. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. In doing so, the firm shall determine

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whether the firm's quality objectives, assessed quality risks and responses remain appropriate and modify them, as appropriate. (Ref: Para. A184)

50. The individual(s) assigned operational responsibility for monitoring and remediation shall evaluate whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s) and determine whether they have been implemented. The individual shall also evaluate whether the remedial actions implemented to address previously identified deficiencies are effective. (Ref: Para. A163)

*Findings About a Particular Engagement*

51. In circumstances when a finding relates to an in-process or completed engagement and there is an indication that procedures required were omitted during the performance of the engagement or the report issued may be inappropriate, the firm shall: (Ref: Para. A185)
- (a) Take appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and
  - (b) When the report is considered to be inappropriate, consider the implications and take appropriate action, including considering whether to obtain legal advice.

*Ongoing Communication Related to Monitoring and Remediation*

52. The individual(s) assigned operational responsibility for the monitoring and remediation process shall communicate on a timely basis to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management: (Ref: Para. A186)
- (a) A description of the monitoring activities performed;
  - (b) The identified deficiencies, including the severity and pervasiveness of such deficiencies; and
  - (c) The remedial actions to address the identified deficiencies.
53. The firm shall communicate the matters described in paragraph 52 to personnel to the extent that the information is relevant to their responsibilities to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. (Ref: Para. A187)
54. The firm shall communicate information about the results of the firm's monitoring and remediation process to external parties on a timely basis, in accordance with paragraph 41(c).

*Evaluating the System of Quality Management*

55. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved. This evaluation shall take into account: (Ref: Para. A188–A189)
- (a) The severity and pervasiveness of identified deficiencies; and
  - (b) The evaluation in paragraph 50 regarding whether the remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s), and have been implemented.
56. The evaluation in paragraph 55 shall be undertaken at least annually, or more frequently when the identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.

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57. If the evaluation indicates that the system of quality management does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved, the individual(s) assigned ultimate responsibility and accountability for the system of quality management shall:
- (a) Take prompt and appropriate action in accordance with their responsibilities; and
  - (b) Communicate to: (Ref: Para. A190–A191)
    - (i) Personnel to the extent that it is relevant to their responsibilities; and
    - (ii) External parties in accordance with the firm’s policies or procedures required by paragraph 41(c).

**Network Requirements or Network Services**

58. When the firm operates as part of a network, the firm shall understand, when applicable:
- (a) The requirements established by the network regarding the firm’s system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (i.e., network requirements); (Ref: Para. A192)
  - (b) Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm’s system of quality management (i.e., network services); and (Ref: Para. A193)
  - (c) The firm’s responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A194)

The firm remains responsible for its system of quality management, including professional judgements made in the design, implementation and operation of the system of quality management. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this ASQM. (Ref: Para. A13, A195–A196)

*The Firm’s Risk Assessment Process*

59. In complying with the requirements in paragraphs 26–30, the firm shall evaluate the effect of the network requirements or network services on the firm’s system of quality management, including determining whether they need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A197–A198)

*Monitoring and Remediation Process*

60. In circumstances when the network performs monitoring activities relating to the firm’s system of quality management, the firm shall:
- (a) Determine the effect of the monitoring activities performed by the network on the nature, timing and extent of the firm’s monitoring activities performed in accordance with paragraphs 44–45; (Ref: Para. A199)
  - (b) Determine the firm’s responsibilities in relation to the monitoring activities, including any related actions by the firm; and
  - (c) As part of evaluating findings and identifying deficiencies in paragraph 47, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A200)

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61. The firm shall, at least annually, obtain information from the network, about the overall scope and results of the monitoring activities across the network firms' systems of quality management and:
- (a) Consider the effect of such information on the nature, timing and extent of the monitoring activities that need to be undertaken by the firm; and (Ref: Para. A201–A202)
  - (b) Communicate the information to personnel to the extent that it is relevant to their responsibilities such that personnel take prompt and appropriate action in accordance with their responsibilities (including as it relates to the performance of engagements).
62. As part of evaluating findings and identifying deficiencies in paragraph 47, if the firm identifies deficiencies in the network requirements or network services, the firm shall communicate to the network relevant information about the identified deficiencies. (Ref: Para. A203)
63. As part of designing and implementing remedial actions in paragraph 49, for identified deficiencies related to the network requirements or network services the firm shall: (Ref: Para. A204)
- (a) Understand the planned remedial actions by the network;
  - (b) Understand whether the network's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s); and
  - (c) Determine the supplementary remedial actions needed by the firm, if any.

**Service Providers**

64. When the firm intends to obtain or use resources provided by a service provider in its system of quality management, the firm's responses for resources shall include: (Ref: Para. A205–A207)
- (a) Obtaining an understanding of the service provider, including determining that the reputation, competence and capabilities of the service provider are appropriate in the context of the intended use of the resource; (Ref: Para. A208)
  - (b) Establishing the nature and scope of the resources provided by the service provider, including the firm's responsibilities for any actions that are necessary in using the resources; and (Ref: Para. A209)
  - (c) Determining whether the resource is appropriate for use in the system of quality management in the context of the quality risks identified and assessed by the firm and the reasons for the assessments given to the quality risks, including when changes are made to the resources provided. (Ref: Para. A210)
- Notwithstanding the firm's use of a service provider(s), the firm remains responsible for its system of quality management.
65. As part of evaluating findings and identifying deficiencies in paragraph 47, if the firm identifies deficiencies in the resources provided by the service provider, the firm shall communicate to the service provider relevant information about the identified deficiencies. The firm shall also:
- (a) Understand the planned remedial actions by the service provider and consider whether the service provider's remedial actions are designed and implemented to address the identified deficiencies and their related root cause(s);

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- (b) Determine the supplementary remedial actions needed by the firm, if any; and
- (c) Consider whether to continue using the services provided by the service provider.

**Documentation**

66. The firm shall prepare documentation of its system of quality management that is sufficient to: (Ref: Para. A211–A213)
- (a) Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the firm’s system of quality management;
  - (b) Support the consistent implementation and operation of the responses; and
  - (c) Provide evidence of the design, implementation and operation of the responses, such that the firm is able to evaluate the system of quality management.
67. The firm shall prepare documentation that includes: (Ref: Para. A214)
- (a) The firm’s quality objectives and assessed quality risks;
  - (b) A description of the responses and how the firm’s responses address the assessed quality risks; and
  - (c) Regarding the monitoring and remediation process:
    - (i) Evidence of the monitoring activities performed;
    - (ii) The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information, including the identified deficiencies and their related root cause(s);
    - (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions;
    - (iv) Communications about monitoring and remediation; and
    - (v) The basis for the evaluation of whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
68. The firm shall document the matters in paragraph 67 as they relate to network requirements or network services or resources provided by service providers and:
- (a) The evaluation of the effect of the network requirements or network services in accordance with paragraph 59 and the conclusions reached.
  - (b) The firm’s basis for determining that it is appropriate to use the resources from a service provider in its system of quality management.
69. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to permit those performing monitoring procedures to evaluate the firm’s system of quality management, or for a longer period if required by law or regulation.

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## Application and Other Explanatory Material

### Scope of this ASQM (Ref: Para. 2)

- A1. Other pronouncements of the AUASB, including ASRE 2400<sup>7</sup> and ASAE 3000,<sup>8</sup> also establish requirements for the engagement partner for the management of quality at the engagement level.

### The Firm's System of Quality Management (Ref: Para. 7–8)

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

- A2. The APESB Code contains requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance as described in this ASQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.
- A3. Reasonable assurance is obtained when the firm's system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 18(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a firm's system of quality management. Such limitations include reality that human judgement in decision making can be faulty and that breakdowns in the firm's system of quality management may occur, for example, due to human error or behaviour or failures in the firm's IT applications.
- A4. The design, implementation and operation of the system of quality management involves the exercise of professional judgement, including when making decisions about:
- The appropriate organisational structure and assignment of roles, responsibilities and authority that support the firm's commitment to quality.
  - Establishing additional quality objectives beyond those required by this ASQM when those objectives are necessary to achieve the objective of this standard.
  - The identification and assessment of the quality risks.
  - The appropriate nature, timing and extent of the responses to address the assessed quality risks.
  - The resources and information and communication that are appropriate to enable the design, implementation and operation of the components of the system of quality management.
  - The evaluation of whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
  - The effect of the network requirements or network services on the firm's system of quality management.

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<sup>7</sup> Australian Standard on Review Engagements ASRE 2400, *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*

<sup>8</sup> Australian Standard on Assurance Engagements ASAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*



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- A5. The firm may use different terminology or frameworks to describe the components of its system of quality management.

#### **Authority of this ASQM (Ref: Para. 16)**

- A6. The objective of this ASQM provides the context in which the requirements of this ASQM are set, establishes the desired outcome of this ASQM and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.
- A7. The requirements of this ASQM are expressed using “shall.”
- A8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- Explain more precisely what a requirement means or is intended to cover; and
  - Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ASQM. Where appropriate, additional considerations specific to public sector audit organisations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ASQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ASQM.

- A9. This ASQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ASQM. These definitions are provided to assist in the consistent application and interpretation of this ASQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to Australian Standards issued by the AUASB includes the terms defined in this ASQM. The Glossary of Terms also includes descriptions of other terms found in the ASQMs to assist in common and consistent interpretation and translation.

#### **Definitions**

##### *Deficiencies* (Ref: Para. 19(a))

- A10. A response to address an assessed quality risk is not:
- Properly designed when a response necessary to address an assessed quality risk is absent or a response is not properly designed in a manner that effectively addresses an assessed quality risk, such that a quality objective may not be achieved. A deficiency in the design of a response may also arise from a quality objective or assessed quality risk not being appropriately specific, given the nature and circumstances of the firm and its engagements.
  - Operating effectively when a response that is properly designed does not operate as designed, which results in the related quality risk not being effectively addressed such that a quality objective may not be achieved.

##### *External Inspections* (Ref: Para. 19(g))

- A11. In some circumstances, an external oversight authority may undertake other types of reviews, for example, reviews of specific areas of focus that contribute to the improvement of engagement quality. Paragraph A165 describes such reviews as part of other relevant information considered by the firm in the monitoring and remediation component.

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*Firm* (Ref: Para. 19(h))

- A12. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ASQM.

*Network* (Ref: Para. 19(k), 58)

- A13. Networks and the firms within the network may be structured in a variety of ways; however, in all cases networks are external to the firm. In some instances, network firms may provide services (e.g., resources) that are used by the firm in its system of quality management. There may also be circumstances when the network includes other structures or organisations that establish requirements for the firm related to its system of quality management, or provides services. For the purposes of this ASQM, any requirements established by the network regarding the firm’s system of quality management or services or resources provided by the network that the firm chooses to implement or use in its system of quality management that are obtained from the network, network firms or another structure or organisation in the network are considered “network requirements or network services.”

**Aus The AUASB will deliberate whether a modification may be required to the below paragraphs to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

- A14. The APESB Code provides guidance in relation to the terms “network” and “network firm.”

*Relevant Ethical Requirements* (Ref: Para. 19(s), 33(a))

- A15. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the APESB Code defines the term “professional accountant” and further explains the scope of provisions in the APESB Code that apply to individual professional accountants in public practice and their firms.
- A16. The APESB Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the APESB Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the APESB Code and that professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.

*Response* (Ref: Para. 19(t))

- A17. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies, or through their restraint from taking actions that would conflict with the firm’s policies.
- A18. Procedures may be mandated, through formal documentation or other communications, or may be effected by behaviours that are not mandated but are rather conditioned by the firm’s culture. Procedures may be enabled through the application of IT, for example, the firm may use an IT application to facilitate obtaining a documented confirmation of compliance with independence requirements from personnel.

**Applying, and Complying with, Relevant Requirements (Ref: Para. 20–21)**

- A19. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may also assume operational responsibility for the system of quality management, for example, in smaller firms.
- A20. Examples of when a requirement of this ASQM may not be relevant to the firm include:

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- When the firm is a sole practitioner. For example, the requirements addressing the organisational structure and assigning roles, responsibilities and authority within the firm, appropriate direction, supervision and review and addressing differences of opinion may not be relevant.
- When the firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for the related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

#### **System of Quality Management (Ref: Para. 22)**

- A21. Paragraph 55 requires the individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
- A22. The nature and circumstances of the firm may include consideration of matters such as:
- The size and operating characteristics of the firm, including the geographical dispersion and the extent to which the firm concentrates or centralizes its processes or activities.
  - The firm's strategic decisions and actions, including those about financial and operational matters.
  - External factors, for example, law or regulation, economic stability, stakeholder expectations and social factors.
  - In the case of a firm that belongs to a network, the nature of the network, how the network is organised and the nature and extent of the requirements established by the network regarding the firm's system of quality management or services or resources provided by the network that the firm chooses to implement or use in the design, implementation and operation of the firm's system of quality management.
  - The extent to which the firm uses service providers in its system of quality management and the nature of such services.
- A23. The nature and circumstances of the engagements performed by the firm may include consideration of matters such as:
- The types of engagements performed by the firm, for example, whether the firm performs only compilation engagements or performs a variety of engagements, including audits of financial reports.
  - The types of entities for which such engagements are undertaken, for example, the industries in which the entities operate and whether the entities are owner-managed, listed or of significant public interest. An entity may be of significant public interest because it has a large number and wide range of stakeholders or due to the nature and size of its business.
  - External factors, such as relevant professional standards and law or regulation.
- A24. The quality of professional judgements exercised by the firm is enhanced when personnel making such judgements demonstrate an attitude that includes a questioning mind, critical assessment of information in formulating decisions, and being alert to changes in the nature and circumstances of the firm or its engagements.

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#### **Governance and Leadership (Ref: Para. 23–25)**

A25. Law, regulation or other professional standards may prescribe additional matters related to the governance or leadership of the firm, for example, the firm may be required to follow an audit firm governance code that may incorporate specific governance principles and require adherence by the firm to specific provisions.

#### *Culture* (Ref: Para. 23(a), 24(a)(ii))

A26. The firm's culture is an important factor in influencing the behaviour of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ASQM. Professional values and attitudes may include, for example:

- Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability;
- A commitment to teamwork;
- Maintaining an open mind to new ideas or different perspectives in the professional environment;
- Pursuit of excellence;
- A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements); and
- Social responsibility.

A27. A culture that promotes a commitment to quality is likely to involve clear, consistent, frequent and effective actions, including communications, at all levels within the firm, that emphasise the firm's commitment to quality. The tone at the top and the attitude towards quality, including reinforcing the importance of professional ethics, values and attitudes, are set by the individual(s) assigned ultimate responsibility and accountability for the system of quality management through their personal conduct, communication and actions. The attitude towards quality is further shaped and reinforced by other personnel who are expected to embed or demonstrate the behaviours that reflect the firm's commitment to quality.

A28. The nature and extent of the actions of the individual(s) assigned ultimate responsibility and accountability for the system of quality management in establishing the firm's culture may depend on factors such as the size, structure, geographical dispersion and complexity of the firm. For example, a smaller firm may be able to establish the desired culture through the direct interaction of firm leadership with other personnel. For a larger firm in which personnel are dispersed across many geographical locations, more formal communication may be necessary. Other actions that may be taken to establish the expected behaviour of personnel include creating a code of conduct.

#### *Strategic Decisions and Actions* (Ref: Para. 23(c))

A29. It is important that the firm's strategic decision-making process, which may include establishing a business strategy, takes into consideration how the firm's decisions about financial and operational matters (e.g., the firm's profitability or strategic focus, such as growth of the firm's market share, industry specialisation or new service offerings) affect the performance of quality engagements.

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Public Sector Considerations

- A30. In the public sector, although the firm's strategic decisions and actions may be less influenced by matters such as profitability or strategic focus areas, they are nevertheless affected by financial and operational priorities, for example, the allocation of financial resources.

*Organisational Structure* (Ref: Para. 23(d), 24(a)(iii))

- A31. The organisational structure of the firm may include operating units, operational processes, divisions or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery centre, for example, engagement teams may include human resources from service delivery centres who perform specific tasks that are repetitive or specialised in nature.
- A32. How the firm assigns roles, responsibilities and authority within the firm may vary. For example, the leadership structure of a smaller firm may comprise a single managing partner with sole responsibility for the oversight of the firm. Larger firms may have multiple levels of leadership, such as a chief executive officer (or equivalent) and a managing board of partners (or equivalent), and further levels that reflect the organisational structure of the firm. Some firms may also have an independent governing body that has non-executive oversight of the firm. At a jurisdictional level, law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities.

*Resources* (Ref: Para. 23(e))

- A33. The quality objective in this component for resources addresses all categories of resources. The resources component includes quality objectives that address specific aspects of human resources, technological resources and intellectual resources. Financial resources are necessary for obtaining, developing, using and maintaining human resources, technological resources and intellectual resources. The quality objectives and responses in governance and leadership, such as those that address financial and operational priorities, address financial resources.
- A34. The individuals(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are in most cases able to influence the nature and extent of resources that the firm obtains, develops, uses and maintains, and how those resources are allocated or assigned, including the timing of when they are used. The firm's strategic decisions and actions may affect decisions about obtaining, allocating or assigning resources. Paragraph 23(c) requires that the strategic decisions and actions, including the firm's financial and operational priorities, demonstrate a commitment to quality, including not leading to inappropriate decisions about obtaining, allocating or assigning resources for the system of quality management.
- A35. Resource needs may change over time as a result of changes in the nature and circumstances of the firm (e.g., the emergence of new or advanced technology or evolution in the firm's business model) and the engagements performed by the firm. The firm's resource planning involves determining the resources currently required and forecasting the firm's future resource needs. However, given the continual changes in the nature and circumstances of the firm and its engagements, it may not be practicable for the firm to anticipate all possible resource needs or changes to the resource needs and therefore, in most cases, the firm's resource planning includes processes to deal with resource needs that cannot be anticipated as and when they arise.

*Firm Leadership Responsibility and Accountability* (Ref: Para. 23(b), 24(a))

- A36. Paragraph A32 explains the various leadership structures that may exist in a firm. Ordinarily the person with ultimate responsibility and accountability for the system of quality management is the chief executive officer (or equivalent), or the firm's managing partner (e.g., in the case of a smaller firm). However, some firm management structures may share the

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responsibility and accountability for the system of quality management among the firm's managing board of partners (or equivalent).

*Operational Responsibility* (Ref: Para. 24(a)(iii), 25)

- A37. The individual(s) assigned ultimate responsibility and accountability for the system of quality management is responsible and accountable for the firm achieving the objective of this ASQM. The individual(s) assigned operational responsibility for the system of quality management as a whole is responsible and accountable for the design, implementation and operation of the firm's system of quality management. In some instances, operational responsibility for the matters in paragraph 24(a)(iii) may be assigned to one individual, particularly in the case of a smaller firm. These responsibilities may also be fulfilled by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.
- A38. In some instances, the individual assigned operational responsibility for the system of quality management may further assign specific roles, procedures, tasks or actions to other individuals within the firm. For example, in addition to assigning responsibility for compliance with independence requirements and the monitoring and remediation process, the individual may assign responsibility for technological resources.
- A39. In some circumstances, the firm may establish additional criteria for the eligibility of the individual(s) assigned operational responsibility for the matters set out in paragraph 24(a)(iii).

*Performance Evaluations* (Ref: Para. 24(b))

- A40. Periodic performance evaluations of individual(s) within the firm are a required response to promote the accountability of such individual(s) for their assigned responsibilities. In considering the performance of individuals, the firm may take into account:
- The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. For example, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.
  - The actions taken by the individual(s) in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.
- A41. A positive performance evaluation may be rewarded through compensation, promotion and other incentives that focus on the individual's commitment to quality, and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.
- A42. Given the unique position of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the performance evaluations may be undertaken by an independent non-executive member of the firm's governing body, or a special committee overseen by the firm's governing body, or the firm may engage a service provider to perform the evaluation. In the case of smaller firms, it may not be practicable to perform performance evaluations; however, in such cases, the results of the firm's monitoring activities may provide an indication of the performance of the individual(s).

*Public Sector Considerations*

- A43. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual assigned ultimate responsibility and accountability for the system of quality management, or to take actions to address the results of the performance evaluation, given the nature of the individual's appointment. Nevertheless, performance evaluations may still be

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undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.

*Complaints and Allegations* (Ref: Para. 24(c))

A44. Establishing policies or procedures for dealing with complaints and allegations supports the firm's commitment to quality. Complaints and allegations may originate from within or outside the firm and they may be made by personnel or external parties, such as clients or others within the firm's network. Complaints and allegations may relate to the failure to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures. A complaint or allegation may indicate that there is a deficiency in the firm's system of quality management, which would be other relevant information considered by the firm as part of its monitoring and remediation process, as required by paragraph 44(e).

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

A45. Law, regulation or relevant ethical requirements may establish responsibilities for the firm or its personnel in circumstances when complaints or allegations arise, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm. For example, sections 260 and 360 of the APESB Code address the approach to be taken by the firm or its personnel in responding to non-compliance or suspected non-compliance with laws or regulations, which may include communications external to the firm that are addressed through the firm's policies or procedures for external communication in paragraph 41(c).

A46. In identifying an appropriate individual(s) to whom complaints and allegations are to be communicated, the firm may consider whether the individual(s) has:

- The experience, knowledge, time and appropriate authority within the firm needed to assume the role; and
- A direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.

A47. The firm may also identify an individual(s) to be responsible for supervising the investigation of complaints and allegations and may consider:

- The factors described in paragraph A46; and
- Whether the individual(s) is not otherwise involved in the engagement to which a complaint or allegation pertains or has sufficient objectivity from the area or personnel subject to the investigation.

The individual(s) supervising an investigation may involve legal counsel as necessary. In the case of a smaller firm, it may not be practicable to identify an individual to supervise an investigation of an allegation or complaint who is not involved in the related engagement or area of the investigation. As a result, such firms may use a service provider to carry out the investigation into complaints and allegations, for example, legal counsel or a suitably qualified consultant.

**The Firm's Risk Assessment Process** (Ref: Para. 26–31)

A48. The approach that the firm takes to the risk assessment process may vary according to many factors, including how the firm is structured and organised. For example, the firm's risk assessment process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or may be decentralised (e.g., the quality objectives, quality risks and responses are established at a

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business unit, function or service line level, with the outputs combined at the firm level). Although this ASQM is organized by components, the firm's risk assessment process may be undertaken for the system of quality management as a whole.

#### *Establish Quality Objectives* (Ref: Para. 26)

- A49. The quality objectives that the firm is required to establish are set out in paragraphs 23, 32, 34, 36, 38, 40 and 42. In addition, given the nature and circumstances of the firm and its engagements the firm:
- Is required to establish additional quality objectives beyond those required by this ASQM, when those objectives are necessary to achieve the objective of this ASQM.
  - May decide that more granular quality objectives than those set out in this ASQM are appropriate. Establishing more granular quality objectives may enhance the firm's identification and assessment of quality risks.
- A50. Given the iterative nature of the firm's risk assessment process, the firm may determine that additional quality objectives are necessary to achieve the objective of this ASQM at any stage in the process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses. The results of the firm's monitoring and remediation process may also highlight that additional quality objectives are necessary to achieve the objective of this ASQM, including in circumstances when it is determined that the system of quality management does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
- A51. Although the quality objectives set out in this ASQM are organised by component, an objective in one component may overlap, be related to, support or be supported by a quality objective in another component. For example, the quality objective in information and communication addressing the communication of relevant and reliable information in a timely manner to personnel supports the quality objective in the relevant ethical requirements component addressing the understanding of relevant ethical requirements by the firm, its personnel and others subject to relevant ethical requirements.

#### *Conditions, Events, Circumstances, Actions or Inactions That May Affect the Achievement of the Quality Objectives* (Ref: Para. 27)

- A52. In understanding the conditions, events, circumstances, actions or inactions that may affect the achievement of its quality objectives, the firm may consider what could go wrong in relation to the matters identified in paragraphs A22–A23 that could affect the achievement of such objectives. Such consideration may also assist with identifying quality risks.

#### *Identify and Assess Quality Risks* (Ref: Para. 28–29)

- A53. The firm exercises professional judgement in identifying and assessing quality risks. The process for identifying and assessing quality risks may involve a combination of ongoing and periodic risk identification and assessment procedures. In some circumstances, the identification and assessment of quality risks may be undertaken concurrently.
- A54. Under this ASQM, not every quality risk needs to be identified and further assessed. The firm identifies which quality risks need to be further assessed based on a preliminary consideration of the possibility of the quality risks occurring and the effect on the achievement of the quality objectives. Only those quality risks that meet both of the criteria in paragraph 28(a) and (b) need to be identified and further assessed. The further assessment of the quality risks involves a more detailed consideration of the degree of the likelihood of the quality risks occurring and the significance of the effect of the quality risks on the achievement of the quality objectives.
- A55. There is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote.



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- A56. The significance of the effect of a quality risk on the achievement of a quality objective(s) is judged in the context of the underlying conditions and events that gave rise to the quality risk, as well as the nature and circumstances of the firm and its engagements, which are further described in paragraphs A22–A23.
- A57. The firm may determine that a quality risk that has a reasonable possibility of occurring does not, on its own, have a significant effect on the achievement of a quality objective(s). However, a quality risk is required to be identified and further assessed in circumstances when the quality risk, in combination with other quality risks that have a reasonable possibility of occurring, have a significant effect on the achievement of a quality objective(s).
- A58. The assessment of identified quality risks need not comprise formal ratings or scores, and may involve taking into consideration:
- The expected frequency of the quality risk occurring.
  - The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk.
  - The duration of time of the effect of the quality risk after it has occurred.

#### *Design and Implement Responses to Assessed Quality Risks* (Ref: Para. 19(t), 30)

- A59. The responses required by this ASQM are set out in paragraphs 24, 25, 33, 35, 37, 41 and 43 and represent responses that are relevant to every firm's system of quality management and are therefore applicable to all firms. However, the responses required by this ASQM alone will not be sufficient to address all of the firm's assessed quality risks, as explained in paragraph 10(c). Accordingly the firm is required to design and implement responses in addition to those required by this ASQM. For example, paragraph A69 identifies additional responses that may be appropriate to address quality risks for relevant ethical requirements.
- A60. The firm exercises professional judgement in designing and implementing responses to address the assessed quality risks. The nature, timing and extent of the responses are affected by the reasons for the assessment given to the assessed quality risks, which includes:
- The likelihood of the assessed quality risk occurring. For example, a more robust response may be needed for an assessed quality risk that has a higher likelihood of occurring.
  - The significance of the effect on the achievement of the quality objectives. For example, a more robust response may be needed for an assessed quality risk that has a more significant effect on the achievement of a quality objective.
  - The conditions, events, circumstances, actions or inactions that give rise to the assessed quality risks. For example, if the assessed quality risk relates specifically to engagements performed for a category of entities (e.g., audits of financial reports of listed entities), the responses may require specific actions for entities in that category, rather than all engagements performed by the firm.
- A61. The nature and circumstances of the firm and its engagements affect the reasons for the assessment given to the assessed quality risks, and the nature, timing and extent of the responses designed and implemented to address the assessed quality risks. For example, in demonstrating a commitment to quality through their actions and behaviours, as required by paragraph 24(a)(ii), leadership of a smaller firm may engage in direct and frequent interactions with personnel throughout the firm. However, in the case of a larger firm, frequent and direct interactions by leadership with all personnel may not be practicable and therefore the actions taken to demonstrate a commitment to quality may involve multiple actions, including establishing firm values in a code of conduct that all personnel are required to comply with

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and a series of formal communications from firm leadership that emphasise the importance of quality.

- A62. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level in order for a response to operate as designed. For example, the firm may appoint suitably qualified and experienced personnel to provide technical advice to engagement teams and, in doing so, may prescribe specific matters for which consultation by the engagement team is required. The engagement team may have a responsibility to identify when such matters occur and to initiate such consultation as required by the firm's policies or procedures. Communicating to engagement teams about their responsibilities for the implementation of the responses is therefore important for the functioning of the system of quality management, and is a response required by paragraph 41(b).
- A63. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.
- A64. In some cases, the response designed and implemented by the firm may address multiple assessed quality risks across multiple components of the system of quality management. Furthermore, the responses designed and implemented to address an assessed quality risk in one component may affect the assessed quality risks and responses of another component. For example, engaging a service provider to manage all aspects of the firm's IT environment may create new quality risks for relevant ethical requirements (e.g., the service provider may have access to confidential information).

#### *Changes in the Nature and Circumstances of the Firm or Its Engagements* (Ref: Para. 31)

- A65. In some circumstances, changes in the nature and circumstances of the firm's engagements may affect the design, implementation and operation of the system of quality management. For example, the firm may accept an engagement to perform an audit of financial reports for an entity involved in an industry for which the firm has not previously performed audit engagements that may create new quality risks (e.g., personnel do not have the knowledge or experience relevant to the engagement).
- A66. Quality objectives, quality risks or responses may also need to be modified as a result of:
- Changes that affect specific components of the system of quality management, for example, changes in the firm's resources.
  - Information from the firm's monitoring and remediation, including identified deficiencies from monitoring activities, external inspections or other relevant information.

#### **Relevant Ethical Requirements** (Ref: Para. 32–33)

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

- A67. The APESB Code sets out the fundamental principles of ethics that establish the standard of behaviour expected of a professional accountant and establishes the Australian Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The APESB Code also specifies the approach that a professional accountant is required to apply to comply with the fundamental principles and the Australian Independence Standards and addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, for example, privacy laws affecting the confidentiality of information.

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**Aus The AUASB will deliberate whether a modification in the extant ASQC 1 made to reflect Australian laws and regulations is still applicable to the below paragraph. See Table 1 in the attachment to this exposure draft for more information;**

A68. In some cases, the firm may determine that it is appropriate to design and implement responses that are more specific than the provisions of relevant ethical requirements. For example, having regard to the nature and circumstances of the firm and its engagements, a firm may:

- Prohibit the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
- Set rotation periods for the engagement partner and other senior personnel for all engagements performed by the firm, including other assurance or related services engagements.

A69. Other components include responses that may affect or relate to the relevant ethical requirements component. For example, the following are examples of responses for information and communication and resources that may address assessed quality risks for relevant ethical requirements:

- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
- Providing training for personnel on relevant ethical requirements.
- Establishing manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
- Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
- Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner related to:
  - Personal or firm situations that may create threats to independence, for example, financial interests, loans, employment relationships or personal appointments.
  - Client engagements, including non-assurance engagements. For example, this may include the scope of services, fees or information about long association.
  - Business relationships.
  - Any breaches of the relevant ethical requirements, including those related to independence.
- Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

Furthermore, the individual in the firm assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures addressing communication of breaches of independence requirements and determining that appropriate actions have been taken to address the causes and consequences of the breach.

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**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.

A70. Various provisions of the relevant ethical requirements may apply only to personnel and not the firm itself. For example, Part 2 of the APESB Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm. The firm's system of quality management may need to address personnel's compliance with such relevant ethical requirements, for example, the firm may need to establish policies or procedures to facilitate personnel's compliance with Part 2 of the APESB Code (e.g., policies or procedures addressing section 260 of the APESB Code regarding non-compliance with laws and regulations).

A71. The applicability of the relevant ethical requirements to others (i.e., the network, network firms, personnel in the network or network firms, or service providers) depends on whether those requirements contain specific provisions addressing others, and how the firm uses others in its system of quality management. For example:

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms.
- The definition of engagement team under relevant ethical requirement may include any individuals engaged by the firm who perform assurance procedures on the engagement (e.g., a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team may also be relevant to such individuals.
- The principle of confidentiality may apply to a network, network firm or service provider, given that they may have access to client information obtained by the firm.

**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.

A72. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the APESB Code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test.

A73. The policies or procedures addressing breaches of the relevant ethical requirements, including those related to independence, may address matters such as:

- The communication of breaches of the relevant ethical requirements to appropriate individual(s) within the firm;
- The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements;
- The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable;
- Determining whether to report a breach to external parties; and
- Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.

**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.

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A74. Relevant ethical requirements may specify how the firm is required to respond to a breach. The APESB Code sets out requirements for the firm in the event of a breach of the APESB Code and includes specific requirements addressing breaches of the Australian Independence Standards, which includes requirements for communication with external parties

*Public Sector Considerations*

A75. Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect the firm's independence that will require an appropriate response by the organisation.

**Acceptance and Continuance of Client Relationships and Specific Engagements (Ref: Para. 34–35)**

A76. Other components include responses that may affect or relate to the acceptance and continuance of client relationships and specific engagements component. For example:

- The information necessary to support the firm's decisions about the acceptance and continuance of client relationships and specific engagements is identified, captured, processed and maintained through the information and communication component, and may include intellectual resources such as databases of client information or access to external information databases.
- The firm may use technological resources in the form of IT applications to facilitate the approval of client relationships or specific engagements at appropriate levels within the firm.
- Governance and leadership addresses the responsibility of the firm with respect to appropriate resource planning and obtaining, allocating or assigning resources.

*The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client*  
 (Ref: Para. 34(a))

A77. The information obtained about the nature and circumstances of the engagement may include:

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors;
- The nature of the entity, for example, its operations, organisational structure, ownership and governance, its business model and how it is financed; and
- The nature of the underlying subject matter and the criteria to be applied in the preparation of the subject matter information, for example, in the case of integrated reporting, the underlying subject matter may include social, environmental and health and safety information and the criteria may be performance measures established by a recognised body of experts.

A78. In some circumstances the firm may establish policies or procedures that specify, or prohibit, the types of engagements that may be performed by the firm, for example, the firm may prohibit the performance of assurance engagements over a certain subject matter. The policies or procedures may also prohibit the performance of engagements for certain types of entities, for example, the firm may prohibit the performance of engagements in certain industries.

A79. The information obtained to support the firm's judgements about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance. The nature and extent of information obtained may depend on factors such as:

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- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure.
  - The nature of the client's operations, including its business practices.
  - Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
  - Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
  - Indications of a client-imposed limitation in the scope of work.
  - Indications that the client might be involved in money laundering or other criminal activities.
  - The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
  - The identity and business reputation of related parties.
- A80. The firm may obtain the information from a variety of internal and external sources, for example:
- In the case of an existing client, consideration of matters that have arisen during the current or previous engagements, if applicable, or enquiry of other personnel who have performed other engagements for the client.
  - In the case of a new client, enquiry of existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements.
  - Discussions with other third parties, such as bankers, legal counsel and industry peers.
  - Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search.
- A81. Information that is obtained during the firm's acceptance and continuance process about the nature and circumstances of the engagement and the integrity and ethical values of the client's management, and, when appropriate, those charged with governance is in most cases relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, ASA 220<sup>9</sup> requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ASAs and complying with the requirements of ASA 220.
- Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**
- A82. Professional standards or legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make enquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ASA 300<sup>10</sup> requires the auditor, prior to starting an initial audit, to communicate with the

<sup>9</sup> Proposed ASA 220, paragraph 21

<sup>10</sup> ASA 300, Planning an Audit of a Financial Report, paragraph 13(b)

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predecessor auditor in compliance with relevant ethical requirements. The APESB Code also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial reports.

*The Firm's Ability to Perform Engagements* (Ref: Para. 34(b))

- A83. The consideration of whether the firm is able to perform engagements in accordance with professional standards and applicable legal and regulatory requirements includes determining that the firm, its personnel and others are able fulfill their responsibilities in relation to the relevant ethical requirements.
- A84. The judgements about whether the firm has the resources to perform the engagement may involve reviewing the specific circumstances of the engagement and considering whether the firm has the resources to perform the engagement within the reporting deadline, including whether there are:
- Human resources with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes:
    - Personnel to direct and supervise the engagement and take overall responsibility; and
    - Human resources with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements.
  - Experts that are available, if needed.
  - Engagement quality reviewers who meet the eligibility requirements in ASQM 2, if applicable.
  - Technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data.
  - Intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources.

*The Firm's Financial and Operational Priorities* (Ref: Para. 34(c))

- A85. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialisation or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but, notwithstanding the firm's operational and financial priorities, it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks appropriate integrity and ethical values).
- Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**
- A86. There may be other circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The APESB Code addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low.

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*Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement* (Ref: Para. 34(d))

- A87. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:
- Have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement and the firm was not aware of such information; or
  - Relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.

The information may come to the attention of the firm in a variety of ways, including through the engagement partner or engagement team. For example, ASA 220<sup>11</sup> requires the engagement partner to communicate information to the firm that the engagement partner obtains that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement.

- A88. The firm’s response to address circumstances when information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement may include policies or procedures that set out the actions to be taken, including:
- Undertaking appropriate consultation within the firm or with legal counsel.
  - Considering whether there is a professional, legal or regulatory requirement for the firm to continue the engagement.
  - Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the appropriate action that the firm might take based on the relevant facts and circumstances, and when it is determined that withdrawal is an appropriate action, informing them of this decision and the reasons for the withdrawal.
  - If the firm withdraws from the engagement, considering whether there is a professional, legal or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
  - If the firm does not withdraw from the engagement, considering the effect of the information on the performance of the engagement and the additional actions to be taken by the firm or the engagement partner in managing quality at the engagement level (e.g., assigning more experienced personnel to the engagement, requiring an engagement quality review or increasing the extent and frequency of the engagement partner’s direction and supervision of engagement team members and review of their work).

*Circumstances When the Firm is Obligated to Accept or Continue a Client Relationship or Specific Engagement* (Ref: Para. 35)

- A89. There may be circumstances when the firm is obligated to accept or continue a client relationship or specific engagement. For example, jurisdictional law or regulation may impose an obligation on the firm to accept or continue a client engagement, or in the case of the public sector, the firm may be appointed through statutory provisions. In such circumstances, when

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<sup>11</sup> Proposed ASA 220, paragraph 22



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the firm becomes aware of information that would otherwise have caused the firm to decline or discontinue the engagement, the firm may design and implement additional responses to address the assessed quality risk(s) arising from the performance of such engagements. For example, the firm may assign more experienced personnel to the engagement or may require that an engagement quality review be performed in respect of the engagement. There may also be actions at the engagement level to manage quality when performing such engagements, for example, increasing the extent and frequency of the engagement partner's direction and supervision of engagement team members and review of their work.

**Aus** The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.

A90. In some circumstances, a threat to the firm's integrity may arise as a result of being associated with the subject matter of the engagement. Relevant ethical requirements may include requirements addressing circumstances when the firm becomes associated with information that is false or misleading. For example, the APESB Code contains requirements addressing circumstances when the professional accountant becomes associated with information that contains a materially false or misleading statement, contains statements that have been provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.

#### **Engagement Performance (Ref: Para. 36–37)**

A91. ASA 220<sup>12</sup> requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement.

#### *Direction, Supervision and Review (Ref: Para. 36(a)(ii), 37(a))*

A92. The firm's policies or procedures addressing engagement supervision may include responsibilities for:

- Tracking the progress of the engagement;
- Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

A93. The policies or procedures addressing the review of the work of engagement teams may address matters such as the reviewer's consideration of whether:

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have been undertaken and the resulting conclusions have been documented and implemented;

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<sup>12</sup> Proposed ASA 220, paragraph 11

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- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

#### *Judgements and Conclusions* (Ref: Para. 36(b))

- A94. The system of quality management creates an environment that supports engagement teams in making informed decisions about the courses of action that are appropriate given the nature and circumstances of the engagement. For example, the responses designed and implemented by the firm to establish a culture that promotes a commitment to quality or the responses addressing the hiring, development, retention and assignment of personnel with the competence and capabilities to perform engagements are important in supporting the engagement team in exercising appropriate professional judgement and, when applicable to the type of engagement, professional scepticism.
- A95. The firm's policies or procedures for consultation and differences of opinion and the performance of engagement quality reviews may also address assessed quality risks related to exercising appropriate professional judgement and, when applicable to the type of engagement, professional scepticism in planning and performing engagements. The firm may also design and implement other types of responses, including other forms of engagement reviews that are not engagement quality reviews. For example, for audits of financial reports, the firm's responses may include reviews of the engagement team's procedures on significant risks or reviews of certain matters by individuals within the firm who have specialised technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.
- A96. Professional scepticism supports the quality of judgements made on the engagement and, through these judgements, the overall effectiveness of the engagement team in performing the engagement. Other pronouncements of the AUASB may address the exercise of professional judgement or professional scepticism at the engagement level. For example, ASA 220<sup>13</sup> explains the impediments to the exercise of professional scepticism at the engagement level and actions that the engagement partner may take to deal with such impediments.
- Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**
- A97. In performing related services engagements, a practitioner is not required to gather evidence to express an opinion or conclusion on the information. However, the practitioner may form conclusions related to the performance of the engagement, for example, in a compilation engagement the practitioner may conclude that the compiled financial information is misleading and be required to take the appropriate actions set out in ISRS 4410 (Revised).<sup>14</sup>

#### *Consultation* (Ref: Para. 37(c))

- A98. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialised expertise, on difficult or contentious matters. While the firm establishes policies or procedures regarding the matters

<sup>13</sup> Proposed ASA 220, paragraphs A27–A29

<sup>14</sup> International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, paragraphs 34–36

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on which consultation is required, the engagement team may identify other matters that require consultation.

- A99. In considering its resource needs, the firm may consider the resources needed to enable consultation, for example, appropriate access to intellectual resources to facilitate research and personnel with the competence and capabilities to provide consultations. In some instances, such as a smaller firm, human resources to support consultation may only be available externally, for example, other firms, professional and regulatory bodies, or commercial organisations that provide such services. In such cases, paragraphs 64–65 apply.

*Differences of Opinion* (Ref: Para. 37(d))

- A100. The policies or procedures addressing differences of opinion may be established in a manner that encourages identification of differences of opinion at an early stage. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

*Engagements Subject to an Engagement Quality Review* (Ref: Para. 37(e))

- A101. The categories of engagements for which an engagement quality review is required are not mutually exclusive. For example, many listed entities may be considered to be of significant public interest based on the characteristics described in paragraph A102. In addition, law or regulation may require engagement quality reviews to be performed for certain types of entities (e.g., entities with public accountability as defined in certain jurisdictions), or may include different criteria or characteristics that firms may use in determining whether an entity is of significant public interest.
- A102. In determining whether an entity is of significant public interest, the firm may take into account, for example, whether the entity has a large number and wide range of stakeholders, and the nature and size of the business. The firm also may consider the relative significance of factors such as these in the context of the jurisdiction or region in which the entity operates. Entities that the firm determines to be of significant public interest may include entities such as financial institutions (e.g. certain banks, insurance companies, and superannuation funds), and other entities such as certain not-for-profit organisations.
- A103. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:
- Are characterised as public interest entities;
  - Operate in the public sector or which are recipients of government funding;
  - Operate in certain industries (e.g., financial institutions such as banks, insurance companies and superannuation funds);
  - Meet a specified asset threshold; or
  - Are under the management of a court or judicial process (e.g., liquidation).
- A104. Audits or other engagements for which the firm may determine that an engagement quality review is an appropriate response to assessed quality risks may include, for example, engagements:
- That involve a high level of complexity or judgement, such as:
    - An audit of a financial report for an entity operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for

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which uncertainties exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- An assurance engagement that requires specialised skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
  - Where issues have been encountered on the engagement, for example, audit engagements with recurring internal or external inspection findings, unremediated deficiencies in internal control, or a material restatement of comparative information in the financial report.
  - For entities in emerging industries or that involve emerging technologies, or for which the firm has no previous experience.
  - For which unusual circumstances are identified during the firm's acceptance and continuance of client relationships and specific engagements (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
  - That involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, or that may involve a higher degree of judgement, such as pro forma financial information to be included in a prospectus.
  - For entities for which concerns were expressed in communications from securities or prudential regulators.
- A105. In some cases, there may be no engagements for which an engagement quality review is required to be performed (e.g., when a firm does not perform audits of listed entities or entities of significant public interest and other responses to assessed quality risks are determined by the firm to be appropriate).

#### Considerations Specific to Public Sector Audit Organisations

- A106. Public sector entities may be of significant public interest due to their size and complexity, the range of their stakeholders and the nature of the services they provide. Factors to consider in determining whether a public sector entity is of significant public interest may include whether the entity is a national, regional or local government, or whether an opinion is being expressed on the entire entity or only certain units. Other factors to consider may include whether the entity is a corporation that is state owned or in which the state has a controlling stake or a stake with significant influence. Larger public sector entities may be determined to be of significant public interest due to their social or economic influence on the community or region in which the entity operates.
- A107. The firm may determine that an engagement quality review is an appropriate response to a quality risk for engagements in the public sector for which law or regulation establishes additional reporting requirements (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial report).

#### *Engagement Documentation* (Ref: Para. 37(f))

- A108. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements is to be completed. Where no such time limits are prescribed in law or regulation, the firm ordinarily establishes an appropriate time limit. In the case of an audit of a financial report, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.

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- A109. The retention and maintenance of engagement documentation includes managing the safe custody, integrity, accessibility or retrievability of the underlying data. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented or deleted without the appropriate authorisation to do so, or if it is permanently lost or damaged. The firm's responses may therefore include actions to prevent unauthorised access and create audit trails that indicate access and changes to engagement documentation.
- A110. Relevant ethical requirements generally include provisions relating to confidentiality of client information, unless specific client authority has been given to disclose information, or there is a legal or professional duty or right to disclose the information. Specific law or regulation may impose additional obligations on personnel to maintain client confidentiality, particularly where data of a personal nature is concerned. Accordingly, the firm's responses for relevant ethical requirements may include responses for the retention and maintenance of engagement documentation. The firm's responses to address the confidentiality of client information may need to address all possible locations of client information, including engagement documentation, emails, firm servers or hard copy.
- Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**
- A111. Law or regulation may prescribe the retention period for engagement documentation, or there may be generally accepted retention periods. If the retention periods are not prescribed in law or regulation, the firm may, in determining an appropriate retention period, consider the nature of the engagements performed by the firm and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of audits of financial reports, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial report, when applicable.
- A112. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

#### **Resources (Ref: Para. 38–39)**

A113. Resources for the purposes of the resources component include:

- Human resources.
- Technological resources, for example, IT applications.
- Intellectual resources, for example, written policies or procedures, a methodology or guides.

Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing and maintaining the firm's human resources, technological resources and intellectual resources. The governance and leadership component addresses appropriate resource planning for all resources. Given the nature of financial resources, the quality objectives and responses in governance and leadership, such as those that address financial and operational priorities, address financial resources. This component addresses specific aspects of human resources, technological resources and intellectual resources.

A114. Resources are pervasive to all components of the system of quality management and therefore the firm's responses for resources will address assessed quality risks specific to resources, as

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well as assessed quality risks for other components. Such responses may be designed and implemented individually for each component, or they may be designed and implemented for all components holistically.

- A115. Resources may be internal to the firm, or may be obtained externally from a network, network firm or service provider. In such circumstances, in addition to complying with the requirements for resources set out in this component, the firm is also required to comply with paragraphs 58–63 addressing network requirements or network services or paragraphs 64–65 addressing the use of resources from a service provider.
- A116. Other components include responses that may affect or relate to the resources component. For example, the information necessary to facilitate the appropriate assignment of personnel or the evaluation of personnel is identified, captured, processed and maintained through the information and communication component.

#### *Human Resources* (Ref: Para. 38(a)–38(d))

- A117. Competence is the ability of the individual to perform a role to a defined standard and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.
- A118. Professional standards, law or regulation may establish requirements addressing competence and capabilities. For example, law or regulation of a jurisdiction may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.
- A119. The firm's responses that relate to the hiring, development and retention of personnel may include:
- Recruitment strategies that focus on selecting individuals who have the ability to develop the competence necessary to consistently perform quality engagements or activities in relation to the operation of the system of quality management.
  - Training programs, which may form part of the firm's intellectual resources, to develop personnel's competence to enable them to perform their roles and responsibilities.
  - Policies addressing the continuing professional development of personnel, including personnel's responsibility to maintain an appropriate level of continuing professional development, and training resources and other assistance provided by the firm.
  - Evaluation mechanisms that establish competency areas and other performance measures, and facilitate the evaluation of personnel at appropriate intervals.
  - Compensation, promotion and other incentives, appropriate to the nature and circumstances of the firm, for all personnel, including engagement partners, the individuals assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility the firm's system of quality management or other aspects of the system of quality management.
- A120. Human resources assigned to engagements or other roles may include personnel in a service delivery centre, human resources engaged by the firm (i.e., a service provider) or human resources from a network or network firm.

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- A121. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, for example, in the case of smaller firms with fewer personnel.
- A122. Evaluations of personnel may be used by the firm in determining the compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.
- A123. The firm may take action for personnel who demonstrate actions or behaviours that negatively affect quality, including failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed (e.g., an individual breaches the firm's policies or procedures related to independence). The consequences or actions taken by the firm may depend on the severity of the failure and the frequency of occurrence and may include, for example:
- Training or other professional development;
  - Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of the individual(s); or
  - Taking disciplinary action against the individual(s), if appropriate, depending on the severity of the failure and the frequency of occurrence.

*Technological Resources* (Ref: Para. 38(e))

- A124. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes that the firm uses in the operation of its system of quality management:
- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
  - and their related hardware and software.
  - The IT processes are the firm's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.
- A125. An IT application, IT infrastructure or IT process may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Only IT applications, IT infrastructure or IT processes that support the firm's system of quality management are relevant for the purposes of this ASQM.
- A126. In some cases, the network may require the firm to use an IT application, the firm may choose to use an IT application provided by the network, or the firm may purchase an IT application from a service provider. The firm may also use the network or a service provider to manage certain aspects of the IT processes.
- A127. Paragraph 40(a) addresses the firm's responsibility to establish an information system that supports the system of quality management, which may include the use of IT elements and records in the form of digital information. The firm may also use certain IT applications to enable the operation of various aspects of its system of quality management, for example, IT applications used to monitor compliance with relevant ethical requirements and record and maintain information about independence. Other IT applications may be implemented by the firm for use by engagement teams in performing engagements, for example, the firm may mandate the use of an IT application that facilitates the documentation of work performed or

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the firm may offer an IT application to perform analyses of the client's information that engagement teams may choose to use.

- A128. The IT environment for a larger firm may be comprised of customised or integrated IT applications, with dedicated human resources to manage the IT infrastructure and IT processes. The IT environment for smaller firms may comprise IT applications that are commercial software, and the IT processes may involve authorising access to the IT applications and processing updates to the IT applications.
- A129. The use of IT applications or other aspects in the IT environment may give rise to quality risks, for example:
- Inappropriate reliance on IT applications that are inaccurately processing data, processing inaccurate data, or both.
  - Unauthorised access to data that may result in breaches in confidentiality of information contained in the data, destruction of data or improper changes to data.
  - Potential loss of data or inability to access data or IT applications as required.
  - Unauthorised changes to IT applications or other aspects of the IT environment.
  - Failure to make necessary changes to IT applications or other aspects of the IT environment.

The nature and significance of these quality risks may vary based on whether, and the extent to which, the firm relies on IT, including automated controls, to enable the design, implementation and operation of the system of quality management. General IT controls may be part of the responses designed and implemented by the firm to address quality risks identified and assessed by the firm.

- A130. When implementing an IT application, particularly a customised IT application that has been developed specifically for the firm, it is necessary for the firm to determine that the IT application operates appropriately. This determination may involve consideration of whether:
- The data inputs are appropriate and confidentiality of the data is preserved.
  - The IT application operates as designed and achieves the purpose for which it is intended.
  - The outputs of the IT application achieve the purpose for which they will be used.
  - It is clear how users are required to interact with and use the IT application and users have appropriate support.
  - The general IT controls necessary to support the IT application's continued operation as designed are appropriate.

The firm may specifically prohibit the use of IT applications or features of IT applications, until such time that it has been determined that they operate appropriately and have been approved for use by the firm.

- A131. Engagement teams may need training on how to use the IT applications appropriately. Furthermore, for certain IT applications, specialised skills may be needed to utilize the IT application effectively and the firm may need to specify procedures that set out how the engagement team operates the IT application. For example, in some instances the firm's IT application for the performance of engagements may require that the engagement team complete certain information about the client and the circumstances of the engagement in



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order to generate an appropriate engagement file template for the circumstances of the engagement.

*Intellectual Resources* (Ref: Para. 38(f))

A132. Intellectual resources include the information the firm uses to promote consistency in the performance of engagements, for example, written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardized documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of engagements).

A133. The intellectual resources may be made available to personnel through technological resources, for example, the firm's audit methodology may be embedded in the audit IT application that facilitates the planning and performance of the engagement. The firm may also need human resources to develop, implement and maintain its intellectual resources. Intellectual resources may also be dependent on relevant and reliable information that is identified, captured, processed and maintained through the firm's information and communication component.

*Personnel's Use of Technological and Intellectual Resources* (Ref: Para. 38(g))

A134. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in performing engagements, for example, engagement teams may be required to use the firm's methodology when performing the engagement. They may also be required to use IT applications that facilitate the performance of the engagement and the archival of the engagement file.
- Specify the qualifications or experience of personnel that are needed to use the IT application, for example, the firm may specify the qualifications or expertise needed to use an IT application for the performance of automated techniques and to interpret the results.
- Set out how the technological or intellectual resources are to be used.

**Information and Communication** (Ref: Para. 40–41)

A135. Obtaining, generating or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication is pervasive to all components of the system of quality management and therefore the firm's responses for information and communication address assessed quality risks specific to information and communication, as well as assessed quality risks for the other components. Such responses may be designed and implemented individually for each component, or for all components holistically. Paragraphs A51, A69, A76 and A116 explain and provide examples of how the information and communication component supports the design, implementation and operation of the other components of the system of quality management.

*The Firm's Information System* (Ref: Para. 40(a))

A136. Reliable information includes information that is accurate, complete, timely and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

A137. The information system in smaller firms is likely to be less sophisticated than in larger firms and involve a less complex IT environment.

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A138. The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the firm's responses for other components. For example, the firm's responses for monitoring and remediation may define how information from the results of the firm's monitoring activities is captured, processed, maintained and communicated. In addition, digital records may replace or supplement physical records. For example, the firm may use an IT application to obtain a documented confirmation of compliance with independence requirements from personnel.

*Communication Within the Firm* (Ref: Para. 40(b)–(d), 41(a)–(b))

A139. The firm and its personnel share relevant information to enable the proper functioning of the firm's system of quality management. For example:

- The firm communicates information to engagement teams, such as information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate information to the firm, for example, information about:
  - The client obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.
  - The operation of the firm's responses to assessed quality risks (e.g., concerns about the firm's processes for assigning personnel to engagements).

In some cases, the information communicated by the engagement team may indicate a deficiency in the firm's system of quality management.

- Personnel performing activities within the firm's system of quality management share information. For example, the individual(s) assigned operational responsibility for compliance with independence requirements may communicate to the person with ultimate responsibility for the system of quality management changes in the independence requirements and how the firm's policies or procedures have been updated in response to such changes.

Two-way communication may also be among the various parties, for example, engagement teams may communicate information directly to the personnel performing activities within the firm's system of quality management.

A140. Matters communicated by the firm to engagement teams or other personnel performing activities within the firm's system of quality management may include changes to the system of quality management, to the extent that the changes are relevant to their responsibilities and enables the personnel to take prompt and appropriate action in accordance with their responsibilities.

A141. Responsibility for operating the responses designed and implemented by the firm may be assigned to:

- The engagement team, as described in paragraph A62;
- Personnel performing activities within the firm's system of quality management (e.g., assigning responsibility for the performance of an engagement quality review to an engagement quality reviewer); or

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- A combination of the engagement team and personnel performing activities within the firm's system of quality management.

The firm may also use human resources external to the firm to assist in operating the responses.

*Communication with External Parties* (Ref: Para. 40(e), 41(c))

Communication Required by Law or Regulation (Ref: Para. 41(c)(i))

A142. Law, regulation or professional standards may require the firm to communicate information to external parties. For example:

- In circumstances when the firm becomes aware of non-compliance with laws and regulations by a client, relevant ethical requirements may require the firm to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
- Law, regulation or professional standards may require the firm to publish a transparency report and may specify the nature of the information that is required to be included in the transparency report.

Communication with the Network (Ref: Para. 41(c)(ii))

A143. When the firm belongs to a network, frequent communication with the network supports the network in establishing network requirements and providing network services that promote the consistent performance of quality engagements. Furthermore, the network's communication of relevant information supports the firm in the design, implementation and operation of its system of quality management. Such communication may include matters related to independence, for example, in circumstances when relevant ethical requirements include requirements for independence that apply to network firms or employees of network firms.

Communication with Service Providers (Ref: Para. 41(c)(iii))

A144. When the firm uses a service provider, the service provider's communication of relevant information to the firm that affects the firm's system of quality management supports the firm in the design, implementation and operation of its system of quality management.

Communication to External Parties About the Firm's System of Quality Management  
(Ref: Para. 41(c)(iv))

A145. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through effective two-way communication between the firm and its stakeholders. For example, stakeholders' perception of the quality of engagements performed by the firm may be improved when the firm is transparent about the activities that it has undertaken to address quality, and the effectiveness of those activities.

External parties who may use information about the firm's system of quality management  
(Ref: Para. 41(c)(iv)(a))

A146. External parties may include management or those charged with governance of the firm's clients, the firm's network or network firms, external oversight authorities, other firms who use the work of the firm in the performance of engagements (e.g., in relation to a group audit) or service providers. External parties may also include users of the firm's engagement reports, for example, current shareholders and credit providers of the entities for whom the firm performs engagements.

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A147. The firm exercises professional judgement when taking into account whether there are external parties who may use information about the firm's system of quality management. Whether there are such external parties may depend on the nature of the engagements the firm performs and the types of entities for which such engagements are performed. For example, for a firm that performs audits of financial reports of listed entities or entities that may be of significant public interest described in paragraph A23, external parties such as shareholders of such entities may use a transparency report or similar publication to inform their understanding of the quality of engagements performed by the firm. On the other hand, for a firm that only performs compilation engagements, external parties who may use information about the firm's system of quality management may be limited, and they may obtain such information through discussions and direct interaction with the firm.

Nature and circumstances of the firm (Ref: Para. 41(c)(iv)(b))

A148. Factors that may affect the firm's operating environment include the nature and circumstances of the financial markets in which the firm operates and the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.

Nature, timing, extent and content of communications to external parties about the system of quality management (Ref: Para. 41(c)(iv))

A149. The form of communication to external parties may include a publication such as a transparency report or audit quality report, webpage, targeted communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process), or direct conversations with the external party.

A150. The information that is communicated to external parties about the firm's system of quality management may depend on a variety of factors, including the form of the communication, the nature and circumstances of the firm and the external parties with whom the communication is being undertaken. For example, the communication may contain information about:

- The nature and circumstances of the firm, such as the organisational structure and operating environment and whether it is part of a network.
- The firm's governance and leadership, such as its culture and commitment to quality and information about the individuals responsible for the leadership of the firm.
- Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with appropriate narrative to explain the indicators.
- The results of the firm's monitoring activities and external inspections, and how the firm has remediated identified deficiencies or is otherwise responding to them.
- The evaluation undertaken in accordance with paragraph 55 of whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved, including the basis for the judgements made in undertaking the evaluation.
- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes.

A151. Information that is communicated to external parties about the firm's system of quality management that has the following attributes contributes to an enhanced understanding of the quality of the engagements performed by the firm:

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- The information is specific to the circumstances of the firm and is prepared and presented in a timely manner. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.
- The information is presented in a clear and understandable manner that is neither misleading nor would inappropriately influence the users of the communication (e.g. the information is appropriately balanced towards positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources, for example, information located on the firm's website.

A152. In circumstances when the firm is part of a network, it may be useful to provide information about the relationship between the firm and the network in certain external communications, such as a transparency report. Such information helps facilitate an understanding of the responsibilities of the firm and the network, and clarifies how the network requirements or network services promote the consistent performance of quality engagements across the network firms. Such information may include:

- The nature of the relationship between the firm and the network and the overall structure of the network.
- Requirements established by the network for the firm or network services that are used by the firm in its system of quality management.
- Information about the overall scope and results of network monitoring activities across the network firms that the network has provided to the firm in accordance with paragraph 61, if applicable.

In some circumstances, the network may provide external communication about the above matters, for example, in the form of a network transparency report, which may support the firm in communicating the information.

A153. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally. For example, certain information may be subject to privacy or secrecy laws or regulations or the firm may be precluded from communicating certain information because of the duty of confidentiality under law, regulation or relevant ethical requirements.

#### **Monitoring and Remediation Process (Ref: Para. 42–57)**

A154. In addition to enabling the firm's evaluation of the system of quality management, the monitoring and remediation process facilitates the improvement of engagement quality and the system of quality management.

A155. Professional judgement is exercised in making various decisions within the monitoring and remediation process, including decisions about:

- The nature, timing and extent of the monitoring activities, including the scope of inspection of engagements.

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- The evaluation of the findings from the monitoring activities, results of external inspections and other relevant information to determine whether deficiencies exist.
- How to respond to the findings from the monitoring activities, results of external inspections and other relevant information.
- The evaluation of the severity and pervasiveness of the identified deficiencies.
- Whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.

#### *Designing and Performing Monitoring Activities* (Ref: Para. 44–46)

A156. The firm's monitoring activities may comprise ongoing monitoring activities, periodic monitoring activities or a combination of both. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions, for example:

- An IT application that continually monitors the permissibility of financial investments recorded by personnel as part of the firm's independence responses.
- Inspection of in-process engagements that are focused on specific aspects of completed work.

Periodic monitoring activities are conducted at certain intervals by the firm, for example, inspection of training records to determine that personnel have attended training in accordance with the firm's policies or procedures or inspection of completed engagements. In most cases, ongoing monitoring activities identify deficiencies in the system of quality management in a timelier manner.

A157. The purpose of a monitoring activity is to monitor the responses in the system of quality management. The system of quality management may include responses that are similar in nature to a monitoring activity but have a different purpose (e.g., responses that are designed to detect failures or shortcomings in the system of quality management so that they can prevent an assessed quality risk from occurring). For example, in some circumstances, an in-process review of engagement documentation may be designed as a monitoring activity as part of paragraph 45, in which case the findings from that review are subject to the requirements in paragraph 47. In other circumstances, an in-process review may be designed as a response to address an assessed quality risks in the engagement performance component or other components. Determining the purpose of the response is necessary in determining its design and implementation, and where it fits within the system of quality management (i.e., whether it is a response in monitoring and remediation or a response in another component).

A158. The nature, timing and extent of the monitoring activities may be affected by factors such as:

- The size, structure and organisation of the firm.
- The involvement of the network in monitoring activities.
- The resources that the firm intends to use to enable monitoring activities, for example, the use of IT applications in addition to human resources.
- The design of the response subject to monitoring. For example, the response may comprise in-process reviews of engagement documentation of selected engagements by personnel who are not members of the engagement team. The extent of the review of the engagement documentation, the nature of the matters considered in the review, and how the results of the review are collated may affect the nature, scope and frequency of the monitoring activities over the in-process review.

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A159. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed. For example, the firm may identify findings that indicate the need for more extensive monitoring activities.

The Design of the Response and the Assessed Quality Risks (Ref: Para. 44(a))

A160. The nature, timing and extent of the firm's monitoring activities may be more robust for areas of the system of quality management where the assessed quality risks are greater and the related responses are more extensive or rigorous. For example, the firm may perform more extensive monitoring activities over compliance with independence requirements for audits of financial reports than for other types of engagements.

A161. The reasons for the assessments given to the assessed quality risks may include characteristics associated with certain engagements, for example:

- Engagements performed in respect of certain entities (e.g., a listed entity or entity that may be of significant public interest).
- Engagements where the firm or engagement partner are inexperienced, for example, a new industry, a new service offering or new engagement partner.
- Engagements that have been subject to external inspection and which had negative findings, or engagements where the findings of previous monitoring activities resulted in identified deficiencies.
- Engagements where the firm's engagement acceptance and continuance procedures indicated that matters may exist that may increase the engagement risk.

Changes in Factors That Have Affected the System of Quality Management or Changes in the System of Quality Management (Ref: Para. 44(c))

A162. Changes in factors that have affected the firm's system of quality management include changes in the nature and circumstances of the firm and its engagements (e.g., a new service offered by the firm or changes in the firm's environment). Changes in the system of quality management include:

- Changes to address an identified deficiency in the system of quality management.
- Changes to the responses, for example, because they have become obsolete over time or more effective responses are designed and implemented, such as the use of IT applications to replace manual processes.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

Previous Monitoring Activities (Ref: Para. 44(d), 50)

A163. The findings from the firm's previous monitoring activities may indicate areas of focus for the monitoring activities, for example, monitoring activities may need to continue to be undertaken in certain areas where there is a history of deficiencies. Furthermore, the monitoring activities may need to evaluate the effectiveness of the remedial actions that have been implemented to address deficiencies previously identified.

A164. Although areas of the system of quality management may not have changed, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of areas that have not changed, for example, because of the time that has elapsed since the monitoring activities were undertaken.

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Other Relevant Information (Ref: Para. 44(e), 47)

A165. Examples of sources of other relevant information may include:

- Information communicated by the network in accordance with paragraphs 60(c) and 61 about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management.
- Information communicated by a service provider about the resources the firm uses in its system of quality management.
- Concerns about the commitment to quality of the firm or its personnel, communicated in accordance with paragraph 24(c).
- The results of industry-wide reviews undertaken by an external oversight authority of focus areas related to systems of quality management or the performance of engagements.
- Other reviews undertaken by an external oversight authority, for example, informal reviews undertaken by an external oversight authority to assess a firm's preparation for the implementation of a new professional standard, or reviews of specific areas of focus that contribute to the improvement of engagement quality.
- Information from regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.
- A material restatement of a financial report, an engagement report that required reissuance or litigation against the firm.

A166. The results of external inspections or other relevant information may indicate findings or deficiencies in previous monitoring activities undertaken by the firm, which may affect the firm's consideration of whether the nature, scope and frequency of previous monitoring activities were appropriate.

A167. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections may inform the nature, timing and extent of the monitoring activities.

Engagement Inspections (Ref: Para. 45)

A168. The relevant factors in paragraph 44 affect the extent and frequency of selection of in-process or completed engagements or engagement partners for inspection. Other factors that may also affect the extent and frequency of selection of in-process or completed engagements or engagement partners for inspection include:

- The nature, timing and extent of other monitoring activities undertaken by the firm at the engagement level.
- The varying nature of the engagements performed by the firm.
- The size of the firm, including the number and geographic location of offices and the nature and complexity of the firm's practice and organisation.

A169. The firm may establish different cyclical periods for inspecting engagement partners according to the categories of engagements they perform, for example, the firm may determine that the cyclical period for an engagement partner performing audits of financial reports is every three years, whereas a longer period may be appropriate for engagement partners performing only compilation engagements. The cycle of the inspection may be based on time



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(i.e., every three years as illustrated) or another factor, such as the number of engagements performed. The cyclical period may also be affected by the nature, timing and extent of inspection of in-process engagements and the results thereof.

A170. The purpose of an inspection of an in-process or completed engagement depends on how the inspection has been designed by the firm. Ordinarily, the inspection of an in-process or completed engagement includes determining that responses designed to be implemented at the engagement level have been implemented, for example, the firm may determine whether engagement teams have applied the firm's methodology appropriately.

Individuals Performing the Monitoring Activities (Ref: Para. 46)

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

A171. As described in paragraph A65, objectivity is a fundamental principle of the APESB Code, and the provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. For example, a self-review threat may arise when an individual who performs:

- An inspection of an engagement was:
  - In the case of an audit of a financial report, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period; or
  - For all other engagements, an engagement team member or the engagement quality reviewer of that engagement.
- Another type of monitoring activity had participated in designing, executing or operating the response being monitored.

*Evaluating Findings and Identifying Deficiencies* (Ref: Para. 47)

A172. Findings represent the information accumulated from the performance of monitoring activities and may also include the results of external inspections and other relevant information about the firm's system of quality management. Findings may be positive or negative in nature.

Positive Findings

A173. Positive findings may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements. They may also highlight opportunities for the firm to enhance the system of quality management.

Negative Findings

A174. Negative findings are considered by the firm in accordance with paragraph 47 to determine whether there are deficiencies in the system of quality management. Not all negative findings are a deficiency in the system of quality management.

A175. Factors that a firm may consider in determining whether a finding is a deficiency include:

- The nature of the finding, for example, a finding that indicates that personnel have not adhered to the firm's policies or procedures may be indicative of a deficiency in the culture of the firm.

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- The design of the monitoring activity from which the finding arose, for example, the firm may consider the tolerable error rate of the activity and whether it was designed to focus on specific areas of risk or the whole population.
- The extent of the monitoring activity from which the finding arose, including the size of sample selected relative to the size of the entire population.
- The extent of the findings in relation to the sample of the population covered by the monitoring activity.
- If the finding relates to a response:
  - The nature of the assessed quality risk to which the response relates, and the extent to which the finding indicates that the assessed quality risk has not been addressed.
  - Whether there are other responses that address the same assessed quality risk and whether there are findings for those responses.
- Whether the finding, in combination with other findings, indicate a trend or systemic issue.

A176. A finding may affect multiple responses across different components. For example, a finding that suggests that personnel assigned to an engagement were not knowledgeable about the procedures they performed in the engagement may indicate deficiencies in responses related to human resources (i.e., inappropriate competence and capabilities) as well as those related to engagement performance (i.e., inappropriate direction, supervision and review).

A177. The effectiveness of the monitoring and remediation process may be evaluated through considering the findings arising from the monitoring activities, the results of external inspections and other relevant information source (e.g., network monitoring activities or complaints and allegations). For example, external inspection findings may indicate deficiencies in the system of quality management that have not been identified by the firm's monitoring and remediation process, which highlight a deficiency in that process.

#### Root Cause of the Identified Deficiencies (Ref: Para. 48(a))

A178. This ASQM requires the firm to investigate the root cause(s) of identified deficiencies. As highlighted in paragraph A174, not all negative findings from the performance of monitoring activities, results of external inspections and other relevant information are a deficiency in the system of quality management. Although not required by this ASQM, investigating the root cause of positive findings may reveal opportunities for the firm to improve, or further enhance, the system of quality management. Identifying the root cause of positive findings on engagements where identified deficiencies did not exist may also help the firm to identify the root causes of identified deficiencies that existed in other engagements and may assist the firm in determining how to remediate identified deficiencies.

A179. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies. An improved understanding of the underlying cause(s) of identified deficiencies may:

- Facilitate the design and implementation of more effective actions to address identified deficiencies.
- Directly contribute to the improvement of quality at the engagement level through the participation of engagement teams in the root cause analysis process.

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- Enable those assigned ultimate responsibility and accountability or operational responsibility for the system of quality management to proactively monitor actions taken to address identified deficiencies.
  - Facilitate more effective communication to personnel by explaining the actual root cause(s) of identified deficiencies, rather than the deficiencies themselves.
- A180. Performing a root cause analysis generally involves those performing the assessment exercising professional judgement based on the evidence available. The firm's policies or procedures for the nature, timing and extent of the procedures to investigate the root cause(s) of identified deficiencies are required to take into account the nature of the deficiencies and their possible severity which may include:
- The nature and extent of the deficiency, for example, a deficiency that results in an engagement report being inappropriate has greater severity than a deficiency that resulted in the firm's policies or procedures not being followed but the engagement report was still appropriate.
  - Whether the deficiency, in combination with all other identified deficiencies, indicates a trend or systemic issue, for example, there are multiple engagement reports affected by the same deficiency or certain policies or procedures appear to have high rates of non-compliance.

The procedures undertaken to understand the root cause(s) of an identified deficiency may be simple, for example, in circumstances when the possible severity of the deficiency is not significant, the root cause is apparent or, in the case of a smaller firm, those performing the root cause analysis are familiar with a variety of information to inform their understanding.

- A181. There may be multiple root cause(s) of an identified deficiency, the root cause(s) may be complex and interrelated, and the root cause(s) may exist across various components of the firm's system of quality management. Furthermore, a root cause of an identified deficiency may relate to more than one identified deficiency or affect multiple components, for example, in circumstances when the root cause relates to an aspect of the firm's risk assessment process. There may also be circumstances when a single root cause relates to multiple identified deficiencies.
- A182. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies. For example, it may be identified that an engagement team did not exercise sufficient professional scepticism in complex areas of management judgement. However, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to challenge individuals with greater authority or insufficient direction, supervision and review on the engagement.

#### Evaluating the Severity and Pervasiveness of Identified Deficiencies (Ref: Para. 48(b))

- A183. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:
- The nature of the identified deficiency, including whether it relates to a quality objective, quality risk or a response;
  - The root cause(s) of the identified deficiency;
  - The frequency with which the underlying finding occurred; and
  - The magnitude of the identified deficiency, the rate at which it occurred and the duration of time that it existed.

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*Responding to Identified Deficiencies* (Ref: Para. 49–50)

- A184. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:
- The root cause(s), for example, whether it relates to an individual engagement, a certain category of engagements, or is more pervasive throughout the firm.
  - The severity and pervasiveness of the identified deficiency and therefore the urgency in which it needs to be addressed.
  - The effectiveness of the remedial actions in addressing the root cause(s), for example, the firm may need to implement more than one remedial action in order to effectively address the root cause(s), or may need to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions.

*Findings About a Particular Engagement* (Ref: Para. 51)

- A185. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:
- Consulting with appropriate individuals within the firm regarding the appropriate action.
  - Discussing the matter with management of the entity or those charged with governance.
  - Performing the omitted procedures.

The actions taken to correct the work performed for a specific engagement does not relieve the firm of the responsibility to investigate the root cause(s) of the identified deficiency related to the engagement.

*Ongoing Communication Related to the Monitoring and Remediation* (Ref: Para. 52–54)

- A186. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management and the individual(s) assigned operational responsibility for the system of quality management provides the basis for the evaluation of the system of quality management, as required by paragraph 55.
- A187. In determining the information to be communicated to personnel, including the nature and extent of such communication, the firm may consider the type of information that is relevant to the particular recipients, including the information needs of the recipients, as a result of their defined roles and responsibilities. For example:
- Information communicated to engagement teams may be focused on deficiencies that have been identified at an engagement level and therefore are likely to be relevant. It may also include positive findings that indicate practices that engagement teams could apply more extensively. In considering the information needs of the engagement team, the firm may take into account the responsibilities of the engagement team regarding such information. For example, proposed ASA 220<sup>15</sup> requires the engagement team to determine the relevance and effect on the audit of the results of the monitoring and remediation process, and to take appropriate action.

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<sup>15</sup> Proposed ASA 220, paragraph 36(b)

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- Information communicated to all personnel may relate to matters relevant to compliance with the firm's independence policies or procedures as such policies or procedures may apply to all personnel.

Communicating the root cause(s) of identified deficiencies may increase awareness and understanding of why deficiencies occurred, which may influence the behaviour of engagement teams and personnel. Communicating remedial actions may enable the implementation of such actions in a more proactive manner.

#### *Evaluating the System of Quality Management* (Ref: Para. 55–57)

- A188. An effective system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.
- A189. The individual(s) assigned ultimate responsibility and accountability for the system of quality management uses the information obtained in accordance with paragraph 52 in evaluating the effectiveness of the system of quality management. The nature and extent of the information, including how the information is communicated, will vary based on the nature and circumstances of the firm. For example, in a smaller firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and will therefore be aware of the information that supports the evaluation of the system of quality management. However, in a larger firm, the individual(s) assigned ultimate responsibility and accountability for the system of quality management may not have direct involvement in the monitoring and remediation process. Therefore, the individuals assigned operational responsibility for various aspects of the system of quality management may need to collate, summarise and present the information that supports the evaluation of the system of quality management in a manner that enables the individual(s) assigned ultimate responsibility and accountability for the system of quality management to form an appropriate conclusion.
- A190. Prompt and appropriate action when the evaluation indicates that the system does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved may include:
- Taking steps to determine whether the reports already issued by the firm were appropriate.
  - Taking measures to confirm that reports not yet issued by the firm are appropriate in the circumstances.
  - Obtaining legal advice.
- A191. Circumstances when it may be appropriate for the firm to communicate to external parties that the system does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved include:
- When the firm belongs to a network and the information is relevant to the network or other firms within the network who use the work performed by the firm, for example, in the case of a group audit.
  - When a report issued by the firm is determined to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed.

In some circumstances, the firm may be required by law or regulation to communicate to an oversight authority or a regulatory body that the system does not provide reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.

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A192. Network requirements may include, for example:

- Requirements for the firm to include quality objectives or identified quality risks in the firm's system of quality management that are common across the network firms.
- Requirements for the firm to include responses, including resources, in the firm's system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, network developed methodologies for the performance of engagements or IT applications.
- Requirements that the firm be subject to the network's monitoring activities. These monitoring activities may relate to network requirements (e.g., monitoring that the firm has implemented the network's methodology appropriately), or to the firm's system of quality management in general.

A193. Examples of network services include services or resources that are optional for the firm to use as a response in its system of quality management, such as voluntary training programs, or a service delivery centre established at the network level, or by another firm or group of firms within the same network.

A194. The network may establish responsibilities for the firm in implementing the network requirements or network services. For example, in the case of implementing an IT application developed by the network, the firm may need to have the appropriate IT infrastructure and IT processes in place.

A195. The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through enquiries of, or documentation provided by, the network about matters such as:

- The network's governance and leadership.
- The procedures undertaken by the network in designing, implementing and, if applicable, operating, the network requirements or network services.
- How the network identifies and responds to changes that affect the network requirements or network services or other information, for example, changes in the professional standards or information that indicates a deficiency in the network requirements or network services.
- How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies

A196. Paragraph 41(c) requires the firm to establish policies or procedures that address the nature, timing, extent and content of communication with the network, for example, the matters described in paragraphs 58 and A195.

*The Firm's Risk Assessment Process* (Ref: Para. 59)

A197. The network requirements or network services may affect the firm's system of quality management in the following ways:

- The firm may need to identify and assess quality risks for quality objectives provided by the network.

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- The firm may need to design and implement responses to address quality risks provided by the network, or the firm may need to assess the quality risks provided by the network.
  - The firm may identify additional quality risks arising from responses provided by the network, for example, quality risks may arise from the implementation of a network IT application.
- A198. The network requirements or network services may need to be adapted or supplemented by the firm to appropriately address the nature and circumstances of the firm and its engagements, for example:
- The quality objectives provided by the network may not be at a sufficient level of granularity for the firm, or additional quality objectives may need to be established.
  - The firm may identify additional quality risks that have not been identified by the network.
  - The responses provided by the network may not be designed to address the assessed quality risks and the reasons for the assessments given to the quality risks.

#### *Monitoring and Remediation Process* (Ref: Para. 60–63)

- A199. The monitoring activities undertaken by the network may affect the nature, timing and extent of the firm's monitoring activities. For example, the network may undertake cyclical inspections of completed engagements of the firm, which may affect the extent of inspections of in-process or completed engagements undertaken by the firm.
- A200. The results of the network's monitoring activities of the firm's system of quality management may include information such as:
- A description of the monitoring activities, including their nature, timing and extent;
  - Findings from the monitoring activities and deficiencies identified; and
  - The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the deficiencies and recommended remedial actions.
- A201. The information about the overall scope and results of the monitoring activities across the network firms' systems of quality management may highlight trends and common areas of identified deficiencies across the network, or examples of quality that may be replicated across the network. Such information may be used by the firm to determine the nature, timing and extent of its monitoring activities. It may also indicate deficiencies in network requirements or network services used by the firm in its system of quality management.
- A202. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm, for example, when the network firm performs work for the firm's engagements, such as in the capacity of a component auditor. The network may also gather information from the network firms regarding the results of external inspections over the network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other firms within the network or may restrict the specificity of such information.
- A203. Paragraph 42 requires the firm to evaluate the design, implementation and operation of the components of the system of quality management, which includes the network requirements or network services used by the firm. The network requirements or network services may be monitored by the network, the firm, or a combination of both. For example, the network may undertake monitoring activities at a network level for a common methodology, however

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various monitoring activities at a firm level may support the evaluation of the methodology, including engagement inspections.

- A204. In some cases the firm may determine that the remedial actions by the network are inadequate, or such remedial actions may take time to effectively address the identified deficiency. In such cases, the firm may need to implement its own remedial actions to address the identified deficiency until such time as the network has effectively addressed the deficiency.

#### **Service Providers (Ref: Para. 64–65)**

- A205. The firm may use human resources, technological resources or intellectual resources that are obtained from a service provider. The service providers used by the firm include individuals or organisations that are external to the firm, excluding networks, network firms or other structures or organisations in the network. Examples of resources from a service provider include:

- Human resources used to perform the firm’s monitoring activities or engagement quality reviews, or to provide consultation on technical matters.
- A commercial IT application used to perform audit engagements.
- Human resources used in the performance of engagements, for example, to attend a physical inventory count or inspect physical fixed assets at a remote location.
- External experts used in the performance of engagements. In such cases, there may be requirements in the other AUASB standards that address the competence, capabilities and objectivity of the external expert, understanding of the expert and agreement with the expert which apply in conjunction with the requirements of this ASQM.<sup>16</sup>
- The use of resources from a service provider does not include using the work of an entity’s internal audit function in the performance of engagements, in accordance with ASA 610.<sup>17</sup>

- A206. The determination of whether the matters described in paragraph 64 are relevant for a service provider depends on a variety of factors including:

- The nature of the resources provided by the service provider, including how and the extent to which it will be used within the firm.
- The reasons for the assessments given to the assessed quality risks to which the resource relates.
- Whether the resource itself gives rise to quality risks. For example, when the firm uses human resources from a service provider in the performance of engagements, there may be a quality risk that such resources do not have the competence and capabilities to perform the engagement, exercise inappropriate judgement when performing the engagement, do not implement the firm’s responses at the engagement level or do not fulfill their responsibilities in accordance with relevant ethical requirements. Such quality risks may also affect the management of quality at the engagement level. For example, in circumstances when the firm uses human resources from a service provider to assist in the performance of engagement procedures, there may be a need for the engagement partner to have greater oversight on a more frequent basis and perform more in-depth reviews of work performed by the individual.

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<sup>16</sup> See, for example, ASA 620, *Using the Work of an Auditor’s Expert*.

<sup>17</sup> ASA 610, *Using the Work of Internal Auditors*



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- A207. The firm may establish policies or procedures that address circumstances when a service provider is used in the performance of engagements that set out the responsibility of the engagement team when engaging a service provider, which may include responsibility for certain matters in paragraph 64.
- A208. Obtaining an understanding of the service provider may include understanding the conditions of the service, for example, how often updates will be provided for an IT application, limitations on the use of the IT application and how the service provider addresses confidentiality of data. Paragraph 41(c)(iii) requires the firm to establish policies or procedures that address the nature, timing, extent and content of communication with the service provider, for example, information to support the firm's understanding of the service provider and use of the resource (e.g., updates or changes to the resource or deficiencies in the resource).
- A209. The firm's responsibilities in using the service provider may include matters such as the actions the firm needs to take in order to implement the resource or information the firm needs to communicate to the service provider in order that the resource can function effectively. For example, in the case of an IT application, the firm may need to have appropriate supporting IT infrastructure and IT processes in place.
- A210. In determining whether the resource is appropriate, the firm may make enquiries of the service provider or request documentation from the service provider about matters such as:
- For human resources, the qualifications, experience and location of the individuals, including professional licenses or membership obligations, and how they develop and maintain the appropriate competence to perform the services.
  - For technological or intellectual resources, the procedures undertaken by the service provider in designing, implementing and operating the resources.
  - How the service provider identifies and responds to changes that affect the resources, for example, changes in the professional standards or information that indicates a deficiency in the resources;
  - How the resource will be evaluated, monitored or remediated by the service provider.

There may be circumstances when the service provider supplies the firm with an assurance report on the description and design of their controls over the resource, and in some circumstances, it may also include assurance on the operating effectiveness of such controls.

**Documentation (Ref: Para. 66–69)**

- A211. Documentation provides evidence that the firm complies with this ASQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel, ensuring the retention of organisational knowledge and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgement made, about its system of quality management. Furthermore, compliance with this ASQM may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.
- A212. Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the firm's judgements about the form, content and extent of documentation may include:
- The size of the firm and the number of offices;

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- The nature and complexity of the firm's practice and organisation;
- The types of services the firm provides and the nature of the clients to whom services are provided; and
- The nature and complexity of the matter being documented, for example, whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk.

In a smaller firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, the firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations considered appropriate in Australia. See Table 2 in the attachment to this exposure draft for more information.**

- A213. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation, for example, the APESB Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.
- A214. In some circumstances, it may be appropriate for the firm to document its process and analyses for establishing the quality objectives, identifying and assessing quality risks and designing responses to such risks, to provide a history of the basis for decisions made by the firm about its system of quality management.

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## Appendix 1

(Ref: Para.8)

### The Components of a System of Quality Management

1. This appendix describes the eight components of a firm's system of quality management. The components in this ASQM have similarities to the components of internal control described in the Committee of Sponsoring Organisations of the Treadway Commission Internal Control – Integrated Framework. For example, the governance and leadership component is similar to the entity's control environment and the firm's risk assessment process is similar to the entity's risk assessment process.

#### Governance and Leadership

2. The governance and leadership component creates the environment in which the other components of the system of quality management operate because it addresses the firm's culture, decision-making process, actions, organisational structure and leadership. The governance and leadership component also provides the basis for the system of quality management because the firm needs to establish structures, reporting lines and appropriate authority and responsibility in order that the other components of the system of quality management can be developed. For example, in order to establish a system of quality management, the firm needs to identify the individual(s) responsible for its development. Accordingly, the governance and leadership component has a pervasive effect on the system of quality management and the other components cannot be effective if the environment in which they operate is not appropriate.

#### The Firm's Risk Assessment Process

3. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, which consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives and designing and implementing responses to address the assessed quality risks.
4. The firm is required to establish the quality objectives set out in this ASQM and additional quality objectives beyond those required by this ASQM, when those objectives are necessary to achieve the objective of this ASQM.
5. Quality risks arise from conditions, events, circumstances, actions or inactions that affect the achievement of the quality objectives, and which are associated with the nature and circumstances of the firm and its engagements. For example:
  - (a) *Nature and circumstances of the firm:* The firm may have a service delivery centre that includes personnel who perform specific tasks for engagement teams. This may create, or increase the likelihood of, the quality risks for the appropriate direction and supervision of the engagement team and review of the work performed because the personnel may not be in the same location as the engagement partner or the engagement team.
  - (b) *Nature and circumstances of the engagements:* The firm may only perform related services engagements and because of the nature of such engagements, the firm may not identify any quality risks relating to compliance with independence requirements, because independence may not be relevant. In relation to the types of entities for which engagements are undertaken, the firm may perform engagements for entities in a particular industry, such as banks, insurance companies and superannuation funds. This may create the quality risk that personnel do not have the appropriate knowledge of the industry to perform the engagement.

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The nature and circumstances of the firm and its engagements also affect the assessment of the likelihood of the identified quality risks occurring and the significance of the effect of the identified quality risk on the achievement of the quality objectives.

6. The responses designed and implemented by the firm consist of:
- (a) The responses required by this ASQM, which are organised by component; and
  - (b) Additional responses determined by the firm.

The responses required by this ASQM alone will not be sufficient to address all of the firm's assessed quality risks for the quality objectives that are required to be established by this ASQM.

7. The responses designed and implemented by the firm, including the responses required by this ASQM, are affected by the nature and circumstances of the firm and its engagements. For example:
- (a) *Nature and circumstances of the firm:* In circumstances when the firm has a service delivery centre that includes personnel who perform specific tasks for engagement teams, the firm may obtain technology to facilitate interaction between the engagement partner and personnel located in the central location, to support appropriate direction and supervision.
  - (b) *Nature and circumstances of the engagements:* In circumstances when the firm performs engagements in a particular industry, the firm may provide training for personnel on matters unique to that industry, or recruit personnel with experience in the industry.
8. The firm's processes for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses includes identifying changes in the nature and circumstances of the firm or its engagements and modifying the quality objectives, quality risks or responses, as appropriate, for changes in the matters described above.

#### **Relevant Ethical Requirements**

9. The relevant ethical requirements component comprises the firm's processes for managing compliance with relevant ethical requirements, in order that the firm, its personnel and others subject to relevant ethical requirements, as applicable, fulfill their responsibilities in accordance with relevant ethical requirements. The processes include how threats to complying with relevant ethical requirements are identified, assessed and addressed and the firm's responses to breaches of the relevant ethical requirements. Relevant ethical requirements include those related to independence.

#### **Acceptance and Continuance of Client Relationships and Specific Engagements**

10. The acceptance and continuance of client relationships and specific engagements comprises the firm's processes for consideration of matters in determining whether to accept or continue a client relationship or specific engagement. Such matters include the nature and circumstances of the engagement, the integrity and ethical values of the client, including management, and, when appropriate, those charged with governance and the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. This component also requires that the firm's financial and operational priorities do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific engagement.

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#### **Engagement Performance**

11. The engagement performance component comprises the firm's actions to promote and support the consistent performance of quality engagements in accordance with professional standards and legal and regulatory requirements. This includes how the firm supports engagement teams in exercising professional judgement and, when applicable to the nature and circumstances of the engagement, exercising professional scepticism. Matters addressed in this component include the responsibilities of the engagement team, including in relation to direction, supervision and review, consultation, differences of opinion, the assembly and retention of documentation and engagement quality reviews.

#### **Resources**

12. The resources component comprises the firm's processes for obtaining, developing, using, maintaining, allocating or assigning resources to enable the design, implementation and operation of the system of quality management. The resources relevant to the firm's system of quality management include human resources, technological resources and intellectual resources. Furthermore, financial resources are needed for obtaining, developing and maintaining the other types of resources. The firm may have competing priorities that affect the allocation or assignment of resources, however, the firm is required to have resource planning, and obtain, allocate or assign resources in a manner that supports the firm's commitment to quality and enables the design, implementation and operation of the firm's system of quality management.

#### **Information and Communication**

13. The information and communication component comprises the firm's actions to obtain, generate or use relevant information to enable the design, implementation and operation of the system of quality management. This includes establishing an information system, whether through the use of manual or automated elements, to identify, capture, process and maintain relevant and reliable information.
14. The information and communication component also comprises two-way communication within the firm and communication with external parties, such as information about the firm's system of quality management. Such communication assists external parties in understanding the firm's activities to address quality through its system of quality management and the effectiveness of the firm's system.

#### **Monitoring and Remediation Process**

15. Monitoring comprises the firm's processes for evaluating the design, implementation and operation of the system of quality management. It involves undertaking ongoing and periodic monitoring activities, and identifying and evaluating deficiencies in the system of quality management based on the findings from the monitoring activities, results of external inspections or other information sources (e.g., through the firm's complaints and allegations process). In order to understand how the deficiencies arose, this ASQM also requires the firm to understand the root cause of the identified deficiencies.
16. Remediation comprises the firm's actions for responding to identified deficiencies, which includes designing and implementing remedial actions and monitoring those actions to determine whether they appropriately address the identified deficiency. Remediation may also involve addressing the specific engagement, for example, when the identified deficiency indicates that the engagement report is inappropriate. Communication of the results of monitoring and remediation within the firm also forms part of the firm's remedial actions, since personnel often need to be aware of the results in order to fulfill their roles and responsibilities.
17. This component also includes the responsibilities of the individual(s) assigned ultimate responsibility and accountability for the system of quality management to determine whether

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the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved.

**Interrelationship of the Components**

18. The firm's risk assessment process sets out the process the firm is required to follow in implementing the risk-based approach to quality management, and in doing so the firm is required to include the quality objectives and responses set out in each of the components of this ASQM.
19. The governance and leadership component is important to the design, implementation and operation of the other components of the system of quality management because it provides the basis for the system of quality management and also creates the environment in which the other components of the system of quality management operate.
20. Other components such as information and communication and resources have quality objectives that enable the design, implementation and operation of the system of quality management, and therefore such components may include responses that affect or relate to the other components of the system of quality management. For example, the information and communication component contains the information system that provides the information needed for the operation of the other components or the resources component addresses the establishment of human resources that are needed to operate the various aspects of the system of quality management. There may be interrelationships within the components as well, for example, human resources are needed for the development of intellectual resources.
21. There are also relationships between components because there are matters that relate to each other, for example, aspects of the relevant ethical requirements component may be relevant when accepting and continuing client relationships and specific engagements.
22. The monitoring and remediation process monitors the entire system of quality management, and therefore the monitoring



## Attachment to AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **4.3.1**

**Meeting Date:**            6 March 2019

**Subject:**                    Significant issues identified

**Prepared by:**             Marina Michaelides

**Date Prepared:**         25 February 2019

### Objective

- The objective of this paper is to outline the significant issues raised by the AUASB and ATG during the development of Proposed ISQM 2 *Engagement Quality Reviews*, determine whether any other issues have been identified since the last review of the proposed standard in December 2018 and whether the questions in ED 02/19 appropriately draw stakeholder's attention to areas of interest.

### Matters to Consider

- A table has been prepared in paragraph 3, which aligns each of the issues raised by the AUASB to a question in ED 02/19. Based on the analysis in the table, the ATG recommends the inclusion of an additional question to questions in ED 02/19 to draw stakeholder attention to the following issue:

#### Questions

- Does the AUASB consider it appropriate to include an additional question in ED 02/19 to address whether the requirement in ASQM 2 for the EQR to determine whether the requirements of ASQM 2 have been fulfilled and completed should actually reside in ISQM 1 or ASA 220?
- Has the AUASB identified any significant issues in ED 02/19 which have not been listed in this paper? If yes, do the specific questions appropriately bring the issue to stakeholder's attention?

#### AUASB Table Aligning Questions to Issues

- The following table has been prepared to provide the ATG's view on whether issues identified by the ATG and AUASB have been appropriately covered by the questions in ED 02/19.

Para	Issue Raised	Brief Description	Addressed by Question
ISQM 1 – para 37(e)	Linkages to proposed ISQM 1 and Scope of engagements subject to EQR	This paragraph sets out all engagements for which an EQR is required to be performed in accordance with proposed ISQM 1.	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 1 and Question 2</b> .  Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should

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Para	Issue Raised	Brief Description	Addressed by Question
			deal with the remaining aspects of engagement quality reviews? 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?
	Definitions	Change to the terminology from ‘engagement quality <b>control</b> review/reviewer to “engagement quality review/reviewer”. This change is proposed to be consistent with the proposed ISQM 1 (revised) which now refers to quality management rather than quality control.	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 3</b> .  Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?
15-20	Eligibility of the engagement quality reviewer (including cooling-off period)	Further work is to be completed on the cooling-off period being coordinated with IESBA through a joint working group.	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 4</b> .  Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?.....
21-23	Performance of an engagement quality review	These amendments seek to clarify the EQRs responsibilities in relation to evaluating the engagement team’s significant judgements. For financial statement audits <i>this</i> has now been linked to the requirements in ISA 220 and A80 which provides examples of significant judgements through A29-A30 of ISQM 2. Para 22(e) addresses consultation on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 5 and Question 6</b> .  5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures?  6) Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional scepticism?
21(c) and A24	Consultation between the engagement team and the engagement quality reviewer	ATG has no specific issues with how the taskforce has dealt with the risk of consultations impairing the objectivity of the EQ reviewer under proposed ISQM 1 para 43(e)(v) and A109.	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 5</b> .  Refer Qn 5 above.
24	The engagement quality reviewer’s overall conclusion	The requirement at para 24 addresses that the EQ reviewer shall evaluate whether, the requirements of ISQM 2 have been fulfilled, and whether the EQR is complete. Does the AUASB think that the stand back requirement in para 24	Not clearly addressed by any specific question. Generally covered in Qn 5. Do the AUASB support an additional question in

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Para	Issue Raised	Brief Description	Addressed by Question
		should be performed at the firm level, engagement partner level or the EQ reviewer level?	ED 02/19 to seek respondents' views on this area?
25 -27	Documentation	The ED has strengthened, clarified and been more specific in the amended documentation requirements.	ATG view that this is sufficiently addressed by <b>ED 02/19 – Question 7.</b>  7) Do you agree with the enhanced documentation requirements?

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## Attachment to AUASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	<b>4.3.2</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	ASQM 2 – Australian Modifications
<b>Date Prepared:</b>	25 February 2019

### Matters to Consider

#### *Part A – General*

1. The AUASB is requested to review the compelling reason table included below and provide feedback.
  - (a) Table 1 reflects the existing AUS paragraphs within extant ASA 220 and determines whether these paragraphs are still necessary in the context of the proposed ASQM 2.

#### *Part B – NZAuASB*

2. The NZAuASB will consider New Zealand amendments as part of their Exposure Outreach. The NZAuASB has issued the IAASB ED with no amendments.

#### *Part C – “Compelling Reasons” Assessment*

3. Refer Table below.

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**Australian Modifications to Extant ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information related to ASQM 2**

Para #	International Text	Australian Text	ATG Recommendation
<b>Requirements</b>			
<i>Engagement Quality Control Review</i>			
Aus 21.1 <i>In principle as included in extant ASA 220</i>	<p><b>Deleted paragraph 21 from ASA 220:</b></p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.</li> </ul>	<p><i>Engagement Quality Control Review</i></p> <p>For audits of <b>financial reports</b> of listed entities, <b>and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required</b>, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made</li> </ul>	<p>ATG do not recommend any further changes to proposed ED ASQM 2 as the following paragraphs have been included in proposed ED 01/19 – ASQM 1 or ED 02/19 - ASQM 2:</p> <p>ASQM 1 – 33(d)</p> <p>ASQM 2 - 22(e)</p> <p>ASQM 2 - 22(d)(i),(ii) and (iii)</p>

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Para #	International Text	Australian Text	ATG Recommendation
		and supports the conclusions reached. (Ref: Para. A28-A31)	

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**EXPOSURE DRAFT**

**ED 02/19**  
(March 2019)

# **Proposed Auditing Standard**

## **ASQC ASQM 2**

### ***Engagement Quality Reviews***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 27 May 2019. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Proposed Auditing Standard ASQM 2**  
*Engagement Quality Reviews*

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## PREFACE

### Reasons for Issuing ED 02/19

The AUASB issues exposure draft ED 02/19 of proposed Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

### Main Proposals

This proposed Auditing Standard represents the Australian equivalent of the IAASB's Exposure Draft ISQM 2 *Engagement Quality Reviews* (comments due 1 July 2019) and will replace certain requirements in relation to engagement quality reviews from the current ASQC 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services* and ASA 220 *Quality Management for an Audit of Financial Report and Other Historical Financial Information* issued by the AUASB in January 2010 and December 2015 respectively .

This proposed Auditing Standard contains differences from the current ASQC 1 and ASA 220, which are detailed in the [Explanatory Memorandum](#) at the front of the Proposed International Standard on Quality Management 2 (ISQM 2). The key changes from the extant ASQC 1 and ASA 220 introduced by the IAASB include:

- Extending the requirement for an engagement quality review to engagements in addition to audits of a financial report
- Enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer
- Enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including nature, timing and extent of the engagement quality review procedures performed; and
- Consideration of the effect of engagement quality reviews, and other forms of engagement reviews, on the appropriate exercise of professional scepticism by engagement teams.

### Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after [date]\*.

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

## Proposed Auditing Standard ASQM 2 *Engagement Quality Reviews*

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### New Auditing Standard

This proposed Auditing Standard is a new pronouncement of the AUASB and accordingly does not supersede a pre-existing Auditing Standard.

### Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of *ASQM 2 Engagement Quality Reviews* by no later than 27 May 2019. The AUASB is seeking comments from respondents on the following questions:

#### Questions Extracted from the International IAASB's Explanatory Memorandum

1. Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ASQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ASQM 2 should deal with the remaining aspects of engagement quality reviews?
2. Are the linkages between the requirements for engagement quality reviews in ED-ASQM 1 and ED-ASQM 2 clear?
3. Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?
4. Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ASQM 2?
  - (a) What are your views on the need for the guidance in proposed ASQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?
  - (b) If you support such guidance, do you agree that it should be located in proposed ASQM 2 as opposed to the APESB Code?
5. Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ASA 220 (Revised)?
6. Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional scepticism? Do you believe that ED-ASQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?
7. Do you agree with the enhanced documentation requirements?
8. Are the requirements for engagement quality reviews in ED-ASQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

#### Australian Specific Questions

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?

**Proposed Auditing Standard ASQM 2**  
***Engagement Quality Reviews***

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3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

**Proposed Auditing Standard ASQM 2**  
*Engagement Quality Reviews*

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**Conformity with International Standards on Quality Control**

This Auditing Standard conforms with International Standard on Quality Management ISQM 2 *Engagement Quality Reviews* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISQM) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISQM 2.

## AUDITING STANDARD ASQM 2

### *Engagement Quality Reviews*

#### **Application**

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other historical financial information;
  - (d) an audit or review other than of historical financial information;
  - (e) other assurance engagements; and
  - (f) related services engagements.

#### **Operative Date**

- Aus 0.2 This ASQM is effective for:
- (a) Audits and reviews of a financial report for periods beginning on or after TBD; and
  - (b) Other engagements beginning on or after TBD.

#### **Introduction**

##### **Scope of this Auditing Standard**

1. This Australian Standard on Quality Management (ASQM) deals with:
  - The appointment and eligibility of the engagement quality reviewer; and
  - The engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.
2. This ASQM applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ASQM 1.<sup>1</sup> This ASQM is premised on the basis that the firm is subject to proposed ASQM 1 or to national requirements that are at least as demanding.

##### **The Firm's System of Quality Management and Role of Engagement Quality Reviews**

3. Proposed ASQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to assessed quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with this ASQM.

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<sup>1</sup> Proposed ASQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph 37(e)

## Proposed Auditing Standard ASQM 2

### *Engagement Quality Reviews*

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4. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of a financial report, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
  - (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
  - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>2</sup>
5. The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and, when applicable to the nature and circumstances of the engagement, exercising professional scepticism.
6. An engagement quality review is an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgements is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.
7. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not reduce the responsibilities of the engagement partner for managing and achieving quality on the engagement, nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence through its responses to matters raised in the engagement quality review.

#### **Authority of this ASQM**

8. This ASQM contains the objective for the firm in following this ASQM, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ASQM, and definitions. Proposed ASQM 1 explains the terms objective, requirements, application material and other explanatory material, introductory material, and definitions.

#### **Effective Date**

9. [Deleted by the AUASB. Refer Aus 0.2]

#### **Objective**

10. The objective of the firm is to perform an engagement quality review for the engagement.

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<sup>2</sup> Proposed ASQM 1, paragraph 21

## Proposed Auditing Standard ASQM 2

### Engagement Quality Reviews

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#### Definitions

11. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
  - (b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.
  - (c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking an engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the Australian Ethics Standards Board for Accountants' *Australian Code of Ethics for Professional Accountants (including Australian Independence Standards)* (APESB Code) related to audits or reviews of a financial report, or other assurance or related services engagements, together with national requirements that are more restrictive.

#### Requirements

##### Applying, and Complying with, Relevant Requirements

12. The firm and the engagement quality reviewer shall have an understanding of this ASQM, including the application and other explanatory material, to understand the objective of this ASQM and to properly apply the requirements relevant to them.
13. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ASQM, unless the requirement is not relevant in the circumstances of the engagement.
14. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, shall take further actions to achieve the objective.

##### Appointment and Eligibility of Engagement Quality Reviewers

15. The firm shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures shall require such individual(s) to appoint the engagement quality reviewer. (Ref: Para. A1–A3)
16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)
- (a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)



**Proposed Auditing Standard ASQM 2**  
**Engagement Quality Reviews**

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- (b) Comply with relevant ethical requirements, including that threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team are eliminated or reduced to an acceptable level; and (Ref: Para. A13–A16)
  - (c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)
17. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:
- (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and
  - (b) Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation. (Ref: Para. A18-A19)
18. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
19. The firm shall establish policies or procedures that address circumstances in which the engagement quality reviewer’s eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: Para. A20)
20. When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer’s eligibility, the engagement quality reviewer shall notify the appropriate individual(s) in the firm, and: (Ref: Para. A21)
- (a) If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review; or
  - (b) If the engagement quality review has commenced, discontinue the performance of the engagement quality review.

**Performance of the Engagement Quality Review**

21. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:
- (a) The engagement quality reviewer’s responsibilities to perform procedures in accordance with paragraphs 22–23 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon;
  - (b) The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review; and (Ref: Para. A22–A23)
  - (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgement give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A24)
22. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A24–A34)

**Proposed Auditing Standard ASQM 2**  
**Engagement Quality Reviews**

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- (a) Read and understand information:
    - (i) Obtained from the engagement team about the nature and circumstances of the engagement; and
    - (ii) Provided by the firm about the results of its monitoring and remediation, in particular about identified deficiencies that may relate to, or affect, the areas involving significant judgements by the engagement team.
  - (b) Discuss significant matters with the engagement partner and, if applicable, other members of the engagement team. (Ref: Para. A29)
  - (c) Based on the information obtained in (a) and (b), identify the areas involving significant judgements made by the engagement team, including those related to: (Ref: Para. A30–A31)
    - (i) The overall strategy and plan for performing the engagement;
    - (ii) The performance of the engagement; and
    - (iii) Forming an opinion or conclusion, when applicable, and reporting on the engagement.
  - (d) Review selected engagement documentation that supports the significant judgements made by the engagement team and the conclusions reached thereon and evaluate:
    - (i) The engagement team’s basis for making the significant judgements, including when applicable, the appropriate exercise of professional scepticism;
    - (ii) Whether the engagement documentation supports the conclusions reached; and
    - (iii) Whether the conclusions reached are appropriate.
  - (e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A32)
  - (f) For audits of a financial report, evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. (Ref: Para. A33–A34)
  - (g) Review:
    - (i) For an audit of a financial report, the financial report and the auditor’s report thereon, including, if applicable, the description of the key audit matters; or
    - (ii) For an assurance or related services engagement, the engagement report, and when applicable, the subject matter information.
23. If the engagement quality reviewer has concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate, the engagement quality reviewer shall notify the engagement partner. If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed. (Ref: Para. A35)

**Proposed Auditing Standard ASQM 2**  
***Engagement Quality Reviews***

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*Completion of the Engagement Quality Review*

24. The engagement quality reviewer shall determine whether the requirements in this ASQM with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If so, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.

**Documentation**

25. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A36–A39)
26. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 27, and that such documentation be included with the engagement documentation.
27. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes:
- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
  - (b) An identification of the engagement documentation reviewed;
  - (c) The engagement quality reviewer's determination in accordance with paragraph 24;
  - (d) The notifications required in accordance with paragraphs 23 and 24; and
  - (e) The date of completion of the engagement quality review.

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## Proposed Auditing Standard ASQM 2 Engagement Quality Reviews

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### Application and Other Explanatory Material

#### Appointment and Eligibility of Engagement Quality Reviewers

##### *Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 15)*

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
  - The criteria in paragraph 16 regarding the eligibility of engagement quality reviewers; and
  - The nature and circumstances of the engagement subject to an engagement quality review (e.g., the nature of the entity and the composition of the engagement team).
- A2. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of listed entities than for audits of non-listed entities or other engagements.
- A3. In certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer, for example, in the case of a smaller firm or a sole practitioner.

##### *Eligibility of the Engagement Quality Reviewer, Including Limitations on the Eligibility to be Appointed as the Engagement Quality Reviewer (Ref: Para. 16)*

- A4. In some circumstances, there may not be a partner or other individual within the firm who is eligible to perform the engagement quality review and the firm may therefore contract with, or obtain the services of, external individuals to perform the engagement quality review. An external individual may be a partner or an employee of another firm within the firm's network or a service provider. When using such an external individual, the firm is subject to the requirements for network requirements or network services in paragraphs 59–60 of proposed ASQM 1, or the requirements for service providers in paragraph 65 of proposed ASQM 1, respectively.
- A5. An individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual's objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level. In recurring engagements, the matters on which significant judgements are made and the facts and circumstances around those significant judgements are not likely to vary to a degree such that an objective evaluation of those judgements can be made by the individual who served as the engagement partner in the immediate previous period. Accordingly, this ASQM requires the firm to establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation or relevant ethical requirements. In the case of an audit of a financial report of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted.

## Proposed Auditing Standard ASQM 2

### *Engagement Quality Reviews*

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#### *Eligibility Criteria for the Engagement Quality Reviewer*

##### Competence and Capabilities, Including Sufficient Time (Ref: Para. 16(a))

- A6. Competence refers to the integration and application of technical competence, professional skills, and professional ethics, values and attitudes, and the appropriate experience relevant to the nature and circumstances of the engagement, including:
- An understanding of professional standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to the engagement;
  - Knowledge of the entity's industry;
  - An understanding of, and experience relevant to, engagements of a similar nature and complexity; and
  - An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.
- A7. An engagement quality review is a response to assessed quality risks relating to engagement performance. Accordingly, an understanding of the reasons for the assessments given to the quality risks may be an important consideration in the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other factors to consider in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgements made by the engagement team and the conclusions reached thereon include, for example:
- The nature of the entity.
  - The specialisation and complexity of the industry or regulatory environment in which the entity operates.
  - The extent to which the engagement relates to matters requiring specialised expertise (e.g., with respect to information technology or specialised areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A18.
- A8. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (e.g., findings from the inspection of in-process or completed engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.
- A9. A lack of appropriate competence or capabilities may affect the ability of the engagement quality reviewer to exercise appropriate professional judgement in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, where appropriate, challenge significant judgements made, and the exercise of professional scepticism by the engagement team on a complex, industry-specific accounting or auditing matter.

##### *Appropriate Authority (Ref: Para. 16(a))*

- A10. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the

## Proposed Auditing Standard ASQM 2

### *Engagement Quality Reviews*

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firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

- A11. The authority of the engagement quality reviewer may be diminished when:
- The culture within the firm promotes respect for authority only of individuals at a higher level of hierarchy within the firm.
  - The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

#### *Public Sector Considerations*

- A12. In the public sector, an auditor (e.g., an Auditor General, or other suitably qualified individual appointed on behalf of the Auditor General) may act in a role equivalent to that of the engagement partner with overall responsibility for public sector audits. In such circumstances, when applicable, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.

#### *Relevant Ethical Requirements (Ref: Para. 16(b))*

- A13. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of engagements subject to an engagement quality review. Various provisions of relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm.
- A14. Relevant ethical requirements may establish requirements addressing threats created by the long association of the engagement quality reviewer with an audit client. For example, in relation to audits of public interest entities, the APESB Code contains requirements for an engagement quality reviewer to serve a required cooling-off period after that individual has served in that role, or any combination of engagement partner, engagement quality reviewer or any other key audit partner role, for specified periods.

#### *Threats to the Objectivity of the Engagement Quality Reviewer*

- A15. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:
- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.
  - An intimidation threat (either implicit or explicit) may be created when pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).
- A16. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the APESB Code specifically addresses intimidation threats in certain circumstances.

## Proposed Auditing Standard ASQM 2 Engagement Quality Reviews

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### *Law or Regulation Relevant to Eligibility of the Engagement Quality Reviewer (Ref: 16(c))*

- A17. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality reviewer may need to possess certain qualifications or be licensed to be able to perform the review.

### *Circumstances when the Engagement Quality Reviewer is Assisted by Other Individuals (Ref: Para. 17)*

- A18. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise. For example, highly specialised knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgements made by the engagement team related to those transactions.
- A19. When the engagement quality reviewer is assisted by an external individual, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.

### *Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 19–20)*

- A20. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:
- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;
  - Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or
  - Notification from the engagement quality reviewer in accordance with paragraph 20.
- A21. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified or may specify the period of time after notification within which the firm is required to appoint a replacement.

## **Performance of the Engagement Quality Review (Ref: Para. 21–23)**

### *Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 21(b))*

- A22. A22. Proposed ASA 220 (Revised)<sup>3</sup> establishes the requirements for the engagement partner<sup>4</sup> in audit engagements for which an engagement quality review is required, including:
- Being satisfied that an engagement quality reviewer has been appointed;
  - Cooperating with the engagement quality reviewer and informing members of the engagement team of their responsibility to do so;

<sup>3</sup> Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 33

<sup>4</sup> Similar requirements exist in paragraph 36 of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

## Proposed Auditing Standard ASQM 2

### Engagement Quality Reviews

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- Discussing significant matters arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- Not dating the auditor's report until the completion of the engagement quality review.

A23. ASAE 3000 (Revised)<sup>5</sup> also establishes requirements for the engagement partner in relation to the engagement quality review.

#### *Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: Para. 21(c))*

A24. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgement. The firm's policies or procedures may set forth the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team. For example, in these circumstances the firm may require consultation about such significant judgements with other relevant personnel in accordance with the firm's consultation policies or procedures.

#### *Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 21–24)*

- A25. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasise the importance of the engagement quality reviewer exercising professional judgement in performing the review.
- A26. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer at appropriate points in time throughout all stages of the engagement (e.g., planning, risk assessment, performance, completion, reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. In other circumstances, it may be appropriate for the engagement quality reviewer to perform the procedures near the end of the engagement (e.g., when the engagement is not complex and is completed within a short period of time). Timely performance of the engagement quality review also may reinforce the exercise of professional judgement and, as applicable, professional scepticism, by the engagement team in planning and performing the engagement.
- A27. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:
- The reasons for the assessments given to quality risks, for example, engagements performed for entities in emerging industries or with complex transactions.
  - The findings arising from the firm's monitoring activities, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
  - The complexity of the engagement.
  - The nature and size of the entity, including whether the entity is a listed entity.

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<sup>5</sup> ASAE 3000 (Revised), paragraph 36



## Proposed Auditing Standard ASQM 2

### *Engagement Quality Reviews*

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- Other information relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or concerns raised about the commitment to quality of the firm or its personnel.
- The firm's acceptance and continuance of client relationships and specific engagements, which may indicate new risks to achieving quality for an engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.
- For assurance engagements, the engagement team's consideration of, and responses to, areas of risks of material misstatement in the engagement.

A28. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

#### *Significant Matters and Significant Judgements (Ref: Para. 22(b)–(d))*

- A29. For audits of a financial report, proposed ASA 220 (Revised) requires the engagement partner to review audit documentation relating to significant matters<sup>6</sup> and other areas involving significant judgements, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.<sup>7</sup>
- A30. For audits of a financial report, proposed ASA 220 (Revised) provides examples of significant judgements that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.<sup>8</sup>
- A31. For engagements other than audits of a financial report, the engagement quality reviewer may consider the nature and circumstances of the engagement in identifying significant matters, and significant judgements made by the engagement team. For example, in an assurance engagement performed in accordance with ASAE 3000 (Revised), the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgement. The examples in proposed ASA 220 (Revised)<sup>9</sup> also may be useful to the engagement quality reviewer in identifying significant judgements in engagements other than audits of a financial report.

#### *Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 22(e))*

- A32. Proposed ASQM 1<sup>10</sup> sets out requirements for the firm to establish policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented. Proposed ASQM 1<sup>11</sup> also sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement team and the engagement

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<sup>6</sup> ASA 230, *Audit Documentation*, paragraph A8

<sup>7</sup> Proposed ASA 220 (Revised), paragraph 29

<sup>8</sup> Proposed ASA 220 (Revised), paragraph A80

<sup>9</sup> Proposed ASA 220 (Revised), paragraph A80

<sup>10</sup> Proposed ASQM 1, paragraph 40(c)

<sup>11</sup> Proposed ASQM 1, paragraph 40(d)

## Proposed Auditing Standard ASQM 2 *Engagement Quality Reviews*

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quality reviewer or personnel performing duties within the firm's system of quality management, including those who provide consultation.

### *Overall Responsibility of the Engagement Partner for Managing and Achieving Quality on the Engagement (Ref: Para. 22(f))*

- A33. Proposed ASA 220 (Revised) requires the engagement partner to determine, prior to dating the auditor's report, that:
- The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
  - The firm's policies or procedures, and the nature and circumstances of the audit engagement, and any changes thereto, have been taken into account in complying with the requirements of proposed ASA 220 (Revised).<sup>12</sup>
- A34. Other pronouncements of the AUASB, including ASRE 2400 (Revised)<sup>13</sup> and ASAE 3000 (Revised),<sup>14</sup> also require the engagement partner to take responsibility for the overall quality on the engagement.

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<sup>12</sup> Proposed ASA 220 (Revised), paragraph 37

<sup>13</sup> International Standard on Review Engagements (ASRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

<sup>14</sup> ASAE 3000 (Revised), paragraph 33

**Proposed Auditing Standard ASQM 2**  
**Engagement Quality Reviews**

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*The Engagement Quality Reviewer's Evaluation (Ref: Para. 23)*

- A35. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgements made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s) may include the individual assigned the responsibility for the appointment of engagement quality reviewers.

**Documentation (Ref: Para. 25–27)**

- A36. Paragraphs 67 and 68 of proposed ASQM 1 require the firm to prepare documentation of the firm's system of quality management. Engagement quality reviews performed in accordance with this proposed ASQM are one response, among others, to a firm's quality risks related to the performance of engagements, and are therefore subject to those documentation requirements.
- A37. The form, content and extent of the documentation of the engagement quality review may depend on factors such as:
- The nature and complexity of the engagement;
  - The nature of the entity;
  - The nature and complexity of the matters subject to the engagement quality review; and
  - The extent of the engagement documentation reviewed.
- A38. The engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented as part of other engagement documentation, for example, minutes of the engagement team's discussions where the engagement quality reviewer was present.
- A39. Paragraph 21(b) requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. The documentation of the engagement quality review may be completed after the date of the engagement report, but before the assembly of the final engagement file.



## Attachment to AUASB Board Meeting Summary Paper

### AGENDA ITEM NO. **4.4.1**

**Meeting Date:** 6 March 2019  
**Subject:** Significant issues identified  
**Prepared by:** Tim Austin  
**Date Prepared:** 19 February 2019

#### Objective

1. The objective of this paper is to outline the significant issues raised by the AUASB and ATG during the development of Proposed ISA 220 *Quality Management for an Audit of Financial Statements*, determine whether any other issues have been identified since the last review of the proposed standard in December 2018 and whether the questions in ED 03/19 appropriately draw stakeholder's attention to areas of interest.

#### Matters to Consider

2. A table has been prepared in paragraph 3, which aligns each of the issues raised by the AUASB to a question in ED 03/19. Based on the analysis in the table, the ATG recommends the inclusion of additional questions or modifications to questions in ED 03/19 to draw stakeholder attention to the following issues:
  - (a) Signing partner project – AUASB Members considered that this needed to be a higher priority and should be within the scope of this project;
  - (b) Engagement Team definition – AUASB Members commented that the expanded definition may result in requirements not practically being able to be met; and
  - (c) Contribution to Audit Quality – AUASB Members questioned how the incremental changes from the extant standard contribute to audit quality.

#### **Questions**

1. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on situations where somebody other than the engagement partner signs the audit report?
2. Does the AUASB consider it appropriate to amend Question 4 of ED 03/19 to draw attention to the Engagement Team definition?
3. Does the AUASB consider it appropriate to include an additional question in ED 03/19 to request specific feedback on whether the proposed changes will contribute to improved audit quality in Australia?
4. Has the AUASB identified any significant issues in ED 03/19 which have not been listed in this paper? If yes, do the specific questions appropriately bring the issue to stakeholder's attention?

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### AUASB Table Aligning Questions to Issues

3. The following table has been prepared to provide the ATG's view on whether issues identified by the ATG and AUASB have been appropriately covered by the questions in ED 03/19.

Para	Issue Raised	Brief Description	Addressed by Question
A101	Signing Partner Project	AUASB view that the signing partner project needs to be a higher priority.	Not addressed by any questions as the IAASB has established a separate project. ATG recommends including an additional question in ED 03/19.
10(d) & A16	Definitions	<i>Engagement team</i> definition may include service delivery centres (SDC).  The ATG believes there could be further clarity in the standard when it comes to the engagement leader's overall responsibility with oversight of SDC staff.	Not clearly address by any questions. ATG recommends including an additional question in ED 03/19.
13(b)	Monitoring and reviewing work of assignees	View that it may be difficult to meet this requirement when performing a large audit engagement.	ATG view that this is sufficiently addressed by <b>ED 03/19 – Question 1</b> <i>Do you support the focus on the sufficient and appropriate involvement of the engagement partner (paras 11–13 and 37)...</i>
27	Guidance Direction and Supervision	Requirement in paragraph 27 may not be practical when interacting with expanded engagement team definition.	ATG view that this is sufficiently addressed by <b>ED 03/19 – Question 5</b> <i>Do you support revised requirements and guidance on direction, supervision and review...</i>
Overall	How do the changes improve audit quality?	View that the incremental changes in the proposed ISA 220 do not provide much benefit and that it is unclear how the changes will improve audit quality.	Not clearly address by any questions. ATG recommends including an additional question in ED 03/19.
Overall	Engagement Partner	Role of partners on engagements has significantly changed, not always a clear engagement partner. In practice this has resulted in all partners on the engagement signing off all documents to avoid any issues that the regulator may raise with meeting the requirements of ASA 220.	ATG view that this is sufficiently addressed by <b>ED 03/19 – Question 4</b> <i>Does ED 03/19 adequately deal with the modern auditing environment...</i>

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## Attachment 1 – Issues Raised at June, September and December 2018 AUASB Meetings

### Signing Partner Project

4. A separate IAASB *Signing Partner Project* was established. The signing partner project will be led by Lyn Provost (IAASB Member) supported by the AUASB and NZAuASB. A short paper summarising the outcomes of the initial outreach and research is proposed to be brought to the March 2019 IAASB meeting.
5. The ATG has not been requested to assist on this project at this stage, we expect this to begin in early 2019.
6. AUASB Members expressed a view at the December 2018 AUASB Meeting that this project needs to be a higher priority and the AUASB should consider the inclusion of a specific question in the Australian exposure of ISA 220.

### Definitions

7. Concerns were raised by AUASB Members at the September 2018 AUASB meeting regarding the definition of *engagement team* and the inclusion of service delivery centers in the scope of the engagement team. Whilst the requirements of ISA 220 on their own do not appear overly onerous, the interaction of these requirements with an extended engagement team definition may set an unachievable benchmark for engagement partners.
8. There was no change to the definition of *Engagement Team* for the version presented at the December 2018 AUASB Meeting. No change has been made to the definition between the December 2018 AUASB Meeting and the Exposure Draft issued by the IAASB.

### Input from IAASB Data Analytics Working Group

9. Prior to the September 2018 IAASB meeting, detailed feedback had been provided by the IAASB Data Analytics Working Group (DAWG). Some of the feedback had been reflected in changes made to proposed ISA 220 since the June 2018 version, however, not all feedback had been incorporated due to insufficient time prior to the September 2018 IAASB meeting. The extent of the DAWG's feedback/changes is unclear, particularly considering the main issue with extant ISA 220 in the responses to the DAWG's Request for Input, has been addressed through application material on *Technological Resources* (paragraphs A56–A58).
10. Additional application material was included relating to technology before the December 2018 AUASB Meeting. Key changes include the insertion of a point around the fact that the over reliance on technology may undermine professional skepticism. No additional materials have been included since the December 2018 version.

### Common Issues Across Quality Management (QM) Task Forces<sup>1</sup>

11. The alignment of language used in proposed ISA 220 to proposed ISQM 1 and proposed ISQM 2 was an on-going issue at the September 2018 AUASB meeting. The September 2018 ISA 220 version had 10 of the 38 body paragraphs (introduction, objective, definition and requirements) and 20 of the 101 application paragraphs still subject to language changes including further changes to definitions.
12. Aligning with the changes in proposed ISQC 1 and proposed ISQC 2, the definitions of *engagement quality control* and *engagement quality control reviewer* had been amended to *engagement quality*

<sup>1</sup> QM Task Forces include – ISQM 1, ISQM 2 and ISA 220 Task Forces.

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*review and engagement quality reviewer*. Further revisions to the definitions of *engagement partner* and *engagement team* may occur as a result of discussions with the ISQM 1 and ISQM 2 Task Forces and the International Ethical Standards Board for Accountants (IESBA). The ATG will continue to monitor these.

13. Before the December 2018 AUASB Meeting, the ISA 220 IAASB TF had worked on aligning the paragraphs. Common issues across all standards were addressed before exposure at the IAASB December 2018 Meeting. No issues with the alignment of the standards have been identified by ATG at this stage.

#### Other Issues Arising at AUASB December 2018 Meeting

14. A number of additional points for consideration were raised at the AUASB December 2018 Meeting, the issues related to:

- (a) *Sufficient and appropriate* should not be used in relation to involvement in the engagement as it is already used when determining level of audit evidence. This point has not been carried through to the table in paragraph 3 as the ATG considers that the application material distinguishes the terms clearly and that specific attention does not need to be drawn to the term in the AUASB exposure of ISA 220.
- (b) The *incremental changes* in the proposed ISA 220 from extant ISA 220 were not that great and raised questions about what benefit do the changes provide and how do the changes contribute to audit quality? This point has been carried through to the table in paragraph 3.
- (c) The role of Engagement Partner has changed and in a number of engagements there is not a clear engagement partner. Often there will be two partners on larger engagement who default to both signing everything off to avoid any issues that the regulator may raise with meeting the requirements of ASA 220. This point has been carried through to the table in paragraph 3.

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## Attachment to AUASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	<b>4.4.2</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	ASA 220 – Australian Modifications
<b>Prepared by:</b>	Tim Austin
<b>Date Prepared:</b>	19 February 2019

### Matters to Consider

#### *Part A – General*

1. The AUASB is requested to review the compelling reason tables included below and provide feedback.
  - (a) Table 1 reflects the existing AUS modifications within extant ASA 220 and determines whether these paragraphs are still necessary in the context of the proposed ASA 220.
  - (b) Table 2 reflects paragraphs within the proposed ASA 220 that the ATG considers may need to be deleted/modified for the Australian environment. The paragraphs relate to:
    - (i) Possible additions to content to reflect Australian laws and regulations; or
    - (ii) Subject matter that is not applicable in the Australian context.

#### *Part B – NZAuASB*

2. The NZAuASB will consider New Zealand amendments as part of their Exposure Outreach. The NZAuASB has issued the IAASB ED with no amendments.

#### *Part C – “Compelling Reasons” Assessment*

3. Refer Table below.

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**Table 1 – Australian Modifications to Extant ISA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information**

Para #	International Text	Australian Text	Placeholder in ED
<b>Definitions</b>			
Aus 7.1 <i>In principle</i>	N/A – inserted Aus definition  <b>ED ISA 220</b> does not define Assurance practitioner	Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.
Aus 7.2 <i>In principle</i>	<b>Deleted footnote 2</b> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents.  <b>ED ISA 220 definition, footnote 3</b> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents.	Engagement partner should be read as referring to a public sector equivalent where relevant.	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.
Aus 7.3 <i>Inserted by ASA 2013-2</i>	<b>Deleted paragraph 7(e)</b> Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.  <b>ED ISA 220 definition, paragraph 10(e)</b> Firm <sup>1</sup> – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.	Firm means a sole practitioner, partnership, or corporation or other entity of <b>assurance practitioners</b> . Firm should be read as referring to a public sector equivalent where relevant.	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.

<sup>1</sup> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents.

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Para #	International Text	Australian Text	Placeholder in ED
Aus 7.4 <i>In principle</i>	<p><b>Deleted paragraph 7(k)</b> Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p> <p><b>ED ISA 220 definition, paragraph 10(h)</b> Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	Partner means any individual with authority to bind the firm with respect to the performance of <b>an audit of a financial report or historical financial information. Partner should be read as referring to a public sector equivalent where relevant.</b>	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.
Aus 7.5 <i>In principle</i>	<p><b>Deleted paragraph 7(m)</b> Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.</p> <p><b>ED ISA 220 definition, paragraph 10(j)</b> Professional standards – International Standards on Auditing (ISAs) and relevant ethical requirements.</p>	Australian Auditing Standards means the suite of auditing standards issued by the AUASB, and includes ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> , and ASA 810 <i>Engagements to Report on Summary Financial Statements</i> .	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.
Aus 7.6 <i>In principle</i>	<p><b>Deleted paragraph 7(n)</b> Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprised Parts A and B of the International Ethics Standards Board for Accountants’ <i>Code of Ethics for Professional Accountants</i> (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.</p> <p><b>ED ISA 220 definition, paragraph 10(k)</b> Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of</p>	Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.*	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.

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Para #	International Text	Australian Text	Placeholder in ED
	the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits of financial statements, together with national requirements that are more restrictive.		
<b>Requirements</b>			
<i>Engagement Quality Control Review</i>			
Aus 21.1 <i>In principle</i>	<p><b>Deleted paragraph 21</b></p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control reviewer, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.</li> </ul> <p><b>ED ISA 220 requirement, para...</b> N/A – EQCR paragraphs moved to ISQM 2</p>	<p><i>Engagement Quality Control Review</i></p> <p>For audits of <b>financial reports</b> of listed entities, <b>and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required</b>, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. A28-A31)</li> </ul>	N – Relates to Engagement Quality Control Reviews which is no longer in ASA 220. Included in table in ASQM 2 papers.

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Para #	International Text	Australian Text	Placeholder in ED
<b>Application and Other Explanatory Material</b>			
<b>System of Quality Control and Role of Engagement Teams</b>			
Aus A2.1 <i>In principle</i>	N/A – additional Aus material	<i>Reliance on the Firm’s System of Quality Control</i>  Notwithstanding reliance by the engagement team on the firm’s system of quality control, for audits undertaken in accordance with the <i>Corporations Act 2001</i> (the Act), the engagement partner is required to comply with the auditing standards under section 307A of that Act.	N – Material regarding reliance on firm’s system of quality control has been removed in proposed ASA 220.
<b>Relevant Ethical Requirements</b>			
Aus A4.1 <i>In principle</i>	<b>Deleted paragraph A4</b>  The IESBA Code established the fundamental principles of professional ethics, which include:  (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behaviour.  <b>ED ISA 220 application, paragraph...</b> N/A – Not carried forward to revised standard	<i>Compliance with Relevant Ethical Requirements</i>  The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.	N – Specific material on the principles of the IESBA code have been removed.
A5	<b>Deleted paragraph A5</b>  Application material relating to the definition of “Firm”, “Network” and “Network Firm” are deleted.	[Deleted by the AUASB. Refer ASA 102]	Y – Include placeholder to definitions to consider changes to definitions to reflect Aus laws and regs and principles and practices.
Aus A5.1 <i>In principle</i>	N/A – Inserted Aus application material	<i>Independence</i>  Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> , Part 2M.3 Division 3, and relevant ethical requirements in ASA 102.	Y – Include placeholder in <i>Relevant Ethical Requirements</i> Application Material to consider changes to reflect Aus laws and regs.

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<b>Para #</b>	<b>International Text</b>	<b>Australian Text</b>	<b>Placeholder in ED</b>
Aus A6.1 <i>In principle</i>	N/A – Inserted Aus application material	<i>Threats to Independence</i>  The familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements† and the <i>Corporations Act 2001</i> specify the partner rotation requirements.	Y – Include placeholder in Relevant Ethical Requirements Application Material to consider changes to reflect Aus laws and regs.

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**Table 2 – Paragraphs from Proposed ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* that may require modification**

Para #	International Text	Audit Technical Group's Recommendation
A40	ASA 700 requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. Performing the procedures required by paragraphs 14–19 of this ASA provides the basis for these statements in the auditor's report.	A placeholder has been inserted to consider whether additional references to Australian laws and regulations are required.
A54	Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ASA 610 individuals from within the entity's internal audit function may provide direct assistance.	A placeholder has been inserted to consider whether reference to direct assistance needs to be deleted in-line with Australian principles and practices.

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**EXPOSURE DRAFT**

**ED 03/19**  
(March 2019)

# **Proposed Auditing Standard ASA 220** *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 1 June 2019. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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ISSN 1030-603X



**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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## PREFACE

### Reasons for Issuing ED 03/19

The AUASB issues exposure draft ED 03/19 of proposed Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality. Under the Strategic Direction, the AUASB is required to have regard to any program initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

### Main Proposals

This proposed Auditing Standard represents the Australian equivalent of the IAASB's exposure draft on proposed ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* issued for public comment (February 2019) by the IAASB. This proposed Auditing Standard will replace the current ASA 220 issued by the AUASB in October 2009 and amended to May 2017.

This proposed Auditing Standard contains differences from the current ASA 220, as detailed in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements*

### Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after [date]\*.

### Main changes from existing ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (October 2009)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (October 2009), are included in the [Explanatory Memorandum](#) located in the front of the Proposed International Standard on Auditing 220 (ISA 220).

The main changes from existing ASA 220 include:

- Modernising the standard to acknowledge different audit delivery models. Including material outlining that regardless of location of engagement team members, the work of any individual undertaking audit procedures needs to be appropriately directed and supervised.

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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- Removal of material that allowed engagement team members to rely on the firm's system of quality control, unless information from the firm or other parties suggested otherwise.
- Strong emphasis on the Engagement Partner's overall responsibility for managing and achieving audit quality. This includes wording throughout the standard that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to manage and achieve quality. A new stand-back provision has also been included.
- Material relating to relevant ethical requirements has been strengthened with more focus on the engagement partner's role in dealing with relevant ethical requirements.
- Inclusion of a new section relating to engagement resources which includes human, technological and intellectual resources, and the engagement partner's responsibility to determine whether the resources assigned are sufficient and appropriate.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* by no later than 1 June 2019.

### **IAASB questions**

Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when responding to the IAASB on their ED:

1. Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED 03/19), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ASA appropriately reflect the role of other senior members of the engagement team, including other partners?
2. Does ED 03/19 have appropriate linkages with the ASQM 1 and ASQM 2? Does you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?
3. Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED 03/19)
4. Does ED 03/19 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
5. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED 03/19)
6. Does ED 03/19, together with the overarching documentation requirements in ASA 230, include sufficient requirements and guidance on documentation?
7. Is ED 03/19 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?
8. Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?
9. In order to support implementation of the standards in accordance with proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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**Australian specific questions**

The AUASB is especially interested in stakeholders views on:

10. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
11. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
12. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
13. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where those costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
  - c. Whether expected costs outweigh the benefits to the users of audit services?
14. Are there any other significant public interest matters that constituents wish to raise?

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

## Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 220 *Quality Management for an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that may be added/deleted/amended in this Auditing Standard are identified with the prefix “Aus”. These paragraphs have been marked as a placeholder and are subject to AUASB deliberations on whether a modification is required to the standard based on the “Compelling Reasons Test” outlined in the [Principles of Convergence to the International Auditing and Assurance Standards Board \(IAASB\)](#).

## Table of Amendments

Paragraph or Section impacted	Basis for consideration of amendment
Definitions	Definitions may be added, deleted or amended based on the following: <ul style="list-style-type: none"> <li>• ASA 220 is a legislative instrument and accordingly some definitions are required to be included within a legislative instrument;</li> <li>• Terms are not appropriate in the Australian context;</li> <li>• Relevant Ethical Requirements are defined in ASA 102 (no such international equivalent); and</li> <li>• Other Australian legal or regulatory requirements.</li> </ul>
A40	Additional material may be added to consider Australian legal or regulatory requirements relating to independence.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 220 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 220.

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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**AUDITING STANDARD ASA 220**

***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

**Application**

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

**Operative Date**

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after [date]\*.

**Introduction**

**Scope of this Auditing Standard**

1. This Australian Standard on Auditing (ASA) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report, and the related responsibilities of the engagement partner. This ASA is to be read in conjunction with relevant ethical requirements.  
 (Ref: Para. A1–A2)

**The Firm's System of Quality Management and Role of Engagement Teams**

2. The firm is responsible for the system of quality management. Under proposed ASQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of a financial report, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
  - (a) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>1</sup> (Ref: Para. A3, A14–A15)
3. This ASA is premised on the basis that the firm is subject to the ASQMs or to national requirements that are at least as demanding. (Ref: Para. A4)

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

<sup>1</sup> See ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Assurance and Related Services Engagements*, paragraph 21.

**Proposed Auditing Standard ASA 220**  
***Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

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4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ASA, for:
  - (a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm; (Ref: Para. A5–A8)
  - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses beyond those set forth in the firm's policies or procedures; and (Ref: Para. A9–A10)
  - (c) Providing the firm with information from the audit engagement to support the design, implementation, and operation of the firm's system of quality management that is required to be communicated in accordance with the firm's policies or procedures. (Ref: Para. A11)
5. Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)
6. The public interest is served by the consistent performance of quality audit engagements. Quality audit engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and exercising professional scepticism. (Ref: Para. A13)
7. In accordance with ASA 200,<sup>2</sup> the engagement partner and other members of the engagement team are required to plan and perform an audit with professional scepticism and to exercise professional judgement. In doing so, the engagement partner and engagement team exercise professional judgement and professional scepticism in meeting the objective and requirements of this ASA. Professional judgement is applied in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement partner and other members of the engagement team. Such actions and communications may include specific steps to deal with impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints. (Ref: Para. A27–A29)

**Effective Date**

8. [Deleted by the AUASB. Refer Aus 0.3]

**Objective**

9. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:
  - (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
  - (b) The auditor's report issued is appropriate in the circumstances.

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<sup>2</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs 15–16.



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## Definitions

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations and principles and practices are still applicable to the below section. See Table 1 in the attachment to this exposure draft for more information**

10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Engagement partner<sup>3</sup> – The partner, or other individual appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
  - (b) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon that is completed on or before the date of the engagement report.
  - (c) Engagement quality reviewer – A suitably qualified partner or other individual appointed by the firm to be responsible for the performance of the engagement quality review.
  - (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm,<sup>4</sup> and also excludes individuals within the client’s internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ASA 610.<sup>5</sup> (Ref: Para. A16–A19)
  - (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A20)
  - (f) Network firm – A firm or entity that belongs to a network. (Ref: Para. A21)
  - (g) Network – A larger structure: (Ref: Para. A21)
    - (i) That is aimed at cooperation, and
    - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
  - (h) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
  - (i) Personnel – Partners and staff.
  - (j) Professional standards – Australian Standards on Auditing (ASAs) and relevant ethical requirements.

<sup>3</sup> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

<sup>4</sup> ASA 620 *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

<sup>5</sup> ASA 610 *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

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- (k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the Accounting Professional & Ethical Standards Board Code of Ethics for Professional Accountants (APESB Code) related to audits of financial reports, together with national requirements that are more restrictive.
- (l) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address a quality risk:
  - (i) Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
  - (ii) Procedures are actions to implement policies.
- (m) Staff – Professionals, other than partners, including any experts the firm employs.

## **Requirements**

### **Leadership Responsibilities for Managing and Achieving Quality on Audits**

11. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the engagement such that the engagement partner has the basis for determining whether the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A22–A29)
12. In creating the environment described in paragraph 11, the engagement partner, and others to whom supervisory roles are assigned, shall take clear, consistent and effective actions that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members, including:
  - (a) Emphasising that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
  - (b) Reinforcing the importance of professional ethics, values, and attitudes to the members of the engagement team;
  - (c) Encouraging open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
  - (d) Emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement.
13. If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ASA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall: (Ref: Para. A30)
  - (a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and

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- (b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.

**Relevant Ethical Requirements, Including Those Related to Independence**

14. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A31–A35, A41)
15. The engagement partner shall determine that other members of the engagement team have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that deal with: (Ref: Para. A33–A35)
- (a) Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence;
- (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and their responsibilities when they become aware of actual or suspected breaches; and
- (c) Their responsibilities when they become aware of an instance of actual or suspected non-compliance with laws and regulations.<sup>6</sup>
16. If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate such threats through complying with the firm’s policies or procedures, using relevant information from the firm, the engagement team, or other sources and take appropriate action. (Ref: Para. A36–A37)
17. The engagement partner shall remain alert throughout the audit engagement, through observation and making enquiries as necessary, for actual or suspected breaches of relevant ethical requirements or the firm’s related policies or procedures by members of the engagement team. (Ref: Para. A38)
18. If matters come to the engagement partner’s attention through the firm’s system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A39)
19. Prior to dating the auditor’s report, the engagement partner shall determine whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A40)

**Acceptance and Continuance of Client Relationships and Audit Engagements**

20. The engagement partner shall be satisfied that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A42–A45, A51)
21. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ASAs and complying with the requirements of this ASA. (Ref: Para. A46–A49)

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<sup>6</sup> See ASA 250 *Considerations of Laws and Regulations in an Audit of a Financial Report*.

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22. If the engagement partner obtains information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A50)

**Engagement Resources**

23. The engagement partner shall determine that, given the nature and circumstances of the audit engagement (and any changes that may arise during its course), sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm on a timely basis. (Ref: Para. A52–A61, A63–A64, A67)
24. The engagement partner shall determine that members of the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A62–A64)
25. If, as a result of complying with the requirement in paragraphs 23 and 24, the engagement partner determines that resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate personnel in the firm about the need to allocate or assign additional or alternative resources to the engagement. (Ref: Para. A65–A66)
26. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58)

**Engagement Performance**

*Direction, Supervision and Review*

27. The engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and determine that such direction, supervision and review is: (Ref: Para A68–A76, A81–A83)
- (a) Planned and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements;
  - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement; and
  - (c) Planned and performed on the basis that the work performed by less experienced team members is directed, supervised, and reviewed by more experienced engagement team members.
28. On or before the date of the auditor’s report, the engagement partner shall, through review of audit documentation and discussion with the engagement team, determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: Para. A77–A80)
29. In complying with the requirements of paragraph 28, the engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A77–A80)

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- (a) Significant matters;<sup>7</sup>
  - (b) Other areas involving significant judgements, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached; and
  - (c) Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities
30. Prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial report and the auditor's report, including, if applicable, the description of the key audit matters<sup>8</sup> and related audit documentation.
31. The engagement partner shall review, prior to their issuance, any formal written communications to management, those charged with governance, or regulatory authorities.

*Consultation*

32. The engagement partner shall:
- (a) Take responsibility for the engagement team undertaking consultation on:
    - (i) Matters where the firm's policies or procedures require consultation, including on difficult or contentious matters; and
    - (ii) Other matters that in the engagement partner's professional judgement, require consultation;
  - (b) Determine that members of the engagement team have undertaken appropriate consultation during the course of the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
  - (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
  - (d) Determine that conclusions resulting from such consultations have been implemented.

*Engagement Quality Review*

33. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A88)
- (a) Be satisfied that an engagement quality reviewer has been appointed;
  - (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;
  - (c) Discuss significant matters arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
  - (d) Not date the auditor's report until the completion of the engagement quality review. (Ref: Para. A89–A92)

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<sup>7</sup> See ASA 230 *Audit Documentation*, paragraph 8.

<sup>8</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

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*Differences of Opinion*

34. If differences of opinion arise, within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving them. (Ref: Para. A93–A94)
35. The engagement partner shall:
- (a) Take responsibility for differences of opinion being dealt with and resolved in accordance with the firm's policies or procedures;
  - (b) Determine that conclusions reached are documented and implemented; and
  - (c) Not date the auditor's report until any differences of opinion are resolved.

**Monitoring and Remediation**

36. The engagement partner shall: (Ref: Para. A97–A98)
- (a) Be satisfied that the engagement team has been made aware of results of the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the results of the monitoring and remediation process of the network or network firms;
  - (b) Determine the relevance and effect on the audit engagement of the information referred to in paragraph 36(a) and take appropriate action; and
  - (c) Remain alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

**Taking Overall Responsibility for Managing and Achieving Quality**

37. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. A99–A101)
- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
  - (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ASA.

**Documentation**

38. The auditor shall include in the audit documentation:<sup>9</sup> (Ref: Para. A102–A104)
- (a) Matters identified, relevant discussions with firm personnel, and conclusions reached with respect to:

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<sup>9</sup> See ASA 230 paragraphs 8-11 and A6.

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- (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
- (ii) The acceptance and continuance of the client relationship and audit engagement.
- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement and how such conclusions were implemented.
- (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

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## **Application and Other Explanatory Material**

### **Scope of this ASA (Ref: Para. 1)**

- A1. This ASA applies to all audits of a financial report, including audits of a group financial report. ASA 600,<sup>10</sup> deals with special considerations that apply to group audits, in particular those that involve component auditors.
- A2. ASA 200 requires the auditor to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.<sup>11</sup> Paragraphs 14–19 and A31–A41 of this ASA include requirements and guidance that deal with complying with relevant ethical requirements that are applicable given the nature and circumstances of the engagement, including those related to independence.

### **The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2 – 5)**

- A3. Proposed ASQM 1 deals with a firm's responsibilities for its system of quality management. A system of quality management is designed, implemented and operated by a firm in accordance with proposed ASQM 1 and is organised into the following eight components:
- Governance and leadership;
  - The firm's risk assessment process;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Engagement performance;
  - Resources;
  - Information and communication; and
  - The monitoring and remediation process.
- A4. Firms or national requirements may use different terminology or frameworks to describe components of a system of quality management. National requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as proposed ASQM 1 when they deal with all the components referred to in paragraph A3 and impose obligations on the firm to achieve the objective set out in proposed ASQM 1.

### **Implementing the Firm's Responses to Quality Risks That Are Applicable to the Audit Engagement (Ref: Para. 4(a))**

- A5. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with proposed ASQM 1, the firm is responsible for communicating to relevant personnel, including the engagement team, about their responsibilities for implementing the firm's responses that are applicable at the engagement level. For example, such firm level responses may include policies or procedures to undertake consultations with designated personnel in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to deal with particular matters (e.g., the firm

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<sup>10</sup> See ASA 600 *Special Considerations-Audits of Group Financial Report*.

<sup>11</sup> See ASA 200 paragraph 14.



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may specify that firm-designated credit experts are to be involved in auditing credit loss allowances in all audits of financial institutions).

- A6. Firm level responses may include policies or procedures established by a network, or by another firm or group of firms within the same network (network requirements or network services are described further in proposed ASQM 1 within the “Network Requirements or Network Services” section). The requirements of this ASA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network resources or services or the work of network resources or services on the audit engagement.

**Other Firm Level Responses That May be Relevant to the Engagement Team (Ref: Para. 4(a))**

- A7. Some firm level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ASA. For example, when determining whether the members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement, the engagement partner may be able to depend on the firm’s policies or procedures dealing with personnel recruitment and professional training. Other examples of firm level responses that the engagement partner may be able to depend on when complying with the requirements of this ASA include:
- Information systems that monitor independence;
  - Information systems that deal with acceptance and continuance of client relationships and audit engagements; and
  - Audit methodologies and related implementation tools and guidance.
- A8. Matters that the engagement partner may take into account when determining whether, and if so, the degree to which, the engagement partner may depend on the firm’s policies or procedures in complying with the requirements of this ASA include:
- The engagement partner’s knowledge or understanding of, or practical experience with, such policies or procedures.
  - Information obtained from the firm, engagement team, or other parties, about the effectiveness of such policies or procedures (e.g., information provided by the firm’s monitoring and remediation processes that indicate that the firm’s policies or procedures are operating effectively or that do not provide any indications of deficiencies).

**Designing and Implementing Responses at the Engagement Level (Ref: Para. 4(b))**

- A9. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement partner exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm’s policies or procedures, at the engagement level in order to meet the objective of this ASA.<sup>12</sup> The engagement partner’s determination of whether such engagement level responses are required (and if so, what those responses are) is influenced by the requirements of this ASA, and the engagement partner’s understanding of the nature and circumstances of the engagement and any changes thereto. For example, unanticipated circumstances may arise during the course of the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm.

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<sup>12</sup> ASA 200 requires the auditor to exercise professional judgment in planning and performing an audit of a financial report.

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A10. The relative balance of the engagement partner's efforts to comply with the requirements of this ASA (i.e., between implementing the firm's responses and designing and implementing engagement-specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement partner's actions in complying with the engagement performance requirements of this ASA may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).

Providing the Firm with Information from the Audit Engagement (Ref: Para. 4(c))

A11. The firm's policies or procedures may require the engagement team to provide the firm with specific information from the audit engagement that is relevant to the design, implementation, and operation of the firm's system of quality management. During the engagement, the engagement partner may become aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are deficient in the context of the specific engagement. Providing such information to the firm may be relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit program provided by the firm does not deal with new or revised regulation, timely communication of such information to the appropriate individuals within the firm enables the firm to take steps to update and reissue the audit program to deal with such regulation.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 5)

A12. Complying with the requirements in other ASAs may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ASA 315<sup>13</sup> provides information that may be relevant to complying with the requirements of this ASA. Such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
- The nature, timing and extent of review of the work performed by members of the team based on the number and significance of the assessed risks of material misstatement; or
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Public Interest (Ref: Para. 6)

A13. Relevant ethical requirements contain requirements and application material for professional accountants that enable professional accountants to meet their responsibility to act in the public interest. In the context of engagement performance, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.

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<sup>13</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

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Considerations Specific to Smaller Firms (Ref: Para. 2–4)

- A14. In a smaller firm, the design and implementation of many responses to the firm’s quality risks, may be most effectively dealt with by the engagement partner at the engagement level (i.e., given the nature and circumstances of the firm and the engagements it performs, there may be less need for firm level responses to many of the firm’s quality risks). Additionally, a smaller firm’s policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.
- A15. If an audit is carried out entirely by the engagement partner, some requirements in this ASA are not relevant because they are conditional on the involvement of other members of the engagement team. For example, the requirements relating to direction, supervision, and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

**Definitions**

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations and principles and practices are still applicable to the section below. See Table 1 in the attachment to this exposure draft for more information.**

*Engagement Team* (Ref: Para. 10(d))

- A16. Engagement teams may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations, and may be organised in groups by activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures<sup>14</sup> on the audit engagement is considered to be a member of the engagement team. External experts and internal auditors providing direct assistance are not members of the engagement team. ASA 620<sup>15</sup> and ASA 610<sup>16</sup> include requirements for the auditor to comply with when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity. The auditor performs audit procedures to comply with these requirements and these procedures form the basis for the auditor’s determination as to whether work performed by external experts or internal auditors providing direct assistance can be used as audit evidence.
- A17. Engagement teams may include individuals from service delivery centres who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialised in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centres may be established at the firm level, at the network level, or by another firm or group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.
- A18. Engagement teams may include individuals from network firms or other firms to perform audit procedures, for example, procedures such as attending a physical inventory count or inspecting physical fixed assets at a remote location.
- A19. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and individuals who assist the engagement quality reviewer in performing the engagement quality review, are not members of the engagement team.

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<sup>14</sup> See ASA 500 *Audit Evidence*, paragraph A10.

<sup>15</sup> See ASA 620, paragraph 12–13.

<sup>16</sup> See ASA 610, paragraphs 21–25.

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*Firm* (Ref: Para. 10(e))

- A20. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ASA. For example, the APESB Code defines the “firm” as:
- (a) A sole practitioner, partnership or corporation of professional accountants;
  - (b) An entity that controls such parties through ownership, management or other means; and
  - (c) An entity controlled by such parties through ownership, management or other means.

In complying with the requirements in this ASA, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

*“Network” and “Network Firm”* (Ref: Para. 10(f)–10(g))

- A21. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ASA. The APESB Code also provides guidance in relation to the terms “network” and “network firm.” Networks and the firms within the network may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ASA in relation to networks apply to any structures or organisations that do not form part of the firm, but that exist within the network.

**Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 11–13)**

*Leadership Responsibilities for Managing and Achieving Quality on Audits* (Ref: Para. 11–13)

- A22. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that promotes the conduct of quality audit engagements. In addressing the requirements in paragraphs 11 and 12, the engagement partner may communicate directly and reinforce this communication through personal conduct and actions (e.g., leading by example). A commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.
- A23. The nature and extent of the actions of the engagement partner to reflect the firm’s commitment to quality may depend on a variety of factors including the size, structure, geographical dispersion and complexity of the firm, and the nature and circumstances of the audit engagement. With a smaller engagement team, with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

*Sufficient and Appropriate Involvement*

- A24. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:
- Taking responsibility for the nature, timing and extent of the direction and supervision of members of the engagement team, and the review of the work performed in complying with the requirements of this ASA;
  - Varying the nature, timing and extent of such direction, supervision, and review, in the context of the nature and circumstances of the engagement.

*Communication*

- A25. Communication is the means through which the engagement partner and the members of the engagement team share relevant information on a timely basis in order to comply with the requirements of this ASA, thereby contributing to the achievement of quality on the audit

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engagement. Communication may be between or among members of the engagement team, or with:

- (a) The firm, such as with personnel performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management;
- (b) Others involved in the audit (e.g., an auditor's external expert or component auditor); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance, or regulatory authorities).

A26. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the most appropriate means of effective communication with the engagement team members. For example, in-person and more frequent interactions are likely to be a more effective way to direct and supervise less experienced team members.

*Professional Scepticism*

A27. As explained in paragraph 7, professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, the overall effectiveness of the engagement team in achieving quality at the engagement level. In some circumstances the engagement partner may need to deal with impediments to the exercise of professional scepticism at the engagement level such as:

- Tight deadlines or budget constraints may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review it;
- Lack of cooperation or undue pressures imposed by management may negatively affect the engagement team's ability to resolve complex or contentious issues;
- Insufficient emphasis on the importance of quality may undermine the exercise of professional scepticism by the engagement team;
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework may constrain the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions;
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible; and
- Overreliance on tools and templates may undermine the exercise of professional scepticism by the engagement team.

A28. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, the selection of an audit approach, performance of audit procedures, or evaluation of audit evidence. Examples of unconscious auditor biases that may affect the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement partner in complying with the requirements of this ASA, include:

- Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgement.

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- Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.
  - Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgements and decisions.
- A29. Possible actions that the engagement partner may take to deal with impediments to the exercise of professional scepticism at the engagement level include:
- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement;
  - Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgement) and emphasising the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures (see paragraph A28);
  - Changing the composition of the engagement team assigned, for example, involving more experienced staff in order to obtain greater skills or knowledge or specific expertise;
  - Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with;
  - Involving members of the engagement team with specialised skills and knowledge, or an auditor's expert to deal with complex or subjective areas of the audit;
  - Modifying the nature, timing and extent of direction and supervision of engagement team members, and review of their work, for complex or subjective areas of the audit, including involving more experienced members of the team, more in-person oversight on a more frequent basis and more in-depth reviews of certain working papers;
  - Setting expectations for:
    - Less experienced members of the engagement team to seek advice frequently and on a timely basis from more experienced team members or the engagement partner;
    - More experienced team members to be available to less experienced members of the engagement team throughout the audit and to respond positively and on a timely basis to their insights, requests for advice, or assistance; and
  - Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought.

*Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team* (Ref: Para. 13)

- A30. The engagement partner is ultimately responsible and therefore accountable for managing and achieving quality on the audit engagement. However, it will generally not be possible or practical for all of the requirements in this ASA to be dealt with solely by the engagement partner (e.g., due to the nature and size of the entity, or the complexity of the audit and the need for specialised skills or expertise). In managing quality at the engagement level, the engagement partner may therefore assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist

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the engagement partner in complying with the requirements of this ASA. For example, engagement team members other than the engagement partner may be assigned supervisory roles.

**Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 14–19)**

**Aus The AUASB will deliberate whether modifications in the extant ASA 220 made to reflect Australian laws and regulations are still applicable to the section below. See Table 1 in the attachment to this exposure draft for more information.**

*Relevant Ethical Requirements*

- A31. ASA 200<sup>17</sup> requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, there may be requirements related to independence that are applicable only when performing audits of listed entities.
- A32. Based on the nature and circumstances of the audit engagement, certain relevant ethical requirements, or aspects of law or regulation, may be of significance to the engagement, for example law or regulation dealing with money laundering, corruption, or bribery.

*Firms Policies or Procedures to Deal With Relevant Ethical Requirements*

- A33. Information and communication, and resources provided by the firm may assist the engagement partner and other members of the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement in accordance with paragraphs 14–19. For example:
- Communicating the independence requirements to all personnel and others subject to independence requirements, as applicable.
  - Providing training for personnel on relevant ethical requirements.
  - Establishing manuals and guides (i.e., intellectual resources), containing the provisions of the relevant ethical requirements and guidance on how they are applied in the circumstances of the firm and the engagements it performs.
  - Assigning personnel (i.e., human resources) to manage and monitor compliance with relevant ethical requirements (e.g., ASQM 1 requires that the firm obtain, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or to provide consultation on matters related to relevant ethical requirements.
  - Establishing policies or procedures for personnel to communicate relevant information to appropriate parties within the firm or to the engagement partner, such as requirements for engagement teams or personnel to:
    - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
    - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an

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<sup>17</sup> See ASA 200, paragraphs 14 and A16-A19.

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acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.

- Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.
  - Establishing an information system, including through IT applications (i.e., technological resources), to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.
- A34. The engagement partner may take into account the information, communication and resources described in paragraph A33 when determining whether, and if so, the degree to which, the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements. For example, the engagement partner may be able to depend on information systems that monitor independence. See paragraphs A7–A8.
- A35. Open and robust communication between the engagement partner and the members of the engagement team about relevant ethical requirements may also assist in:
- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
  - Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

*Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements* (Ref: Para. 15–16)

- A36. In accordance with proposed ASQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence, include policies or procedures that address the identification and evaluation of threats to compliance with the relevant ethical requirements and how identified threats should be addressed.
- A37. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be dealt with. For example, the APESB Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards.

*Actual or Suspected Breaches of Relevant Ethical Requirements* (Ref: Para. 17)

- A38. In accordance with proposed ASQM 1, the firm is required to establish policies or procedures that address the identification, communication, evaluation and reporting of breaches and actions to address the causes and consequences of the breaches.

*Taking Appropriate Action* (Ref: Para. 18)

- A39. Appropriate actions may include, for example:
- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate personnel within the firm so that appropriate action can be taken, including as applicable, disciplinary action(s);
  - Communicating with those charged with governance;
  - Communicating with regulatory authorities. In some circumstances, communication with regulatory authorities may be required by law or regulation;
  - Seeking legal advice; or



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- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

*Prior to Dating the Auditor's Report* (Ref: Para. 19)

**Aus The AUASB will deliberate whether a modification may be required to the below paragraph to reflect Australian laws and regulations. See Table 2 in the attachment to this exposure draft for more information.**

- A40. ASA 700 requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.<sup>18</sup> Performing the procedures required by paragraphs 14–19 of this ASA provides the basis for these statements in the auditor's report.

*Considerations Specific to Public Sector Entities*

- A41. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 14. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

**Acceptance and Continuance of Client Relationships and Audit Engagements** (Ref: Para. 20–22)

- A42. Proposed ASQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements that are appropriate in the circumstances.
- A43. Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:
- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
  - Whether there are sufficient and appropriate resources to perform the engagement;
  - Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
  - Whether the engagement team has the competence and capabilities, including sufficient time to perform the engagement;
  - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A44. Under proposed ASQM 1, for acceptance and continuance decisions, the firm is required to make appropriate judgements about whether it will have access to information to perform the engagement, or to the persons who provide such information. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the

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<sup>18</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 28(c).

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- appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.
- A45. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained, or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner being satisfied that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A46. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ASA and making informed decisions about appropriate courses of action. For example:
- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework;
  - The entity's timetable for reporting, such as at interim and final stages;
  - In relation to group audits, the nature of the control relationships between the parent and its components; and
  - Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed.
- A47. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ASAs, as well as this ASA, for example with respect to:
- Establishing an understanding of the terms of the audit engagement, as required by ASA 210<sup>3</sup>;
  - Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ASA 315 and ASA 240;<sup>19</sup>
  - Understanding the group, its components, and their environments, in the case of an audit of a group financial report in accordance with ASA 600, and directing, supervising and reviewing the work of component auditors;
  - Determining whether, and how, to involve an auditor's expert in accordance with ASA 620; and
  - The entity's governance structure in accordance with ASA 260<sup>20</sup> and ASA 265.<sup>21</sup>
- A48. Law, regulation, or relevant ethical requirements may require the auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APESB Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all such facts and other information concerning such non-

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<sup>19</sup> See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

<sup>20</sup> See ASA 260 *Communication with Those Charged with Governance*.

<sup>21</sup> See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

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compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

- A49. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement in complying with the requirement in paragraph 21.
- A50. In deciding on the necessary action in accordance with paragraph 22, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement, and if so, what additional steps are necessary at the engagement level (e.g., the assignment of more staff, or staff with particular expertise). If the engagement partner has further concerns and is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

*Considerations Specific to Public Sector Entities* (Ref: Para. 20–22)

- A51. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 20–22 and A42–A47 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

**Engagement Resources** (Ref: Para. 23–26)

- A52. Under proposed ASQM 1, the resources assigned, allocated, or made available by the firm to support the performance of audit engagements include:
- Human resources;
  - Technological resources; and
  - Intellectual resources.

Under proposed ASQM 1, the firm's quality objectives are required to address appropriately obtaining, developing, using, maintaining, allocating and assigning such resources in a timely manner to enable the design, implementation and operation of the system of quality management. Based on the nature and circumstances of the engagement the engagement partner may be able to depend on the firm's policies or procedures that address the quality risks related to such quality objectives when complying with the requirements in paragraphs 23–26 of this ASA (see also paragraphs A7–A8).

- A53. A relevant consideration for the engagement partner, in complying with the requirements in paragraph 23 and 24, is whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles, such as professional competence and due care.

*Human Resources*

**Aus** **The AUASB will deliberate whether modifications may be required to the below paragraph to reflect Australian principles and practices. See Table 2 in the attachment to this exposure draft for more information.**

- A54. Human resources assigned or made available by the firm include members of the engagement team and, where applicable, external experts. In addition, as provided for by ASA 610 individuals from within the entity's internal audit function may provide direct assistance.

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- A55. An engagement team includes any individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, information technology, or in using automated tools to analyse complex data or to perform statistical analysis.

*Technological Resources*

- A56. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technology may allow the auditor to more effectively and efficiently manage the audit. Technology may also allow the auditor to evaluate large amounts of data more easily in order to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Inappropriate use of such technological resources may however increase the risk of overreliance on the information produced for decision purposes, or may create threats to complying with relevant ethical requirements, for example, those requirements related to confidentiality.
- A57. The firm's policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.
- A58. The firm's policies or procedures may specifically prohibit the use of certain technological resources (e.g., software that has not yet been specifically approved for use by the firm) or may include requirements to seek approval to use a new technological resource. In some circumstances the firm's policies or procedures may not specifically deal with the use of a specific technological resource (e.g., a spreadsheet developed by the engagement team or obtained from outside the engagement team or the firm). In these circumstances, the engagement partner may apply professional judgement in considering whether the use of the resource on the audit engagement is appropriate in the context of the engagement, and if so, how the technological resource is to be used.

*Intellectual Resources*

- A59. Intellectual resources include, for example, firm, network firm, or network audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.
- A60. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, laws and regulations, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, industry-specific methodology or related guides and performance aids.

*Sufficient and Appropriate Resources to Perform the Engagement* (Ref: Para. 23)

- A61. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, the engagement partner may be able to depend on the firm's related policies or procedures as described in paragraph A7. Matters that the engagement partner may take into account when making such a determination are described in paragraph A8. For example, the engagement partner may be able to depend on the firm's technological development and maintenance programs when using firm approved technology to perform audit procedures based on information communicated by the firm.

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*Competence and Capabilities of the Engagement Team* (Ref: Para. 24)

- A62. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:
- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
  - Understanding of professional standards and applicable legal and regulatory requirements.
  - Expertise in specialised areas of accounting or auditing.
  - Expertise in information technology used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
  - Knowledge of relevant industries in which the entity being audited operates.
  - Ability to exercise professional scepticism and apply professional judgement.
  - Understanding of the firm's policies or procedures.

*Project Management*

- A63. In situations where there are many engagement team members, for example on larger, or more complex, audit engagements, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, for a smaller engagement team with fewer engagement team members, project management may be achieved through less formal means.
- A64. Project management techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the audit engagement by, for example:
- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;
  - Facilitating timely performance of audit work to more effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
  - Monitoring the progress of the audit against the audit plan,<sup>22</sup> including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources;
  - Assisting the engagement partner in taking responsibility for the direction and supervision of engagement team members and the review of their work (see paragraph 27); or
  - Co-ordinating arrangements with component auditors and auditor's experts.

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<sup>22</sup> ISA 300, paragraph 9

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*Insufficient or Inappropriate Resources* (Ref: Para. 25)

- A65. Proposed ASQM 1 requires that the firm's quality objectives include that the firm's strategic decisions and actions, including financial and operational priorities, reflect the firm's commitment to quality and do not undermine the firm's role in serving the public interest by consistently performing quality engagements. However, in certain circumstances the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team.<sup>23</sup> In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for becoming satisfied that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.
- A66. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ASA and the nature and circumstances of the audit engagement. If the engagement partner determines that the resources assigned or made available by the firm are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, the engagement partner is required to take appropriate action. In such cases, appropriate actions may include:
- If possible, discussing an extension to the reporting deadlines with management or those charged with governance.
  - Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
  - Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

*Considerations Specific to Public Sector Entities* (Ref: Para. 23–26)

- A67. In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

**Engagement Performance**

*Direction, Supervision and Review* (Ref: Para. 27)

- A68. Under proposed ASQM 1, the firm is required to establish policies or procedures addressing the nature, timing and extent of the direction and supervision of engagement teams and review of their work, including that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.
- A69. Direction and supervision of the engagement team and the review of the work of the engagement team are firm level responses that are implemented at the engagement level of which the nature, timing and extent may be further tailored by the engagement partner in managing quality of the audit engagement. Accordingly, the approach to direction, supervision and review will take into account the nature and circumstances of the engagement and will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses. The approach will vary from one engagement to the next.

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<sup>23</sup> See also paragraph A37.

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- A70. The approach to the direction and supervision of the members of the engagement team and the review of the work performed provides support for the engagement partner in addressing the requirements in this ASA, as well as the conclusion that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 37.
- A71. Ongoing discussion and communication among members of the engagement team allows less experienced team members to raise questions with more experienced team members (including the engagement partner) on a timely basis and enables effective direction, supervision and review in accordance with paragraph 27(c).

#### Direction

- A72. Direction of the engagement team may involve informing the members of the engagement team of matters such as:
- The responsibility for all engagement team members for contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions.
  - The importance of maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism in gathering and evaluating audit evidence (see paragraph A29).
  - Their responsibilities to fulfill relevant ethical requirements.
  - Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
  - Respective roles and responsibilities of the engagement team members in performing audit procedures and the roles of more experienced team members in directing, supervising and reviewing the work of less experienced team members.
  - The objectives of the work to be performed and detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
  - Threats to the achievement of quality, and the engagement team's expected response in this regard. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

#### Supervision

- A73. Supervision includes matters such as:
- Tracking the progress of the audit engagement, which includes:
    - Monitoring the progress against the audit plan;
    - Monitoring whether the objective of work performed has been achieved;
    - Monitoring the ongoing adequacy of assigned resources.
  - Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced members of the engagement team when issues are more complex than initially anticipated.
  - Addressing matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.

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- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

#### Review

- A74. Review of work performed provides support for the conclusion that the requirements of this ASA have been addressed.
- A75. Review of work performed consists of consideration of whether, for example:
- The work has been performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
  - Significant matters have been raised for further consideration;
  - Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
  - There is a need to revise the nature, timing and extent of work performed;
  - The work performed supports the conclusions reached and is appropriately documented;
  - The evidence obtained is sufficient and appropriate to support the auditor's report; and
  - The objectives of the audit procedures have been achieved.
- A76. The firm's policies or procedures may contain specific requirements regarding:
- The nature, timing and extent of review of audit documentation;
  - Different types of review that may be appropriate in different situations (e.g., detailed review of each individual working paper or a high-level review of selected working papers); and
  - Which members of the engagement team are required to perform the different types of review.

#### The Engagement Partner's Review of Work Performed (Ref: Para. 28–31)

- A77. The firm's policies or procedures may specify the nature, timing and extent of the engagement partner's review. As required by ASA 230, the partner documents the extent and timing of the review.<sup>24</sup>
- A78. Timely review by the engagement partner at appropriate stages during the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation but may do so.
- A79. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. Significant judgements in relation to the

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<sup>24</sup> See ASA 230, paragraph 9(c).



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audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement such as matters related to determining materiality;
- The composition of the engagement team, including:
  - Personnel using expertise in a specialised area of accounting or auditing;
  - The use of personnel from service delivery centres;
- The decision to involve an auditor's expert, including the decision to involve an external expert;
- The engagement team's consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team;
- The engagement team's consideration of related party relationships and transactions and disclosures;
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations;
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom;
- In group audit situations:
  - The proposed overall group audit strategy and group audit plan, including the identification of significant components;
  - Decisions about the involvement of component auditors, including how to direct and supervise their work. For example, if a component auditor is located in a jurisdiction or a firm with significant audit inspection findings, then judgements about their involvement in the engagement and the direction, supervision and review of their work are likely to be more significant; and
  - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed;
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement; or
- The engagement team's proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

A80. The engagement partner uses professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.

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- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

*Nature, Timing and Extent* (Ref: Para. 27)

- A81. In accordance with paragraph 27(a), the nature, timing and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm's policies or procedures. For example, the firm may require that work planned to be performed at an interim date be directed, supervised, and reviewed at the same time as the performance of the procedures rather than at the end of the period so that any necessary corrective action can be taken on a timely basis.
- A82. In accordance with paragraph 27, the engagement partner is responsible for the nature, timing and extent of direction and supervision of the engagement team and the review of the work performed. The engagement partner may tailor the approach to direction, supervision and review depending on, for example:
- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
  - The complexity of the entity, including whether there are significant events that have occurred at the entity or in the industry in which the entity operates since the previous audit engagement or during the current engagement.
  - The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of direction and supervision of engagement team members, and a more detailed review of their work.
  - The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced team members may require more detailed instructions and more frequent, or in person, interactions as the work is performed.
  - The manner in which the engagement partner and manager reviews of work performed are expected to take place. For example, in some circumstances remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
  - The structure of the engagement team, and location of engagement team members, including where service delivery centres are used. For example, direction and supervision of individuals located at remote service delivery centres and the review of their work may need to be more formalised and structured than when members of the engagement team are all situated in the same location.
- A83. In accordance with paragraph 27(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced member of the engagement team becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

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*Consultation* (Ref: Para. 32)

- A84. Proposed ASQM 1 requires the firm to establish policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which to consult, and how the conclusions should be agreed and implemented. Consultation may be appropriate or required, for example for:
- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
  - Significant risks;
  - Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
  - Limitations imposed by management; and
  - Non-compliance with law or regulation.
- A85. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
  - Have appropriate knowledge, seniority and experience.
- A86. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organisations that provide relevant quality control services.
- A87. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.<sup>25</sup>

*Engagement Quality Review* (Ref: Para. 33)

- A88. Proposed ASQM 1 requires that the firm establish policies or procedures that require an engagement quality review for certain types of engagements.<sup>26</sup> Proposed ASQM 2<sup>27</sup> deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. National requirements that deal with the appointment and eligibility of an engagement quality reviewer and the responsibilities of the engagement quality reviewer are at least as demanding as proposed ASQM 2 when they address all of the requirements in proposed ASQM 2.

*Completion of the Engagement Quality Review before Dating of the Auditor's Report* (Ref: Para. 33(d))

- A89. ASA 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial report.<sup>28</sup> If applicable to the audit engagement, proposed ASQM 2 requires that the engagement quality review be completed on or before the date of the auditor's report.

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<sup>25</sup> See ASA 701, paragraphs 9 and A15.

<sup>26</sup> See ASQM 1, paragraph 40(e).

<sup>27</sup> See ASQM 2 *Engagement Quality Reviews*.

<sup>28</sup> See ASA 700, paragraph 49.

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- A90. The auditor's report cannot be dated until the completion of the engagement quality review. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.<sup>29</sup>
- A91. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.
- A92. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for co-ordinating requests from the engagement quality reviewer to another member of the engagement team.

**Differences of Opinion** (Ref: Para. 34)

- A93. Proposed ASQM 1 sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing activities within the firm's system of quality management, including those who provide consultation.
- A94. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:
- Seeking legal advice; or
  - Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

**Monitoring and Remediation** (Ref: Para. 36)

- A95. Under proposed ASQM 1, the firm is required to establish quality objectives and responses that address the firm's monitoring and remediation process that enable the evaluation of the design, implementation and operation of the components of the system of quality management and whether the quality objectives have been achieved. In addition, the firm is required to communicate to personnel information about the firm's monitoring and remediation process to the extent that it is relevant to their responsibilities and to enable the personnel to take prompt and appropriate action in accordance with their responsibilities. The results of the firm's monitoring and remediation activities are based on an evaluation of findings from the firm's monitoring activities, the results of external inspections and other relevant information that the firm obtains or of which the firm becomes aware.
- A96. Information provided by the firm may be relevant to the audit engagement when, for example, it deals with findings identified on another engagement done by the engagement partner or engagement team, findings from the local firm office or previous inspection results of this particular engagement.
- A97. In considering relevant information communicated by the firm and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to deal with identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement

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<sup>29</sup> See ASQM 2, paragraph 21(b).

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team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert should be used;
- The nature, timing and extent of direction, supervision, and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

- A98. A deficiency in the firm's system of quality management does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.

**Taking Overall Responsibility for Managing and Achieving Quality** (Ref: Para. 37)

- A99. Under proposed ASQM 1, the firm is required to establish objectives relating to the engagement partner's overall responsibility for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.

- A100. Relevant considerations in addressing the requirement in paragraph 37 include determining how the engagement partner has complied with the requirements of this ASA, given the nature and circumstances of the audit engagement, and how the audit documentation evidences the engagement partner's involvement in the engagement.

- A101. If the engagement's partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 37. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Re-evaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with firm personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

**Documentation** (Ref: Para. 38)

- A102. In accordance with ASA 230,<sup>30</sup> audit documentation provides evidence that the audit complies with the ASAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. Documentation of the performance of the requirements of this ASA, including evidencing the involvement of the engagement partner, may be accomplished in different ways. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's communications and other

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<sup>30</sup> See ASA 230, paragraph A7.

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actions in respect of culture and expected behaviours that reflect the firm's commitment to quality;

- Agendas from discussions between the engagement partner and engagement team members, and where applicable the engagement quality reviewer, and related time records, may provide evidence of the engagement partner's involvement throughout the audit; and
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A103. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 22), the documentation may include explanations of how the engagement team dealt with the circumstance.

A104. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

**EXPOSURE DRAFT**

**ED 04/19**  
(March 2019)

# **Proposed Auditing Standard ASA 2019-X** *Amendments to Australian Auditing Standards*

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



**Australian Government**  

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**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 25 May 2019. Comments should be addressed to:

The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Proposed Auditing Standard ASA 2019-X**  
***Amendments to Australian Auditing Standards***

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## PREFACE

### Reasons for Issuing ED 04/19

The AUASB issues exposure draft ED 04/19 of proposed Auditing Standard ASA 2019-X *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

### Main Proposals

This proposed Auditing Standard makes amendments to the requirements and/or application & other explanatory material and/or appendices of the following Auditing Standards:

- |         |   |
|---------|---|
| ASA 200 | <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i><br>(Issued October 2009 and amended to December 2018) |
| ASA 210 | <i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to May 2017)  |
| ASA 230 | <i>Audit Documentation</i> (Issued October 2009 and amended to December 2018)   |
| ASA 250 | <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i><br>(Issued May 2017)   |
| ASA 260 | <i>Communication With Those Charged With Governance</i><br>(Issued December 2015 and amended to December 2018)  |
| ASA 300 | <i>Planning an Audit of a Financial Report</i> (Issued October 2009 and amended to December 2015)   |
| ASA 500 | <i>Audit Evidence</i> (Issued October 2009 and amended to December 2018)  |
| ASA 540 | <i>Auditing Accounting Estimates and Related Disclosures</i> (Issued December 2018)   |
| ASA 600 | <i>Special Considerations-Audits of a Group Financial Report</i><br>(Issued October 2009 and amended to December 2015)  |
| ASA 610 | <i>Using the Work of Internal Auditors</i> (Issued November 2013)   |
| ASA 620 | <i>Using the Work of an Auditor's Expert</i> (Issued October 2009)  |
| ASA 700 | <i>Forming an Opinion and Reporting on a Financial Report</i><br>(Issued December 2015 and amended to December 2018)  |
| ASA 701 | <i>Communicating Key Audit Matters in the Independent Auditor's Report</i><br>(Issued December 2015 and amended to December 2018)   |
| ASA 720 | <i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015)  |

## **Proposed Auditing Standard ASA 2019-X** *Amendments to Australian Auditing Standards*

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The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) as a result of the issuance of ISQM 1<sup>1</sup>, ISQM 2<sup>2</sup> and ISA 220(revised)<sup>3</sup>. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

### **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after [date]\*.

### **Request for Comments**

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2019-X *Amendments to Australian Auditing Standards* by no later than 25 May 2019.

Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when responding to the IAASB on their ED:

1. Do you support the approach and rationale for the proposed implementation periods of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

#### **Australian specific questions**

The AUASB is especially interested in stakeholders views on:

2. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
3. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
5. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where those costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
  - c. Whether expected costs outweigh the benefits to the users of audit services?
6. Are there any other significant public interest matters that constituents wish to raise?

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

<sup>2</sup> ISQM 2 *Engagement Quality Reviews*

<sup>3</sup> ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*

\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

**Proposed Auditing Standard ASA 2019-X**  
*Amendments to Australian Auditing Standards*

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2019-X *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

**Proposed Auditing Standard ASA 2019-X**  
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**Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

## **AUDITING STANDARD ASA 2019-X**

### *Amendments to Australian Auditing Standards*

#### **Application**

1. This Auditing Standard applies to:
  - (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### **Operative Date**

3. This Auditing Standard is operative for financial reporting periods commencing on or after [date]\*.

#### **Introduction**

##### **Scope of this Auditing Standard**

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments represent conforming and consequential changes resulting from the issuance of:
  - (a) *ASQM 1 Quality Management for Firms that Perform Audits of Financial Reports and Other Financial Information*;
  - (b) *ASQM 2 Engagement Quality Reviews*; and
  - (c) *ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

#### **Objective**

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
  - (a) *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*  
(Issued October 2009 and amended to December 2018)
  - (b) *ASA 210 Agreeing the Terms of Audit Engagements*  
(Issued October 2009 and amended to May 2017)
  - (c) *ASA 230 Audit Documentation* (Issued October 2009 and amended to December 2018)
  - (d) *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*  
(Issued May 2017)

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

## Proposed Auditing Standard ASA 2019-X Amendments to Australian Auditing Standards

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- (e) *ASA 260 Communication With Those Charged With Governance*  
(Issued December 2015 and amended to December 2018)
- (f) *ASA 300 Planning an Audit of a Financial Report*  
(Issued October 2009 and amended to December 2015)
- (g) *ASA 500 Audit Evidence* (Issued October 2009 and amended to December 2018)
- (h) *ASA 540 Auditing Accounting Estimates and Related Disclosures* (Issued December 2018)
- (i) *ASA 600 Special Considerations-Audits of a Group Financial Report*  
(Issued October 2009 and amended to December 2015)
- (j) *ASA 610 Using the Work of Internal Auditors* (Issued November 2013)
- (k) *ASA 620 Using the Work of an Auditor's Expert* (Issued October 2009)
- (l) *ASA 700 Forming an Opinion and Reporting on a Financial Report*  
(Issued December 2015 and amended to December 2018)
- (m) *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report*  
(Issued December 2015 and amended to December 2018)
- (n) *ASA 720 The Auditor's Responsibilities Relating to Other Information*  
(Issued December 2015)

### Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

### Amendments to Auditing Standards

#### Amendments to ASA 200

7. Existing paragraph 14 is amended to read as follows:  
  
The auditor shall comply with relevant ethical requirements, including those ~~pertain~~ing ~~related~~ to independence, relating to a financial report audit engagement. (Ref: Para. A16–A19)
8. Existing paragraph A19 is amended (including the insertion of a footnote \*) to read as follows:  
  
~~ASQC 1<sup>9</sup> deals with the firm's responsibilities to establish design, implement and maintain its operate a system of quality control for audit engagements.<sup>10</sup> ASQC 1 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, ASQM 1 requires the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those ~~pertain~~ing ~~related~~ to independence.<sup>11</sup> ASA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence.<sup>\*</sup> ~~These include remaining alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.~~<sup>12</sup> ASA 220 recognises that the engagement~~

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**Amendments to Australian Auditing Standards**

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~~team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.~~

Footnote \* See ASA 220, paragraphs 14–19.

9. Footnotes 9, 10, 11 and 12 in existing paragraph A19 are amended to read as follows:

Footnote 9 See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements.*

Footnote 10 See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 23.

Footnote 11 See ASQCM 1, paragraphs 20–2532–33

Footnote 12 ~~See ASA 220, paragraphs 9–12.~~

10. Footnote 15 in existing paragraph A27 is amended to read as follows:

Footnote 15 See ASA 220, paragraph 1832.

11. Existing paragraph A30 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit<sup>17</sup>) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

12. Existing paragraph A64 has not been amended in-line with the international conforming amendments as the related text has not been carried forward into ASA 200, when issued in Australia.

### **Amendments to ASA 210**

13. Existing footnote 1 in existing paragraph 1 is amended to read as follows:

Footnote 1 See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information.*

14. Existing paragraph A1 is amended to read as follows:

ASQM 1 deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.<sup>7</sup> The auditor's responsibilities in respect of



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relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far as they are within the control of the auditor are dealt with in ASA 220.<sup>8</sup> This Auditing Standard deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

15. Footnote 8 in existing paragraph A1 is amended to read as follows:

Footnote 8 See ASA 220, paragraphs ~~9–14~~14–19.

**Amendments to ASA 230**

16. Existing paragraph 3 is amended (including the insertion of a footnote \*) to read as follows:

Audit documentation serves a number of additional purposes, including the following:

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ASA 220.<sup>2</sup>
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of engagement quality control reviews,<sup>\*</sup> other engagement reviews and monitoring activities under the firm's system of quality management inspections in accordance with ASQC 1.<sup>3,4</sup>
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Footnote \* See ASQM 2 Engagement Quality Reviews

17. Footnotes 2, 3 and 4 in existing paragraph 3 are amended as follows:

Footnote 2 See ASA 220 ~~Quality Control~~Management for an Audit of a Financial Report and Other Historical Information, paragraphs ~~15–17~~27–31.

Footnote 3 See ~~ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements~~, paragraphs ~~32–33, 35–38 and 48~~.

Footnote 4 ~~{Deleted by the AUASB.}~~

18. Existing paragraph A7 is amended to read as follows:

Audit documentation provides evidence that the audit complies with the Australian Auditing Standards. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- ...
- ...
- ...

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- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
    - ◆ ...
    - ◆ Similarly, that the engagement partner has taken responsibility for the nature, timing and extent of direction, and supervision and performance of the audit in compliance with engagement team and the review of work performed Australian Auditing Standards may be evidenced in a number of ways within the audit documentation. This may include documentation of that evidences the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in the engagement team discussions required by ASA 315.<sup>5</sup>
19. Footnote 5 in existing paragraph A7 is amended to read as follows:
- Footnote 5 ~~See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 10.~~
20. Existing paragraph A13 is amended to read as follows:
- ASA 220 ~~contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.<sup>8</sup> The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.
21. Footnote 8 in existing paragraph A13 is amended to read as follows:
- Footnote 8 See ASA 220, paragraphs ~~17~~28–29.
22. Existing paragraph A20 is amended to read as follows:
- Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial report to be amended or the auditor to modify the opinion in the auditor's report.<sup>12</sup> The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ASA 220;<sup>13</sup> ~~with the engagement partner taking final responsibility for the changes.~~
23. Footnote 13 in existing paragraph A20 is amended to read as follows:
- Footnote 13 See ASA 220, paragraph ~~16~~27.
24. Existing paragraph A21 is amended to read as follows:
- ASQC 1 requires firms to establish policies ~~and or~~ procedures that require the engagement files to be assembled within an appropriate period of time after the engagement reports have been finalised for the timely completion of the assembly of audit files.<sup>14</sup> An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.<sup>15</sup>
25. Footnotes 14 and 15 in existing paragraph A21 are amended to read as follows:
- Footnote 14 See ASQCM 1, paragraph ~~45~~37(f)(i).
- Footnote 15 See ASQCM 1, paragraph ~~A54~~A110.
26. Existing paragraph A23 are amended to read as follows:

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ASQCM 1 requires firms to establish policies ~~and~~ or procedures ~~for the retention of engagement documentation that require the engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards.~~<sup>16</sup> The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report on the group financial report, when applicable.<sup>17</sup>

27. Footnotes 16 and 17 in existing paragraph A23 are amended to read as follows:

Footnote 16 See ASQCM 1, paragraph ~~4737(f)(ii)~~.

Footnote 17 See ASQCM 1, paragraph ~~A64A111~~.

28. Existing paragraph A24 is amended to read as follows:

An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities or external parties inspections.~~\*

29. Footnote \* in existing paragraph A24 is deleted.

*Amendments to ASA 230 Appendix 1*

30. The second point is amended to read as follows:

- *ASA 220 ~~Quality Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information* – paragraphs ~~24-2538~~

**Amendments to ASA 250**

31. Existing paragraph A25 is amended to read as follows:

In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial report. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph ~~A9A49~~ of ASA 220<sup>14</sup> indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

32. Footnote 14 in existing paragraph A25 is deleted.

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**Amendments to ASA 260**

33. Existing paragraph A28 is amended to read as follows:

To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with ASA 220.<sup>23</sup>

34. Footnote 23 in existing paragraph A28 is deleted.

*Amendments to ASA 260 Appendix 1*

35. The heading *Specific Requirements in ASQC 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance* is amended to read as follows:

*Specific Requirements in ASQCM 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance*

36. The existing first paragraph of Appendix 1 is amended to read as follows:

This appendix identifies paragraphs in ASQCM 1<sup>28</sup> and other Australian Auditing Standards that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards

37. Footnote 28 in Appendix 1 is amended to read as follows:

Footnote 28 See ASQCM 1 *Quality Control Management for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, and Other Assurance and Related Services Engagements*.

38. The first point of the appendix is amended to read as follows:

- ASQCM 1 *Quality Control Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance and Related Services Engagements* - paragraph 30(a)41(c)

**Amendments to ASA 300**

39. The heading *The Role and Timing of Planning* is deleted.

40. Existing paragraph 2 is amended (including the insertion of a footnote \*) to read as follows:

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate Quality management at the engagement level in accordance with ASA 220\*, in conjunction with adequate planning in accordance with this ASA, benefits the audit of a financial report in several ways, including the following:

(Ref: Para. A1-A3)

- ...
- ...
- ...

Footnote \* See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

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41. Existing paragraph 6 is amended to read as follows:

The auditor shall undertake the following activities at the beginning of the current audit engagement:

- (a) Performing procedures required by ASA 220 regarding the acceptance and continuance of the client relationship and the specific audit engagement;<sup>1</sup>
- (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ASA 220;<sup>2</sup> and
- (c) Establishing an understanding of the terms of the engagement, as required by ASA 210.<sup>3</sup> (Ref: Para. A5-A7)

42. Footnote 1 and 2 of existing paragraph 6 are amended to read as follows:

Footnote 1 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~12-13~~20-22.

Footnote 2 See ASA 220, paragraphs ~~9-11~~14-19.

43. Existing paragraph 8 is amended to read as follows:

In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ASA 220 and:

- (a) ...
- (b) ...
- (c) ...
- (d) ...
- (e) ...

44. Existing paragraph 11 is amended to read as follows:

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work as required by ASA 220.  
 (Ref: Para. ~~A15-A17~~A16)

45. Existing paragraph 13 is amended to read as follows:

The auditor shall undertake the following activities prior to starting an initial audit:

- (a) Performing procedures required by ASA 220 regarding the acceptance of ~~the~~ client relationships and ~~the specific~~ audit engagements;<sup>7</sup> and
- (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)

46. Footnote 7 in existing paragraph 13 is amended to read as follows.

Footnote 7 See ASA 220, paragraphs ~~12-13~~20-22.

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47. The following paragraph is inserted before existing paragraph A1:

ASA 220 establishes requirements and provides guidance on the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ASA 220 is relevant to this ASA. For example, in accordance with ASA 220, the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, given the nature and circumstances of the audit engagement. Such a determination is directly relevant when describing the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ASA.

48. Existing paragraph A1 is amended (including the insertion of a footnote \*) to read as follows:

The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ASA 220\* describes how such techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the engagement.

Footnote \* See ASA 220, paragraphs A63–A64.

49. Existing paragraph A3 is amended to read as follows:

The auditor may decide to discuss elements of planning with the entity's management, or those charged with governance, ~~to facilitate the conduct and management of the audit engagement~~ inform quality management at the engagement level (for example, to co-ordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management, or those charged with governance, may compromise the effectiveness of the audit by making the audit procedures too predictable.

50. Existing paragraph A5 is amended to read as follows:

Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~ manage quality at the engagement level in accordance with ASA 220.

51. Existing paragraph A6 is amended to read as follows:

Performing ~~these~~ preliminary engagement activities enables the auditor to plan an audit engagement ~~for which in order to~~, for example:

- ~~The auditor maintains~~ Maintain the necessary independence and ability to perform the engagement.
- ~~There-Determine that there~~ are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- ~~There-Determine that there~~ is no misunderstanding with the client as to the terms of the engagement.

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52. Existing paragraph A7 is amended to read as follows:

~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, \* occurs throughout the audit engagement as conditions and changes in circumstances occur. Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.~~

53. Footnote \* in existing paragraph A7 is deleted.

54. Existing paragraph A8 is amended to read as follows:

~~The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, may include such matters as:~~

- ~~The nature of resources (human, technological or intellectual) to deploy be deployed for specific audit areas, such as. For example, the use deployment of appropriately experienced team members for high risk areas, or the involvement assignment of experts on to address complex matters;~~
- ~~The amount of resources to be allocated to specific audit areas, such as. For example, the number of team members assigned to observe attend the physical inventory count at material multiple locations; the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;~~
- ~~When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and~~
- ~~How such resources are managed, directed and, supervised, such as or used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.~~

55. The following paragraph is inserted before existing paragraph A9:

ASA 220 contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of the work performed).

56. Existing paragraph A16 is amended (including a new footnote \*) to read as follows:

ASA 220\* establishes requirements and provides guidance on the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~

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- ~~The capabilities and competence of the individual team members performing the audit work.~~

ASA 220 contains further guidance on the direction, supervision and review of audit work.<sup>10</sup>

Footnote \* See ASA 220, paragraphs 27–29.

57. Footnote 10 in existing paragraph A16 is deleted.

Footnote 10 ~~See ASA 220, paragraphs 15–17.~~

58. The heading *Considerations Specific to Smaller Entities* is deleted.

59. Existing paragraph A17 is deleted.

60. Existing paragraph A18 is amended to read as follows:

The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit and in managing quality at the engagement level and a~~ means to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

61. Existing paragraph A22 is amended to read as follows:

The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- ...
- ...
- ...
- ~~Other procedures required~~ response designed and implemented by the firm's system of quality control ~~firm~~ for initial audit engagements (~~for example e.g., the firm's system of quality control~~ management may include responses that require the involvement of another partner or senior individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

*Amendments to ASA 300 Appendix 1*

62. The existing first paragraph is amended to read as follows:

This appendix provides examples of matters the auditor may consider ~~in establishing the overall audit strategy~~ managing quality at the engagement level. Many of these matters will ~~also~~ influence the auditor's ~~overall audit strategy and~~ detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other Auditing Standards, not all matters are relevant to every audit engagement and the list is not necessarily complete.

63. The first point after the heading *Nature, Timing and Extent of Resources* is amended to read as follows:



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- The selection human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).

**Amendments to ASA 500**

64. Existing paragraph A5 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit)<sup>9</sup> ~~or a firm's quality control procedures for client acceptance and continuance~~ through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

65. Existing paragraph A30 is amended to read as follows:

As noted in paragraph A5, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, ~~in certain circumstances, a firm's quality control procedures for client acceptance and continuance and~~ through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

**Amendments to ASA 540**

66. Footnote 39 to existing paragraph A61 is amended as follows:

Footnote 39 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs 1423–24 and ASA 300 *Planning an Audit of a Financial Report*, paragraph 8(e).

**Amendments to ASA 600**

67. Existing paragraph 4 is amended to read as follows:

In accordance with ASA 220,<sup>1</sup> the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

68. Footnote 1 in existing paragraph 4 is amended to read as follows:

Footnote 1 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report*, paragraphs 14 and 15.

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**Amendments to ASA 610**

69. The amendment proposed to paragraph 34 of ISA 610 has not been included as there is no equivalent paragraph in ASA 610 *Using the Work of Internal Auditors*. Paragraphs 26-35 of ASA 610 have been deleted as they relate to direct assistance, which is not permitted in Australia.
70. Existing paragraph A11 is amended to read as follows:
- Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:
- ...
  - Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as those~~ policies and procedures in ASQC 1<sup>46</sup> that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.
71. Footnote 16 in existing paragraph A11 is deleted.
- Footnote 16 ~~*Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (as amended)*~~.

**Amendments to ASA 620**

72. Footnotes 1 and 2 of existing paragraph 2 are amended to read as follows:
- Footnote 1 ~~See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs A10, A20, A22, A56.~~
- Footnote 2 ~~See ASA 500 *Audit Evidence*, paragraphs A34, A48, A45, A59.~~
73. Existing paragraph 8 is amended to read as follows:
- The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
- (a) The nature of the matter to which that expert's work relates;
  - (b) The risks of material misstatement in the matter to which that expert's work relates;
  - (c) The significance of that expert's work in the context of the audit;
  - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
  - (e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11-A13)

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74. Existing paragraph A6 is amended to read as follows:

If the preparation of the financial report involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit that financial report. The engagement partner is required to be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.<sup>5</sup> Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.<sup>6</sup> The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

75. Footnote 5 in existing paragraph A6 is amended to read as follows:

Footnote 5 See ASA 220, paragraph ~~14~~24.

76. Existing paragraph A10 is amended to read as follows:

The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- ...
- ...
- ...
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

77. The heading *The Auditor's Firm's Quality Control Policies and Procedures (Ref: Para. 8(e))* is amended to read as follows:

*The Auditor's Firm's System of Quality Control Policies and Procedures Management*  
 (Ref: Para. 8(e))

78. Existing paragraph A11 is amended to read as follows:

An auditor's internal expert may be a partner or staff, including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with ASQCM 1.<sup>9,10</sup> ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, which may share common quality control management policies ~~and~~ or procedures with the auditor's firm.

79. Footnotes 9 and 10 in existing paragraph A11 are amended to read as follows:

Footnote 9 See ASQCM 1 Quality Control Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements, paragraph ~~12~~19(f).

Footnote 10 See ASA 220, paragraphs ~~23~~ and A1.

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80. Existing paragraph A12 is amended (including the insertion of footnotes \* and ^) to read as follows:

An auditor's external expert is not a member of the engagement team and is not subject to ~~quality control policies and procedures in accordance with ASQC 1.~~<sup>11</sup> ~~In some jurisdictions, however, the firm's system of quality management in accordance with ISQM 1.~~\* However, ISQM 1 includes requirements for the firm when the firm intends to obtain or use resources provided by a service provider in performing engagements, which includes the use of an external expert.<sup>^</sup> Relevant ethical requirements or law or regulation may require that an auditor's external expert be treated as a member of the engagement team, and the external expert may therefore be subject to relevant ethical requirements, including those ~~pertaining~~ related to independence, and other professional requirements, as determined by ~~that the~~ relevant ethical requirements or law or regulation.

Footnote \* See ASQM 1, paragraph 19(f).

Footnote ^ See ASQM 1, paragraphs 64–65.

81. Footnote 11 in existing paragraph A12 is deleted.

Footnote 11 ~~See ASQC 1, paragraph 12(f).~~

82. Existing paragraph A13 is amended (including the insertion of footnote \*) to read as follows:

~~Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.~~<sup>12</sup> ~~The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as~~ As described in ASA 220 (Revised),\* quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. The auditor may be able to depend on the firm's related policies or procedures in respect of:

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those ~~pertaining~~ relating to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training and other firm ~~processes, such as protocols for scoping the work of auditor's internal experts,~~ may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

Such reliance Matters that the auditor may take into account when determining whether, and if so, the degree to which, the auditor may depend on the firm's policies or procedures are described in ASA 220. Dependence on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this Auditing Standard.

Footnote \* See ASA 220, paragraph A5.

83. Footnote 12 in existing A13 is deleted.

Footnote 12 ~~See ASA 220, paragraph 4.~~

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84. Existing paragraph A15 is amended to read as follows:

Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- ...
- ...
- ...
- The auditor's firm's system of quality control policies and procedures management (see paragraphs A11-A13).

85. Existing paragraph A18 is amended to read as follows:

A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may eliminate or reduce such threats, and may be created by external structures (~~for example e.g.,~~ the auditor's expert's profession, legislation or regulation), or by the auditor's expert's work environment (~~for example, quality control e.g.,~~ the firm's policies ~~and or procedures or the external expert's organisation's policies or~~ procedures). There may also be safeguards specific to the audit engagement.

86. Existing paragraph A26 is amended to read as follows:

When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies ~~and or~~ procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures requirements~~ to which that expert is subject under the firm's system of quality management may include, ~~for example,~~ particular policies ~~and or~~ procedures in relation to that expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies ~~and or~~ procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

**Amendments to ASA 700**

87. Existing paragraph A61 is amended (including the insertion of footnote \*) to read as follows:

~~{Deleted by the AUASB. Refer A61.1}~~

The objective of the firm in ASQM 1\* is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of ASQM 1, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

**Proposed Auditing Standard ASA 2019-X**  
***Amendments to Australian Auditing Standards***

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Footnote \* See ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, paragraph 18.

88. Existing paragraph Aus A61.1, including footnote 36, is deleted.

**Amendments to ASA 701**

89. Existing paragraph A15 is amended to read as follows:

Various Australian Auditing Standards require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ... :
  - ◆ ...
  - ◆ ...
- ASA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on matters where the firm's policies or procedures require consultation, difficult or contentious matters<sup>21</sup> and other matters that in the engagement partner's professional judgment, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality ~~control~~ reviewer.<sup>22</sup>

90. Footnotes 21 and 22 in existing paragraph A15 are amended to read as follows:

Footnote 21 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph ~~18~~32.

Footnote 22 See ASA 220, paragraph ~~19~~33.

91. Existing paragraph A63 is amended to read as follows:

The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality ~~control~~-reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

**Proposed Auditing Standard ASA 2019-X**  
***Amendments to Australian Auditing Standards***

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**Amendments to ASA 720**

92. Existing paragraph A24 is amended to read as follows:

In accordance with ASA 220,<sup>10</sup> the engagement partner is required to take responsibility for the ~~direction, supervision and performance of the audit engagement~~ nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and be satisfied that such direction, supervision and review is in compliance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements. In the context of this Auditing Standard, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- ...
- ...
- ...

93. Footnote 10 in existing paragraph A24 is amended to read as follows.

Footnote 10 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph ~~15~~27(a).



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**        **5.**

**Meeting date:**            6 March 2019

**Subject:**                    ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*

**Date prepared:**            26 February 2019

**Prepared by:**              Anne Waters – AUASB Senior Project Manager

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

1. For the AUASB to consider the matters detailed in this paper and subject to these approve ED 05/19 ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 05/19).

## Background

2. Previously the AUASB have discussed that there were inconsistencies between ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ASRE 2410) and the Auditor Reporting enhancements. However an update to ISRE 2410 was not on the IAASB's current work agenda. NZAuASB also considered an update to ISRE 2410 was required.
3. At its meeting on 12 September 2018 the AUASB agreed we would work with NZAuASB to update ISRE (NZ) 2410 and ASRE 2410 with consistent principles.
4. Importantly it was agreed the scope of this update is limited to Auditor Reporting and NOCLAR conforming amendments.
5. At its meeting on 5 December 2018 the AUASB discussed the ASRE 2410 *Matters for the AUASB's Consideration* paper and agreed with the ATG recommendations. ED 05/19 has been drafted based on this.

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*



## **Matters to Consider**

### ***Part A – Matters for the AUASB attention***

#### *Compliance frameworks*

6. Extant ASRE 2410 is for reviews of a financial report prepared in accordance with an applicable financial reporting framework designed to achieve fair presentation. Extant ASRE 2410 does not consider compliance frameworks. Note that whilst ASRE 2410 doesn't include compliance frameworks they are not excluded from its scope. NZ SRE 2410 explicitly includes compliance frameworks.
7. By far the majority of engagements performed under ASRE 2410 are reviews of half year financial report of listed entities, which are prepared in accordance with a fair presentation framework. Reviews of financial reports prepared in accordance with a compliance framework are not common, but do occur. An example is a review of a financial report prepared under a sale contract which prescribes a specific accounting treatment.
8. ASRE 2405<sup>1</sup> is used for reviews of other historical financial information which are often extracts from a financial report prepared under a compliance framework. Therefore in practice auditors can use the compliance opinion in ASRE 2405. New Zealand does not have an equivalent to ASRE 2405.
9. The ATG's view is that it is not necessary to explicitly include compliance frameworks in the scope of ASRE 2410 and recommend this is not included in ED 05/19 as:
  - (a) reviews of financial reports prepared in accordance with a compliance framework are not very common, and ASRE 2405 provides guidance and the wording of the review opinion to assist auditors;
  - (b) we are not aware of this being raised as an issue by stakeholders in the past.

#### **Question for the AUASB**

Do you agree with the ATG's recommendation in paragraph 9?

#### *Quality control procedures*

10. ASRE 2410 paragraph 8 and 9 requires auditors to “comply with relevant ethical requirements relating to the audit of the entity” and to “implement quality control procedures that are applicable to the individual engagement”. Application paragraph A6 says ASQC 1<sup>2</sup> and ASA 220<sup>3</sup> include guidance that may be helpful.
11. Extant NZ SRE 2410 also requires compliance with ISA 220. This is an existing difference between ASRE 2410 and NZ SRE 2410.
12. The ATG's view is that whilst ASA 220 is written for an audit, the principles are relevant for a review engagement. However existing requirements in extant ASRE 2410 are sufficient to ensure auditors are adopting an appropriate level of quality control procedures and the ATG's recommendation is that it is not necessary to have a specific requirement to apply ASA 220.

<sup>1</sup> ASRE 2410 *Review of Historical Financial Information Other than a Financial Report*

<sup>2</sup> ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

<sup>3</sup> ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

### Question for the AUASB

Do you agree with the ATG's recommendation in paragraph 11?

#### *Other information*

13. The AUASB previously agreed not to require an Other Information section in the auditor's review report and ED 05/19 has been drafted on that basis. However the ATG have been considering how to provide guidance if there is an uncorrected error in the other information.
14. Extant ASRE 2410 A36 provides guidance that if there is a material error in the other information the auditor may consider an Other Matter Paragraph (OMP) and refers to ASA 706<sup>4</sup> and ASA 720<sup>5</sup> for guidance. ED 05/19 has removed the reference to ASA 720 in this paragraph as under ASA 720 this would be reported in the other information paragraph. ED 05/19 retains the guidance to report as an OMP. Refer to question in 15b.
15. A question on whether stakeholders agree with excluding the reporting of other information in the review report is included in ED 05/19.

### Questions for the AUASB

- a. The ATG considered whether a definition of other information should be included in ED 05/19. However have concluded that paragraph 25 (ie. read the other information that accompanies the financial report") is sufficient.

Does the AUASB agree that no further definition is required?

- b. The ATG considered whether for consistency with the auditor's report if there is an uncorrected material error in the other information it is appropriate to report as an Other Information paragraph. Or leave the existing guidance to use OMP? Either options would be guidance and auditors can elect to report as they see appropriate.

Does the AUASB agree to leave the application material guidance to report as an OMP?

#### *NOCLAR*

16. ASRE 2400 was updated in 2016 for conforming amendments as a result of the NOCLAR amendments to the ASAs. The IAASB did not make any conforming amendments to ISRE 2410 as a result of the NOCLAR.
17. Extant ASRE 2410 has fewer requirements related to laws and regulations than ASRE 2400. For example, ASRE 2400 includes more detailed requirements around making enquiries related to NOCLAR.
18. ED 05/19 paragraph 30 has been updated based on the IAASB's conforming amendments to requirements ISRE /ASRE 2400. There were no other conforming amendments to the requirements in ASRE 2400.
19. The changes made to the application material in ASRE 2400 have been considered however these are all included in ASA 250. The ATG consider it is appropriate that ASRE 2400 has more detailed requirements than ASRE 2410 and for ASRE 2410 to refer the auditor to ASA 250 if during the conduct of the review any issues are identified. Based on this ED 05/19 has been updated to have include a reference in paragraph A20 (d) (xv) to refer to ASA 250 for guidance.

<sup>4</sup> ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>5</sup> ASA 720 *The Auditor's Responsibilities Relating to Other Information*

Question for the AUASB

Do you agree with the approach detailed above for NOCLAR amendments?

*Review report*

20. ED 05/19 paragraphs 32 to 38 have been updated to include the detailed requirements in relation to the ordering and wording in the review report.
21. ASA 700 requires the independence statements to be included in the Basis for Conclusion section of the auditor's report and requires the inclusion of the ethical requirements as well. ED 05/19 has been drafted consistent with this. This is different to the illustrations in extant 2410 which have a separate section with the heading "Independence" and is different to existing practice. Refer to the illustrative auditor review reports Basis for Conclusion section.

Question for the AUASB

Do you agree with the wording in the Basis for Conclusion section of the review report?

*Modified review opinions*

22. ED 05/19 paragraphs 39 – 47 have been updated to comply with ASA 706.

*Going concern*

23. ED 05/19 paragraph 48 has been updated to change the requirement from an emphasis of matter to a Material Uncertainty Related to Going Concern.
24. ED 05/19 paragraph 50 has been amended and now relates to any other matters which may require an emphasis of matter.

*Operative date*

25. The operative date included in ED 05/19 is for financial reporting periods commencing on or after 1 July 2019, with early adoption permitted. This will require the new review report format to be used for interim reporting at December 2019 as the half year is a distinct reporting period. Whilst the changes are not onerous auditors will need to update their review report templates.

Question for the AUASB

Do you agree with the proposed effective date and it allows sufficient time for the auditors to update their templates?

*Timing and outreach*

26. If ED 05/19 is approved for issue by the AUASB at this meeting, the ATG propose that it is issued by 22 March 2019 for a 60 day comment period. This will allow the final standard to be considered for approval by the AUASB at its meeting on 12 June 2019 and released shortly after. ED 05/19 will be included in the Quality Management roundtables.

**Part B – NZAuASB**

27. This project is being conducted in conjunction with the NZAuASB with the objective of issuing standards with consistent principles. The NZAuASB approved (subject to the AUASB's considerations of ED 05/19) their ED at its recent February 2019 meeting. The proposed changes to NZ SRE 2410 are the same as we are proposing in ED 05/19.

**Part C – “Compelling Reasons” Assessment**

28. N/A

**Actions for the AUASB**

29. Consider the questions detailed above.
30. Review the draft ED05/19 Explanatory Memorandum. Specifically are there any other questions to be included for our stakeholders?
31. Review ED 05/19 ASRE2410. Track changes and clean versions have been provided. The ATG suggest the AUASB review:
- (a) The track changes version (Agenda item 5.1.2\_ED05/19\_ASRE2410\_trackchanges) for the requirements and application material as the changes are not extensive, and this also includes comments which explain the changes.
  - (b) The clean version (Agenda item 5.1.3\_ED05/19\_ASRE2410\_cleanversion) for the illustrative audit reports as the re-ordering makes the track changes difficult to follow.
32. Based on the above do you approve ED 05/19 ASRE 2410 for issue?

**Material Presented**

Agenda item 5.1.0\_BMSP\_ED05/19\_ASRE2410

Agenda item 5.1.1\_ED05/19\_ExplanatoryMemorandum

Agenda item 5.1.2\_ED05/19\_ASRE2410\_trackchanges

Agenda item 5.1.3\_ED05/19\_ASRE2410\_cleanversion



Agenda Item 5  
AUASB Meeting 106

March 2019

## **Explanatory Memorandum**

### ***Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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



## Obtaining a Copy of this Explanatory Memorandum

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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*Important Note and Disclaimer*

This Explanatory Memorandum is issued by the AUASB to provide information to assurance practitioners about the AUASB's amendments to ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*.

This Explanatory Memorandum does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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**EXPLANATORY MEMORANDUM**

**Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity***

**Purpose**

1. The AUASB is seeking feedback from stakeholders on proposed amendments to ASRE 2410 which are detailed in Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 05/19).
2. The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 05/19, and the Auditing and Assurance Standards Board's (AUASB) approach to implementing this standard in Australia.

**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

### **Exposure Draft Questions**

3. Comments are invited on this Exposure Draft of the proposed re-issuance of ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* by no later than 20 May 2019. The AUASB is seeking comments from respondents on the following questions:
  1. Do you agree with the proposals to incorporate the reporting requirements made to the annual report consistently into the interim review report?
  2. Do you agree with the scoping of these proposals that they do not require the communication of key review matters, or an update on the status of key audit matters from the previous audit report, for review reports?
  3. Do you agree with the scoping of these proposals that they do not require the inclusion of an Other Information section in the interim review report?
  4. Do you agree with requiring the auditor's responsibilities section to be included in the review report, and not providing an option to include parts of this on the AUASB website?
  5. Do you agree with the proposed amendments to incorporate conforming amendments as a result of NOCLAR?
  6. Do you consider that there are any further amendments required to be made to ASRE 2410?
  7. Do you agree with the proposed effective date? If not, please explain why not.
  8. Have applicable laws and regulations been appropriately addressed in the proposed standard?
  9. Are there any references to relevant laws or regulations that have been omitted?
  10. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
  11. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
  12. Are there any other significant public interest matters that constituents wish to raise?

### **Background**

4. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian constituents into account when developing Australian Auditing Standards.
5. International Standard on Review Engagements 2410 (ISRE 2410) has not been updated since 2006 and is not in clarity format. An update to ISRE 2410 is not on the IAASB's current work program.
6. The AUASB re-issued ASRE 2410 in 2009 in clarity format, and made further conforming amendments in June 2011 and July 2013.
7. From December 2016 the auditor's report was changed as a result of the AUASB's project to enhance the auditor's report to communicate more about the audit that was performed.

**Explanatory Memorandum Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity**

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8. We have received questions from stakeholders as to whether the new auditor reporting requirements impact the format and content of the review report in accordance with ASRE 2410.
9. Currently, whilst ASRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format when issuing a review report provided any reporting is not inconsistent with ASRE 2410. The AUASB issued a bulletin [Auditor review reports – the impact of the new auditor reporting requirements](#) to provide guidance on this matter.
10. The AUASB have discussed that currently there is inconsistency in review reports being issued by Australian auditors, as some are in the old format contained in ASRE 2410 and others have been changed based on the guidance in the AUASB’s bulletin.
11. Similar questions have been asked by New Zealand stakeholders and the NZAuASB agreed that it would be preferable to promote consistency in practice and it is appropriate to develop an exposure draft to incorporate the changes to the review standard as a result of the enhanced auditor’s report.
12. Consistent with the AUASB’s principle of convergence with New Zealand, the AUASB agreed to develop an ED in Australia concurrently with the NZAuASB.
13. In addition, it was agreed it was appropriate to include conforming amendments as a result of the IAASB’s project regarding non-compliance with laws and regulation (NOCLAR).

### **Conformity with IAASB’s auditing standards**

14. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council’s (FRC) Strategic Direction, the AUASB’s policy is to adopt the IAASB’s auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so. The AUASB’s principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB’s website:  
  
[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)
15. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB’s policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
16. Extant Australian ASRE 2410 has been revised and updated several times since equivalent ISRS 2410. Extant ASRE 2410 conforms with International Standard on Review Engagements ISRE 2410. The amendments contained in ED 05/19 are mainly to the reporting requirements do not substantially change the work performed by auditors when conducting a review of a financial report. ED 05/19 conforms with ISRE 2410.

### **Key proposals contained in ED 05/19**

17. The key proposals contained in ED 05/19 are to:
  - (a) align the review report to the enhanced auditor’s report ie. alignment with ASA 700 *Forming an Opinion and Reporting on the Financial Report*; and
  - (b) conforming amendments as a result of recent changes to ASA 250 *Considerations of Laws and Regulations in the Audit of a Financial Report*.
18. The proposed changes are:

**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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- a) Reorder the review report so that the conclusion comes first, followed by a basis for conclusion. This is for consistency with the auditor's report;
  - b) A description of the respective responsibilities of those charged with governance and the auditor in relation to going concern required to be included in the review report;
  - c) The statement about the auditor's independence is required to include the fulfilment of relevant ethical requirements.
  - d) Referring to material uncertainty related to going concern under the heading "Material Uncertainty Related to Going Concern" instead of an emphasis of matter as currently required in extant ASRE 2410.
19. The auditor's report now includes enhanced disclosure about preparers and auditor's responsibilities in relation to going concern. The requirement when making an assessment of the ability of an entity to continue as a going concern also apply when preparing interim financial statements. Similarly, the auditor is required by extant ASRE 2410 to make enquiries as to whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. The AUASB consider it appropriate to highlight those responsibilities in the review report.
  20. Changes to ASA 570 require a new heading "Material Uncertainty Related to Going Concern" to be used when the auditor concludes that a material uncertainty in relation to going concern exists and adequate disclosures have been made in the financial report. Extant ASRE 2410 is not consistent with this and requires this to be called an Emphasis of Matter. This is potentially confusing to users.
  21. The AUASB is not proposing to require the following reporting in the auditor's review report:
    - Key audit matters required by ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*;
    - An Other Information section required by ASA 720 *The Auditor's Responsibility Relating to Other Information*.
  22. The reporting of key audit matters in a review report is not considered appropriate in the context of the work that is required to be performed in a review engagement.
  23. Extant ASRE 2410 already includes requirements in relation to the auditor's responsibility for Other Information, however does not require this to be communicated in the review opinion. The AUASB is seeking stakeholder feedback on whether there should be a requirement to describe this responsibility and the status of the auditor's consideration in relation the Other Information.
  24. The conforming amendments as a result of the recent changes to ASA 250 are consistent with those made to ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity* in May 2017.

### **Other Outreach Activities**

25. In addition to the public exposure process, during April and May 2019, the AUASB will conduct targeted outreach and a webinars.

### **Application**

26. The effective date of the standard would be for financial reporting periods commencing on or after 1 July 2019, with early adoption permitted.

**Explanatory Memorandum *Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity***

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### **General information**

27. ED 05/19 has been provided in a final “clean” with a link to a track changes version to assist stakeholders in identifying the amendments.
28. ED 05/19 will be open to constituents for a **60 day comment period** closing on 20 May 2019.
29. At the completion of the exposure period, the AUASB will consider constituents’ submissions

### **Website Resources**

30. The AUASB welcomes constituents’ input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Constituents are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

\* \*

EXPOSURE DRAFT

ED 2019-1  
(March 2019)

Formatted: Different first page header

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***  
***~~Review of a Financial Report Performed by the Independent Auditor of the Entity~~***

Issued for Comment by the Auditing and Assurance Standards Board



Australian Government  
Auditing and Assurance Standards Board

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## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than . Comments should be addressed to:

The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

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## PREFACE

### Reasons for Issuing ED 2019-1

The AUASB issues exposure draft ED 2019-1 of proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

### Main Proposals

This proposed Auditing Standard on Review Engagements represents the Australian equivalent of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and will replace the current ASRE 2410 issued by the AUASB in July 2013.

The *Explanatory Memorandum: Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity* provides an overview of the proposed amendments.

### Proposed Operative Date

It is intended that this proposed Auditing Standard on Review Engagements will be operative for financial reporting periods commencing on or after 1 July 2019 with early adoption permitted.

### Main changes from existing ASRE 2410 *Auditing Standard on Review Engagements ASRE 2410 (July 2013)*

The main differences between this proposed Auditing Standard on Review Engagements and the Auditing Standard on Review Engagements that it supersedes, ASRE 2410 *Auditing Standard on Review Engagements ASRE 2410 (July 2013)*, are included in the *Explanatory Memorandum: Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity*. This ED is also available in a track changes version to assist stakeholders ([LINK](#)).

### Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* by no later than 20 May 2019. The AUASB is seeking comments from respondents on the following questions:

- 1 Do you agree with the proposals to incorporate the reporting requirements made to the annual report consistently into the interim review report?
- 2 Do you agree with the scoping of these proposals that they do not require the communication of key review matters, or an update on the status of key audit matters from the previous audit report, for review reports?

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
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- 3 Do you agree with the scoping of these proposals that they do not require the inclusion of an Other Information section in the interim review report?
- 4 Do agree with requiring the auditor's responsibilities section to be included in the review report, and not provide an option to include parts of this on the AUASB website?
- 5 Do you agree with the proposed amendments to incorporate conforming amendments as a result of NOCLAR?
- 6 Do you consider that there are any further amendments required to be made to ASRE 2410?
- 7 Do you agree with the proposed effective date? If not, please explain why not.
- 8 Have applicable laws and regulations been appropriately addressed in the proposed standard?
- 9 Are there any references to relevant laws or regulations that have been omitted?
- 10 Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 11 Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 12 What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where these costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
  - c. Whether expected costs outweigh the benefits to the users of audit services?
- 13 Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard on Review Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard on Review Engagements.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard on Review Engagements is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

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**Conformity with International Standards on Review Engagements**

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard on Review Engagements (and do not appear in the text of the equivalent ISRE) are identified with the prefix “Aus”.

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410.

## AUDITING STANDARD ON REVIEW ENGAGEMENTS ASRE 2410

### *Review of a Financial Report Performed by the Auditor of the Entity*

#### Application

1. This Auditing Standard on Review Engagements applies to:
  - (a) a review by the independent auditor of the entity, of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose.

#### Operative Date

2. This Auditing Standard on Review Engagements is operative for financial reporting periods commencing on or after ~~January 2010~~ July 2019.

#### Introduction

##### Scope of this Auditing Standard on Review Engagements

3. This Auditing Standard on Review Engagements (Auditing Standard) deals with the auditor's responsibilities when an auditor undertakes an engagement to review a financial report of an audit client, and on the form and content of the auditor's review report. The term "auditor" is used throughout this Auditing Standard, not because the auditor is performing an audit function but because the scope of this Auditing Standard is limited to a review of a financial report performed by the independent auditor of the financial report of the entity.

#### Objective

4. The objective of the auditor is to plan and perform the review to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report, or complete set of financial statements, is (are) not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A1-A3)

4.

#### Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) An interim financial report means a financial report that is prepared in accordance with an applicable financial reporting framework<sup>1</sup> for a period that is shorter than the entity's financial year.
  - (b) A financial report means a complete set of financial statements including the related notes and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report. For example, a

<sup>1</sup> See, for example, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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financial report, as defined under section 303 of the *Corporations Act 2001* consists of financial statements for the half-year, notes to the financial statements and the directors' declaration about the statements and notes.

- (c) An applicable financial reporting framework means a financial reporting framework that is designed to achieve fair presentation.

## Requirements

### Performing a Review

6. The auditor who is engaged to perform a review of a financial report shall perform the review in accordance with this Auditing Standard. (Ref: Para. A4)
7. Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement in this Auditing Standard, the auditor shall:
- if possible, perform appropriate alternative procedures; and
  - document in the working papers:
    - the circumstances surrounding the inability to comply;
    - the reasons for the inability to comply; and
    - justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report.

### General Principles of a Review of a Financial Report

8. The auditor shall comply with relevant ethical requirements relating to the audit of the annual financial report of the entity. (Ref: Para. A5)
9. The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)
10. The auditor shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial report to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A7)

### Agreeing the Terms of the Engagement (Ref: Para. A8, A55 and A57)

#### *Preconditions for a Review*

11. The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
- for the preparation and fair presentation of the financial report;
  - for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and

**Commented [WA1]:** Extant ASRE 2410 does not include compliance frameworks. Existing difference to ISRE (NZ) 2410. Refer to BMSP for more detail.

**Commented [WA2]:** An existing difference to NZ SRE 2410 requires compliance with ISA (NZ) 220. ASRE 2410 A 6 says 220 may be helpful. Refer to BMSP for more detail

**Commented [WA3R2]:**

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
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- (c) to provide the auditor with:
  - (i) access to information relevant to the preparation of the financial report;
  - (ii) additional information that the auditor may request for the purposes of the review engagement; and
  - (iii) unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.

*Agreement on Review Engagement Terms*

12. The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.

**Procedures for a Review of a Financial Report**

*Understanding the Entity and its Environment, Including its Internal Control*

13. The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports, sufficient to plan and conduct the engagement so as to be able to:
- (a) identify the types of potential material misstatements and consider the likelihood of their occurrence; and
  - (b) select the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A9-A12)
14. In order to plan and conduct a review of a financial report, a recently appointed auditor, who has not yet performed an audit of the annual financial report in accordance with Australian Auditing Standards, shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports. (Ref: Para. A13)

**Materiality** (Ref: Para. A14-A18)

15. The auditor shall consider materiality, using professional judgement, when:
- (a) determining the nature, timing and extent of review procedures; and
  - (b) evaluating the effect of misstatements.

**Enquiries, Analytical and Other Review Procedures**

16. The auditor shall make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A19-A23)
17. The auditor shall obtain evidence that the financial report agrees or reconciles with the underlying accounting records. (Ref: Para. A24)



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18. The auditor shall enquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A25)
19. The auditor shall enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
- (a) enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
  - (b) consider the adequacy of the disclosure about such matters in the financial report. (Ref: Para. A26)
20. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the review report. (Ref: Para. A27)

**Comparatives – First Financial Report** (Ref: Para. A28-A31)

21. When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report.

**Evaluation of Misstatements** (Ref: Para. A32-A34)

22. The auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the financial report.

**Written Representations**

23. The auditor shall endeavour to obtain written representations from management and, where appropriate, those charged with governance, that:
- (a) They acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
  - (b) The financial report is prepared and presented in accordance with the applicable financial reporting framework;
  - (c) They believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of such items is included in or attached to the written representations;
  - (d) They have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
  - (e) They have disclosed to the auditor the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (f) They have disclosed to the auditor all ~~known-identified or suspected~~ actual or possible non-compliance with laws and regulations, the effects of which are to be considered when preparing the financial report; and

**Commented [WA4]:** wording changed for consistency with ASA 250 (17)

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(g) They have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A35)

24. If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate.

**Auditor's Responsibility for ~~Accompanying Other Information~~**

25. The auditor shall read the other information that accompanies the financial report to consider whether ~~there is a material inconsistency any such information is materially inconsistent with~~ the financial report. (Ref: Para. A36)

26. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management, and where appropriate, those charged with governance. (Ref: Para. A37)

**Communication**

27. When, as a result of performing a review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall communicate this matter as soon as practicable to the appropriate level of management.

28. When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance. (Ref: Para. A38)

29. When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor shall consider:

- (a) whether to modify the review report; or
- (b) the possibility of withdrawing from the engagement; and
- (c) the possibility of resigning from the appointment to audit the annual financial report. (Ref: Para. Aus A36.1 and A58)

30. When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that ~~causes the auditor to believe in~~ indicates the existence of fraud or non-compliance ~~by the entity~~ with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:

- (a) ~~communicate the matter~~ matter unless prohibited by law or regulation, as soon as practicable to those charged with governance and shall consider the implications for the review. (Ref: Para. ~~A39~~)
- (b) request management's assessment of the effect (s) on the auditor's conclusion and the review report;
- (c) consider the effect on the auditor's conclusion and the review report; and
- (d) determine whether law, regulation or relevant ethical requirements:
  - (i) require the auditor to report to an appropriate authority outside the entity;

**Commented [WA5]:** Refer BMSP. Have not included a requirement for an OI paragraph or for the auditor to "compare" selected amounts ie. ASA 720 14(a)

**Commented [WA6]:** consistent language with 720

**Commented [WA7]:** Aligns with NOCLAR consequential amendments to ASRE 2400.

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- ~~(i)(ii)~~ establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

~~30-31.~~ The auditor shall communicate relevant matters of governance interest arising from the review of the financial report to those charged with governance. (Ref: Para. A40 and A59)

**Reporting the Nature, Extent and Results of the Review of a Financial Report**

~~31-32.~~ The auditor shall issue a written report that contains the following:

- (a) An appropriate title clearly identifying it as a review report of the independent auditor of the entity.
- (b) An addressee, as required by the circumstances of the engagement.

~~32-33.~~ The first section of the report shall include the auditor's conclusion, and shall have the heading "Conclusion". The Conclusion section of the report shall:

- (a) Identify ~~ication of the~~ entity whose financial report has been reviewed;
- (b) State that the financial report has been reviewed;
- (c) ~~I, including identify~~ication of the title of each of the statements contained in the financial report and the date and period covered by the financial report; and
- (d) Refer to the notes, including the summary of significant accounting policies;

~~(a)(e)~~ Include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report does not present fairly, or if applicable, is not true and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used).

~~(b)~~ A statement that those charged with governance are responsible for the preparation and fair presentation of the financial report in accordance with the applicable financial reporting framework.

~~34.~~ The report shall include a section directly following the Conclusion section, with the heading "Basis for Conclusion", that:

~~(e)~~ A statement that the auditor is responsible for expressing a conclusion on the financial report based on the review;

(a) A statement States that the review of the financial report was conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, and that that Auditing Standard requires the auditor to comply with ethical requirements relevant to the audit of the annual financial report.

(b) Refers to the section of the auditor's review report that describes the auditor's responsibilities.

~~(d)(c)~~ Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.

Commented [WA8]: added to ASRE 2410 as is in ASA 700.

Commented [WA9]: moved from below.

Commented [WA10]: moved to auditor's responsibilities section

Commented [WA11]: From ASA 700

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- (e) ~~A statement that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.~~
- (f) ~~A statement that a review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed.~~
- (g) ~~A conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report does not present fairly, or if applicable, is not true and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used).~~
35. ~~The report shall include a section with a heading "Responsibilities of Those Charged with Governance for the Financial Report". This section of the report shall describe the responsibilities of those charged with governance for:~~
- (a) ~~A statement that those charged with governance are responsible for the preparation and fair presentation of the financial report in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.~~
- (b) ~~Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.~~
36. ~~When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities of those charged with governance for the financial report in the auditor's report shall refer to "the preparation and fair presentation of this financial report" or "the preparation of the financial report that gives a true and fair view", as appropriate in the circumstances.~~
37. ~~The report shall include a section with a heading "Auditor's Responsibilities for the Review of the Financial Report". This section of the report shall:~~
- (a) ~~A statement~~State that the auditor is responsible for expressing a conclusion on the financial report based on the review.
- (h)(b) ~~A statement~~State that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
- (c) ~~A statement~~State that a review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed.
- (+)(d) ~~State that the auditor m~~Makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor ~~considers-concludes~~ that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the conclusion. Our conclusions are based

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Commented [WA14]: From asa 700 .34

Commented [WA15]: From ASA 700.36

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
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on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**38. The report shall include:**

- ~~(j)~~(a) The date ~~the auditor signs the~~of the auditor's review report.
- ~~(k)~~(b) The location in the country or jurisdiction where the auditor practices.
- (c) The ~~name of the engagement partner where required by law or~~ regulation.
- ~~(t)~~ The auditor's signature. (Ref: Para. A41)
- (d)

Commented [WA16]: from ASA 700 46.1

**Departure from the Applicable Financial Reporting Framework**

~~33-39.~~ The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall amend the heading "Basis for Conclusion" to "Basis for Qualified Conclusion or "Basis for Adverse Conclusion" include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, states the effects on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor shall be included in the Basis for modification-Conclusion paragraphsection. The Ceconclusion paragraph-section shall be headed "Qualified Conclusion" or "Adverse Conclusion", whichever is relevant. (Ref: Para. A42)

~~34-40.~~ When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the financial report, the auditor shall express an adverse conclusion. (Ref: Para. A43)

**Limitation on Scope** (Ref: Para. A44)

~~35-41.~~ When the auditor is unable to complete the review, the auditor shall communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

**Limitation on Scope Imposed by Management**

~~36-42.~~ Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review. (Ref: Para. A45 and A58)

~~37-43.~~ If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. (Ref: Para. A46)

~~44.~~ If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed. (Ref: Para. A47)

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45. ~~When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph 34 (b).~~

46. ~~When the auditor disclaims a conclusion on the financial report, the auditor shall amend the descriptions of the auditor's responsibilities required by paragraph 37 to include only:~~

- ~~(a) A statement that the auditor's responsibility is to conduct the review of the entity's financial report in accordance with this Auditing Standard; and~~
- ~~(b) A statement that because of the matter(s) described in the Basis for Disclaimer of Conclusion section, the auditor was not able to obtain sufficient evidence to provide a review conclusion on the financial report.~~
- ~~(a)(c) The statement about auditor independence and other ethical responsibilities.~~

**Commented [WA17]:** Added to comply with ASA 705 para 28

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. A48-A49)

~~38.47.~~ The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified opinion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed "Qualified Conclusion".

**Going Concern and Significant a Material Uncertainty Existsies** (Ref: Para. A50-A54)

48. ~~If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified review conclusion and the auditor's review report shall add an emphasis of matter paragraph include a separate section under the heading "Material Uncertainty Related to Going Concern" to the review report to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. This section shall:~~

- ~~(a) Draw attention to the note in the financial report that discloses the matter;~~
- ~~(b) State that the events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's conclusion is not modified in respect of the matter.~~

~~(a) —~~

49. ~~If a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern is not adequately disclosed in the financial report, the auditor shall:~~

- ~~(a) express a qualified or adverse conclusion, as appropriate; and~~
- ~~(b) In the Basis for Qualified or Adverse Conclusion section of the review report, state that The report shall include specific reference to the fact that there is such a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.~~

**Commented [WA18]:** Updated based on ASAj570

**Commented [WA19]:** from ASA 570 para 23

**Emphasis of Matter Paragraphs**

50. ~~In circumstances other than a going concern problem, (The auditor shall consider adding an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report. highlight a significant uncertainty that is~~

**Commented [WA20]:** aligned to ASA 706

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~~adequately disclosed in the financial report, that came to the auditor's attention, the resolution of which is dependent upon future events and which may materially affect the financial report.~~

51. ~~When the auditor includes an Emphasis of Matter paragraph in the review report the auditor shall:~~

~~(a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".~~

~~(b) Include a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report. The paragraph shall refer only to information presented or disclosed on the financial report; and~~

~~(b)(c) Indicate that the auditor's review conclusion is not modified in respect of the matter emphasised.~~

39. ~~If a significant uncertainty (other than a going concern problem) is not adequately disclosed in the financial report, the auditor shall express a qualified or adverse conclusion, as appropriate. The report shall include specific reference to the fact that there is such a significant uncertainty;~~

**Documentation** (Ref: Para. A60)

~~40.52.~~ The auditor shall prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion, and to provide evidence that the review was performed in accordance with this Auditing Standard and applicable legal and regulatory requirements.

\* \* \*

**Commented [WA21]:** From ASA 706 (9)

**Commented [WA22]:** no longer necessary

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## Application and Other Explanatory Material

### Objective (Ref: Para. 4)

- A1. Under paragraph 13, the auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the financial report is materially misstated.
- A2. The objective of a review of a financial report differs significantly from that of an audit conducted in accordance with Australian Auditing Standards. A review of a financial report does not provide a basis for expressing an opinion whether the financial report gives a true and fair view, or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- A3. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial report to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

### Performing a Review (Ref: Para 6)

- A4. Through performing the audit of the annual financial report, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial report, under paragraph 13, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of a financial report, and who is not the auditor of the entity, does not perform the review in accordance with ASRE 2410\*, as the practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity.

Although other Auditing Standards do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this Auditing Standard.

### General Principles of a Review of a Financial Report

- A5. Relevant ethical requirements<sup>2</sup> govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behaviour, and technical standards. (Ref: Para. 8)
- A6. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. ASQC 1 and ASA 220<sup>3</sup> include guidance that may be helpful. (Ref: Para. 9)
- A7. An attitude of professional scepticism denotes that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that

Commented [WA23]: not a principle of APES 110

\* See ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.

<sup>2</sup> See ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.

<sup>3</sup> See ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information.



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contradicts or brings into question the reliability of documents or representations by management of the entity. ASA 200 includes guidance which may be helpful.\* (Ref: Para. 10)

**Agreeing the Terms of the Engagement**

A8. Written agreement of the terms of the engagement helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of management and, where appropriate, those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:

- (a) the objective of a review of a financial report;
- (b) the scope of the review;
- (c) the responsibilities of management and, where appropriate, those charged with governance for:
  - (i) the financial report;
  - (ii) establishing and maintaining effective internal control relevant to the preparation of the financial report; and
  - (iii) making all financial records and related information available to the auditor;
- (d) agreement from management and, where appropriate, those charged with governance:
  - (i) to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
  - (ii) that where any document containing the financial report indicates that the financial report has been reviewed by the entity's auditor, the review report also will be included in the document; and
- (e) the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1. The terms of engagement to review a financial report can also be combined with the terms of engagement to audit the annual financial report. ASA 210 includes guidance which may be helpful.\* (Ref: Para. 12)

**Procedures for a Review of a Financial Report**

**Understanding the Entity and its Environment, Including its Internal Control**

A9. Under ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, the auditor who has audited the entity's financial report for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial report, that was sufficient to conduct the audit. In planning a review of a financial report, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the preparation of the financial

\* See ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.

\* See ASA 210 Agreeing the Terms of Audit Engagements.

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report subject to review, as it may differ from internal control as it relates to the preparation of the annual financial report. (Ref: Para. 13)

- A10. The auditor needs to use the understanding of the entity and its environment, including its internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 13)
- A11. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
- (a) reading the documentation, to the extent necessary, of the preceding year's audit, reviews of prior period(s) of the current year, and corresponding period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period financial report;
  - (b) considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial report;
  - (c) reading the most recent annual and comparable prior period financial report;
  - (d) considering materiality with reference to the applicable financial reporting framework as it relates to the financial report, to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
  - (e) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
  - (f) considering significant financial accounting and reporting matters that may be of continuing significance, such as material weaknesses in internal control;
  - (g) considering the results of any audit procedures performed with respect to the current year's financial report;
  - (h) considering the results of any internal audit performed and the subsequent actions taken by management;
  - (i) enquiring of management about the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (j) enquiring of management about the effect of changes in the entity's business activities;
  - (k) enquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of the financial report; and
  - (l) enquiring of management of the process by which the financial report has been prepared and the reliability of the underlying accounting records to which the financial report is agreed or reconciled. (Ref: Para. 13)
- A12. The auditor needs to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the financial report components, and the auditor's understanding of the extent to which internal control over the preparation of such reports is centralised or decentralised. (Ref: Para. 13)
- A13. Obtaining an understanding of the entity and its environment enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review

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of the financial report in accordance with this Auditing Standard. As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior periods in the current year that have been reviewed by the predecessor auditor. In doing so, ordinarily the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control. (Ref: Para. 14)

**Materiality** (Ref: Para. 15)

- A14. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- A15. Ordinarily, the auditor's consideration of materiality for a review of a financial report is based on the period financial data and accordingly, materiality based on interim period financial data may be less than materiality for annual financial data. If the entity's business is subject to cyclical variations or if the financial results for the current period show an exceptional decrease or increase compared to prior periods and expected results for the current year, the auditor may, for example, conclude that materiality is more appropriately determined using a normalised figure for the period.
- A16. The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial report.
- A17. If the applicable financial reporting framework contains a definition of materiality, it will ordinarily provide a frame of reference to the auditor when determining materiality for planning and performing the review.
- A18. The auditor needs, when relevant, to consider materiality from the perspective of both the entity and the consolidated entity.

**Enquiries, Analytical and Other Review Procedures**

- A19. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of a financial report ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial report. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial report, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 16)
- A20. The auditor ordinarily performs the following procedures:
- (a) Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the financial report.
  - (b) Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - (c) Communicating, where appropriate, with other auditors who are performing a review of the financial report of the entity's significant components.

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- (d) Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
- (i) whether the financial report has been prepared and presented in accordance with the applicable financial reporting framework;
  - (ii) whether there have been any changes in accounting principles or in the methods of applying them;
  - (iii) whether any new transactions have necessitated the application of a new accounting principle;
  - (iv) whether the financial report contains any known uncorrected misstatements;
  - (v) unusual or complex situations that may have affected the financial report, such as a business combination or disposal of a segment of the business;
  - (vi) significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
  - (vii) whether related party transactions have been appropriately accounted for and disclosed in the financial report;
  - (viii) significant changes in commitments and contractual obligations;
  - (ix) significant changes in contingent assets and contingent liabilities including litigation or claims;
  - (x) compliance with debt covenants;
  - (xi) matters about which questions have arisen in the course of applying the review procedures;
  - (xii) significant transactions occurring in the last several days of the period or the first several days of the next period;
  - (xiii) knowledge of any fraud or suspected fraud affecting the entity involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial report; and
  - (xiv) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial information communicated by employees, former employees, analysts, regulators or others; and
  - (xv) knowledge of any actual or ~~possible suspected~~ non-compliance with laws and regulations that could have a material effect on the financial report. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report provides guidance.
- (e) Applying analytical procedures to the financial report designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the financial report. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and

**Commented [WA24]:** Updated for consistency of language. Also referring to ASA 250 instead of putting more detailed application material in.

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may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to this Auditing Standard contains examples of analytical procedures the auditor may consider when performing a review of a financial report.

- (f) Reading the financial report and considering whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A21. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial report. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial report. (Ref: Para. 16)
- A22. The auditor performing a review of the financial report is also the auditor of the annual financial report of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the financial report. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the financial report may also be used for the annual audit. The auditor may decide also to perform, at the time of the review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial report, for example, performing auditing procedures on:
- (a) significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
- (b) opening balances (when applicable). (Ref: Para. 16)
- A23. A review of a financial report ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the financial report is in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A24. The auditor may obtain evidence that the financial report agrees or reconciles with the underlying accounting records by tracing the financial report to:
- (a) the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
- (b) other supporting data in the entity's records as necessary. (Ref: Para. 17)
- A25. The auditor need not perform procedures to identify events occurring after the date of the review report. (Ref: Para. 18)
- A26. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report, or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor needs to enquire also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation. (Ref: Para. 19)

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- A27. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract. (Ref: Para. 20)

**Comparatives – First Financial Report** (Ref: Para. 21)

- A28. When comparative information is included in the first financial report and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and the auditor needs to modify the review report. Ordinarily, a restriction on the scope of the auditor's work will result in a qualified ("except for") conclusion. In such cases, ordinarily an auditor encourages clear disclosure in the financial report, that the auditor has been unable to review the comparatives. An example of a modified review report is included in Appendix 4.
- A29. When comparative information is included in the first financial report and the auditor believes a material adjustment should be made to the financial report, under paragraph 33, the auditor needs to modify the review report.
- A30. When an entity has come into existence only within the first financial reporting period, comparative information will not be provided in the first financial report and no modified review report is required.
- A31. Accounting Standard AASB 101 *Presentation of Financial Statements* provides requirements and explanatory guidance relating to comparative information included in a financial report prepared in accordance with Australian Accounting Standards. Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* provides requirements and guidance relating to comparative information when an entity adopts Australian Accounting Standards for the first time.

**Evaluation of Misstatements** (Ref: Para. 22)

- A32. A review of a financial report, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A33. The auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or current year, and the potential effect of the misstatements on future interim or annual periods.
- A34. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the financial report. In so doing, under paragraph 15, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the financial report.

**Written Representations**

- A35. The auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative representation letter is set out in Appendix 1. (Ref: Para. 23)

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**Auditor's Responsibility for ~~Accompanying~~ Other Information**

A36. If the auditor identifies a material inconsistency, the auditor needs to consider whether the financial report or the other information needs to be amended. If an amendment is necessary in the financial report and those charged with governance refuse to make the amendment, under paragraph 29, the auditor needs to consider the implications for the review report. If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may, for example, consider including in the review report an ~~Other Matter Paragraph~~ describing the material inconsistency (~~ASA 720 and~~ ASA 706 includes guidance which may be helpful<sup>4</sup>) or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the financial report, and such alternative measures are given excessive prominence, or are not clearly defined, or not clearly reconciled to the financial report such that they are confusing and potentially misleading. (Ref: Para. 25)

**Commented [WA25]:** Extant 2410 has an OMP if an error in the OI. Still appropriate? Refer to BMSP

**Commented [WA26]:** Refer to BMSP for detail. Reference to 720 removed as this requires an OI paragraph.

Aus A36.1 For a review of a half-year financial report under the *Corporations Act 2001* (Act), withholding the issuance of the review report and/or withdrawing from the review engagement are not options available under the Act. (Ref: Para. 29)

A37. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (that is, information, not related to matters appearing in the financial report, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice. ASA 720<sup>5</sup> includes guidance which may be beneficial. (Ref: Para. 26)

**Communication**

A38. Communications with management and/or those charged with governance are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph 44, the auditor needs to document the communication. (Ref: Para. 28)

A39. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. (Ref: Para. 30)

A40. As a result of performing a review of a financial report, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. (Ref: Para. 31)

**Reporting the Nature, Extent and Results of the Review of a Financial Report** (Ref: Para. 32)

A41. In some cases, law or regulation governing the review of a financial report may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 32(i). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this Auditing Standard for coming to the conclusion

<sup>4</sup> See ASA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report, and ASA 706 Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report.

<sup>5</sup> See ASA 720 The Auditor's Responsibilities Relating to Other Information

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remain the same. ASA 700 includes guidance which may be helpful.<sup>5</sup> Illustrative review reports are set out in Appendices 3 and 4.

**Departure from the Applicable Financial Reporting Framework** (Ref: Para. 33–34)

- A42. If matters have come to the auditor's attention that cause the auditor to believe that the financial report is or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the financial report, the auditor needs to modify the review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the financial report, the auditor needs to modify the review report and, if practicable, include the necessary information in the review report. Illustrative review reports with a qualified conclusion are set out in Appendix 4.
- A43. Departures from the applicable financial reporting framework, may result in an adverse conclusion. An illustrative review report with an adverse conclusion is set out in Appendix 4.

**Limitation on Scope** (Ref: Para. 35)

- A44. Ordinarily, a limitation on scope prevents the auditor from completing the review.

**Limitation on Scope Imposed by Management**

- A45. The auditor needs to refuse to accept an engagement to review a financial report if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity. (Ref: Para. 36)
- A46. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor needs to request the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor needs to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, under paragraphs 27, 28 and 30, the auditor needs to communicate such matters to the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. 37)
- A47. The auditor needs to consider the legal and regulatory requirements, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, the auditor needs to disclaim a conclusion and provide in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework the auditor needs to communicate such a matter in the report. (Ref: Para. 38)

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. 39)

- A48. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management or those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion, and is guided by paragraphs 38 and 39. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the financial report. In such circumstances, the auditor needs to modify the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was

<sup>5</sup> See ASA 700 Forming an Opinion and Reporting on a Financial Report.



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conducted in accordance with this Auditing Standard, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 4.

- A49. The auditor may have expressed a qualified opinion on the audit of the latest annual financial report because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the review report.

**Going Concern and ~~Significant a Material Uncertainty Exists Uncertainties~~** (Ref: Para. 40-43)

~~A50. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the financial report that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.~~

**Commented [WA27]:** Removed as no longer required. Covered by the requirement paragraph.

~~A51-A50. The auditor may have ~~modified alerted users to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern by adding an emphasis of matter paragraph to a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern.~~ If the material uncertainty still exists and adequate disclosure is made in the financial report, the auditor needs to ~~continue to alert users~~ modify the review report on the current financial report by adding a "Material Uncertainty Related to Going Concern" paragraph section to the review report to highlight the continued material uncertainty.~~

**Commented [WA28]:** update. not a modification and remove EOM

~~A52-A51. If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that casts significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the financial report, the auditor needs to ~~alert users by adding a "Material Uncertainty Related to Going Concern" section~~ modify to the review report, by adding an emphasis of matter paragraph.~~

**Commented [WA29]:** as above

~~A53-A52. ASA 570 *Going Concern* provides information that the auditor may find helpful in considering going concern in the context of the review engagement.~~

~~A54. Ordinarily, a significant uncertainty in relation to any other matter, the resolution of which may materially affect the financial report, would warrant an emphasis of matter paragraph in the auditor's review report.~~

**Commented [WA30]:** No longer necessary as covered by the requirement

**Other Considerations**

~~A55-A53. The terms of the engagement include agreement by those charged with governance that, where any document containing a financial report indicates that the report has been reviewed by the entity's auditor, the review report will be also included in the document. If those charged with governance have not included the review report in the document, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances. (Ref: Para. 12)~~

~~A56-A54. If the auditor has issued a modified review report and those charged with governance issue the financial report without including the modified review report in the document containing the financial report, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial report.~~

**Considerations Specific to Public Sector Entities**

~~A57-A55. The auditor needs to agree with the client the terms of engagement. When agreeing the terms of engagement, an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance~~

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obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Nevertheless, an engagement letter setting out the matters referred to in paragraph A8 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter. (Ref: Para. 12)

~~A58-A56.~~ In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept, or to withdraw from a review engagement. The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial report. (Ref: Para. 29(b)-29(c) and 36)

~~A59-A57.~~ The auditor needs to communicate to those charged with governance and consider the implications for the review when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities. (Ref: Para. 31)

**Documentation** (Ref: Para. 44)

~~A60-A58.~~ The auditor needs to prepare documentation that enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

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**Conformity with International Standards on Review Engagements**

**Commented [WA31]:** To be updated when standard is finalised.

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

The underlying standard is extant ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*. The underlying standard to extant ASRE 2410 is ISRE 2410 which has not been drafted in “clarity” format by the IAASB.

In 2009, following consultation with constituents in Australia in accordance with normal exposure draft processes, the AUASB has decided that:

- due to the nature of reviews of other historical financial information, a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose; and
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, developed by the AUASB, deals with reviews of other historical financial information.

Accordingly, ASRE 2410 is intended to conform, with the exceptions listed below, to ISRE 2410 to the extent that ISRE 2410 deals with the review of financial statements by the auditor of the entity.

Except as noted below, this Auditing Standard conforms, to the extent described above, with International Standard ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. The main differences between this Auditing Standard and ISRE 2410 are:

1. This Auditing Standard contains the following requirements that are not contained in ISRE 2410:
  - This Auditing Standard applies to:
    - (a) a review, by the independent auditor of the entity, of a financial report for a half-year in accordance with the *Corporations Act 2001*; and
    - (b) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose (Ref: Para. 1(a) and (b)).
  - Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
    - ◆ if possible, perform appropriate alternative procedures; and
    - ◆ document in the working papers:
      - the circumstances surrounding the inability to comply;
      - the reasons for the inability to comply; and
      - justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor’s review report (Ref: Para. 7).
  - The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from

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management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:

- ◆ for the preparation and fair presentation of the financial report;
- ◆ for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
- ◆ to provide the auditor with:
  - access to information relevant to the preparation of the financial report;
  - additional information that the auditor may request for the purposes of the review engagement; and
  - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence (Ref: Para. 11).
- The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation (Ref: Para. 12).
- The auditor shall consider materiality, using professional judgement, when:
  - ◆ determining the nature, timing and extent of review procedures; and
  - ◆ evaluating the effect of misstatements (Ref: Para. 15).
- When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report (Ref: Para. 21).
- If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate (Ref: Para. 24).
- When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the auditor shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review (Ref: Para. 30).
- The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, states the effects on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor shall be included in the basis for modification paragraph. The conclusion paragraph shall be headed "Qualified Conclusion" or "Adverse Conclusion", whichever is relevant (Ref: Para. 33).
- When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the

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misleading or incomplete nature of the financial report, the auditor shall express an adverse conclusion (Ref: Para. 34).

- Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review (Ref: Para. 36).
- If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reasons why the review cannot be completed (Ref: Para. 37).
- If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed (Ref: Para. 38).
- The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified opinion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed "Qualified Conclusion" (Ref: Para. 39).

~~41-53.~~ The following requirements in ISRE 2410, paragraph 43(e) and paragraph 43(j), are not contained in this Auditing Standard:

Paragraph 43(e)

"In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework".

Paragraph 43(j)

"In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards)."

Requirements and guidance on the review of financial statements that are prepared in accordance with a financial reporting framework that is not designed to achieve fair presentation are included in ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

~~42-54.~~ This Auditing Standard includes explanatory guidance not contained within ISRE 2410 on:

- Materiality (Ref: Para. A14 to A18); and
- Comparatives (Ref: Para. A28 to A31).

~~43-55.~~ This Auditing Standard provides illustrative examples that differ in form and content from those contained in ISRE 2410, namely:

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- An engagement letter (Appendix 1).
- A written representation letter (Appendix 1).
- The auditor's unmodified review reports (Appendices 3 and 4).
- The auditor's modified review reports (Appendix 4).

[44-56.](#) This Auditing Standard provides illustrative detailed procedures that may be performed in an engagement to review a financial report that are not contained in ISRE 2410 (Appendix 2).

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410 to the extent described above.

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**Appendix 1**

(Ref: Para. A8)

**EXAMPLE OF AN ENGAGEMENT LETTER FOR A REVIEW OF A  
 FINANCIAL REPORT**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

To [those charged with governance:<sup>6</sup>]

**Scope**

You have requested that we review the half-year financial report<sup>7</sup> of [name of entity], which comprises the statement of financial position as at 31 December 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month<sup>8</sup> period ended on that date, and notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, issued by the Auditing and Assurance Standards Board, with the objective of providing us with a basis for reporting whether we have become aware of any matter [anything has come to our attention<sup>9</sup>] that makes [causes] us [to] believe that the half-year financial report is not prepared, in all material respects, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 2001* [indicate applicable financial reporting framework]. Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of a financial report is substantially less than the scope of an audit conducted in accordance with Auditing Standards whose objective is the expression of an opinion regarding the financial report and accordingly, we shall express no such opinion. ASRE 2410 requires us to also comply with the ethical requirements relevant to the audit of the annual financial report of the entity.

We expect to report on the half-year financial report<sup>10</sup> as follows:

[Include text of sample review report - see Appendix 3 or 4 as appropriate.]

The directors [those charged with governance<sup>11</sup>] of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error. As part of our review, we shall request written representations from management concerning assertions made in connection with the review. We shall also request that where any document containing the half-year financial report indicates that the half-year financial report has been reviewed, our review report will also be included in the document.

<sup>6</sup> Insert the appropriate term, such as "Directors" or "Board of Management".

<sup>7</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>8</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>9</sup> Use in a review of a half-year financial report prepared other than in accordance with the *Corporations Act 2001*.

<sup>10</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>11</sup> Insert the appropriate term, such as "Directors or Board of Management".

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The directors [those charged with governance] of the [company/registered scheme/disclosing entity] acknowledge and understand they have responsibility to provide us with:

- (i) access to information relevant to the preparation of the half-year financial report;
- (ii) additional information that we may request for the purposes of the review engagement; and
- (iii) unrestricted access to persons from whom we determine it is necessary to obtain evidence.

A review of the half-year financial report does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

**Independence**

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the review of the half-year financial report. In conducting our review of the half-year financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our review process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the reviewed entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- The provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- The prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

**Presentation of the reviewed half-year financial report in electronic format**

It is our understanding that [the entity] intends to publish a hard copy of the reviewed half-year financial report and the auditor's review report for members, and to electronically present the reviewed half-year financial report and the auditor's review report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by [the entity] to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of reviewed financial information on the entity's web site is beyond the scope of the review of the half-year financial report. Responsibility for the electronic presentation of the half-year financial report on the entity's web site is that of the [governing body of the entity].

**Fees**

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.



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[This letter will be effective for future years unless it is terminated, amended or superseded.<sup>12</sup>]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the half-year financial report.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

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<sup>12</sup> Use if applicable.

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### EXAMPLE OF A REPRESENTATION LETTER

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

Representations by management will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management have made oral representations which the auditor wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your review of the half-year<sup>13</sup> financial report<sup>14</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether you became aware of any matter in the course of the review that makes you believe that the half-year financial report is not in accordance with the *Corporations Act 2001*.

We acknowledge our responsibility for ensuring that the half-year financial report is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the [company/entity]'s financial position as at [date] and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

We confirm that the half-year financial report is prepared and presented in accordance with the *Corporations Act 2001* and is free of material misstatements, including omissions.

OR

[This representation letter is provided in connection with your review of the financial report<sup>15</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the financial report is not, in all material respects, presented fairly in accordance with [applicable financial reporting framework<sup>16</sup>].

We acknowledge our responsibility for ensuring that the financial report is in accordance with [applicable financial reporting framework].

We confirm that the financial report is prepared and presented fairly in accordance with [applicable financial reporting framework] and is free of material misstatements, including omissions.

We confirm, to the best of our knowledge and belief, the following representations made to you during your review.

[Include representations required by this Auditing Standard (paragraph 23) and those relevant to the entity. Such representations may include the following examples.]

<sup>13</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>14</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the type of report being reviewed.

<sup>15</sup> The term "financial report" should be changed to reflect the type of report being reviewed, as appropriate.

<sup>16</sup> Specify the applicable financial reporting framework/requirements.

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1. We have made available to you:
  - a. all financial records and related data, other information, explanations and assistance necessary for the conduct of the review; and
  - b. minutes of all meetings of [shareholders, directors, committees of directors, Boards of Management].
2. We have disclosed to you the results of our assessment of the risk that the [financial report] may be materially misstated as a result of fraud.
3. There:
  - a. has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
  - b. has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the financial report; and
  - c. have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report.
4. We are responsible for an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of a reliable financial report, and adequate financial records have been maintained. There are no material transactions that have not been recorded properly in the accounting records underlying the financial report.
5. We have no plans or intentions that may affect materially the carrying values, or classification, of assets and liabilities.
6. We have considered the requirements of Accounting Standard AASB 136 *Impairment of Assets*, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.
7. We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the [half-year] financial report taken as a whole.
8. The following have been recorded and/or disclosed properly in the [half-year] financial report:
  9. related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral);
  10. share options, warrants, conversions or other requirements;
  11. arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements;
  12. agreements to repurchase assets previously sold;
  13. material liabilities or contingent liabilities or assets including those arising under derivative financial instruments;
  14. unasserted claims or assessments that our lawyer(s) has advised us are probable of assertion; and

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15. losses arising from the fulfilment of, or an inability to fulfil, any sale commitments or as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.
16. There are no violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial report or as a basis for recording an expense.
17. The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed nor has any asset been pledged as collateral. Allowances for depreciation have been adjusted for all important items of property, plant and equipment that have been abandoned or are otherwise unusable.
18. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial report in the event of non-compliance.
19. There were no material commitments for construction or acquisition of property, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial report.
20. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
21. No events have occurred subsequent to the balance sheet date through to the date of this letter that would require adjustment to, or disclosure in, the [financial report].

We understand that your examination was made in accordance with Auditing Standard on Review Engagements ASRE 2410 and was, therefore, designed primarily for the purpose of expressing a conclusion on the financial report of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

*Notes:*

[The above example representation letter may need to be amended in certain circumstances. The following illustrate some of those situations.]

(b) Exceptions

Where matters are disclosed in the financial report, the associated representation needs to be amended, for example:

- If a subsequent event has been disclosed, Item 14 (above) could be modified to read:  
 “Except as discussed in Note X to the financial report, no events have occurred ....”
- If the entity has plans that impact the carrying values of assets and liabilities, Item 5 (above) could be modified to read:  
 “The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plan to dispose of segment X, as

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disclosed in note Y in the financial report, which is discussed in the minutes of the meeting of the governing body<sup>17</sup> held on [date]”.

(c) Other Required Information

Certain entities may be required to include other information in the financial report, for example, performance indicators for government entities. In addition to identifying this information and the applicable financial reporting framework in paragraphs 1 and 2 of the example management representation letter, an additional paragraph similar to the following may be appropriate:

“The disclosures of key performance indicators have been prepared and presented in conformity with [relevant statutory requirements] and we consider the indicators reported to be relevant to the stated objectives of the [entity]”.

(d) Management’s Opinions and Representation in the Notes to the Financial Statements

Where the notes to the financial statements include opinions and representations by management, such matters may be addressed in the representation letter. For example, notes relating to the anticipated outcome of litigation, the intent and ability to hold long-term securities to maturity and plans necessary to support the going concern basis.

(e) Environmental Matters

In situations where there are environmental matters that may, but probably will not, require an outflow of resources, this may be reflected in an addition to Item 9 (above), for example:

“However, the [entity] has received a notice from the Environmental Protection Agency that it may be required to share in the cost of cleanup of the [name] waste disposal site. This matter has been disclosed in Note A in the financial report and we believe that the disclosure and estimated contingent loss is reasonable based on available information.”

(f) Compliance

If, as part of the review, the auditor is required also to report on the entity’s compliance with laws and regulations, a representation may be appropriate acknowledging that management is responsible for the entity’s compliance with applicable laws and regulations and that the requirements have been met. For example, for reviews under the *Corporations Act 2001*, the following paragraph may be added:

“The financial records of the [company, registered scheme or disclosing entity] have been kept so as to be sufficient to enable a financial report to be prepared and reviewed, and other records and registers required by the *Corporations Act 2001* have been kept properly and are up-to-date.

(g) Other Matters

Additional representations that may be appropriate in specific situations may include the following:

- Justification for a change in accounting policy.
- The work of a management expert has been used.

<sup>17</sup> Insert the appropriate term, such as “Directors or Board of Management”.

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- Arrangements for controlling the dissemination of the financial report and auditor's review report on the Internet.

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## **Appendix 2**

(Ref: Para. A20)

### **ANALYTICAL PROCEDURES THE AUDITOR MAY CONSIDER WHEN PERFORMING A REVIEW OF A FINANCIAL REPORT**

The analytical procedures carried out in a review of a financial report are determined by the auditor's judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

Examples of analytical procedures the auditor may consider when performing a review of a financial report include the following:

- Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.
- Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the and the cost of sales in the current financial report with corresponding information in:
  - budgets, including expected gross margin(s); and
  - financial information for prior periods.
- Comparing the current financial report with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
  - by product line or source of revenue;
  - by location, for example by component;
  - by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
  - by several attributes of the transaction, for example, sales by product and month.

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**ILLUSTRATIVE DETAILED PROCEDURES THAT MAY BE PERFORMED  
 IN AN ENGAGEMENT TO REVIEW A FINANCIAL REPORT**

The enquiry, analytical and other procedures carried out in a review of a financial report are determined by the auditor exercising professional judgement in light of the auditor's assessment of the risk of material misstatement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

*General*

1. Confirm that the engagement team complies with relevant independence and ethical requirements.
2. Prepare and send an engagement letter to the entity.
3. Discuss the terms and scope of the engagement with the engagement team.
4. Obtain or update knowledge and understanding of the business, the key internal and external changes (including laws and regulations), and their effect on the scope of the review, materiality and risk assessment. This can be performed through the following:
  - a. Ascertaining whether there have been any significant changes to the nature and scope of operations.
  - b. Considering the results and effects of previous audits and review engagements.
  - c. Enquiring of persons responsible for financial reporting in respect of matters that impact on the reliability of the underlying accounting records. For example, considering fraud risk, material weaknesses in internal controls and any significant changes to internal control policies and procedures
  - d. Considering the results of any internal audits performed and the subsequent actions taken by management.
  - e. Considering whether additional procedures will be required on any significant accounts where internal controls relating to significant processes have been historically unreliable in detecting and preventing errors in the financial report.

Assess the relevance and impact of the results of the above procedures on the current period.

5. Determine materiality, exercising professional judgement, considering both qualitative and quantitative factors.
6. Enquire of persons responsible for financial reporting about the following:
  - a. Accounting policies adopted and consider whether:
    - i. they comply with the applicable financial reporting framework;
    - ii. they have been applied appropriately; and
    - iii. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
  - b. Policies and procedures used to assess asset impairment and any consequential estimation of recoverable amount.



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- c. The policies and procedures to determine the fair value of financial assets and financial liabilities.
  - d. New, unusual or complex situations that may have affected the financial report such as a business combination or disposal of a segment of the business. Consider adequacy of additional note disclosures in the financial report.
  - e. Plans to dispose of major assets or business segments.
  - f. Material off-balance sheet transactions, special purpose entities and other equity investments and related accounting treatment and disclosure.
  - g. Knowledge of any allegations of fraud, or suspected fraud.
  - h. Knowledge of any actual or possible significant non-compliance with laws and regulations.
  - i. Compliance with debt covenants.
  - j. Material or unusual related party transactions.
  - k. New or significant changes in commitments, contractual obligations.
7. Obtain and read the minutes of meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquire about matters dealt with at meetings for which minutes are not yet available that may affect the financial report.
  8. Enquire if actions taken at meetings of shareholders or those charged with governance that affect the financial report have been appropriately reflected therein.
  9. Ensure the financial report is agreed to the trial balance and is fairly presented including additional disclosure notes. If applicable, enquire as to whether all intercompany balances have been eliminated.
  10. Review other information included in the financial report and document findings. Discuss any material misstatements of fact with the entity's management.

*Cash*

11. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel to assess reasonableness.
12. Enquire about transfers between cash accounts for the period before and after the review date.
13. Enquire whether there are any restrictions on cash accounts.

*Revenue and Receivables*

14. Enquire about the accounting policies for recognising sales revenue and trade receivables and determine whether they have been consistently and appropriately applied.
15. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
16. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
17. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the ~~collectibility~~collectability of receivables.

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18. Consider, with management, the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance and other related parties in the financial report.
19. Enquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
20. Enquire whether receivables have been pledged, factored or discounted and determine whether they have been properly accounted for.
21. Enquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
22. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
23. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting date and whether provision has been made for such amounts. Consider the reasonableness of any provisions.

*Inventories*

24. Obtain the inventory list and determine whether:
  - a. the total agrees with the balance in the trial balance; and
  - b. the list is based on a physical count of inventory.
25. Enquire about the method for counting inventory.
26. Where a physical count was not carried out on the balance sheet date, enquire whether:
  - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
  - b. an integrated cost system is used and whether it has produced reliable information in the past.
27. Consider adjustments made resulting from the last physical inventory count.
28. Enquire about procedures applied to control cut-off and any inventory movements.
29. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and replacement cost for not-for-profit organisations).
30. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
31. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
32. Compare inventory turnover with that in previous periods.
33. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
34. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.

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35. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (Including Associated Entities and Financial Instruments)*

36. Obtain a schedule of the investments at the balance sheet reporting date and determine whether it agrees with the trial balance.
37. Enquire whether the accounting policy applied to investments is consistent with prior periods.
38. Enquire from management about the carrying values of investments. Consider whether there are any realisation problems.
39. Enquire whether there are any new investments, including business combinations. Consider classification, measurement and disclosure in respect of material or significant acquisitions.
40. Consider whether gains and losses and investment income have been properly accounted for.
41. Enquire about the classification of long-term and short-term investments.

*Property Plant and Equipment and Depreciation*

42. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
43. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether there are any indicators of impairment and whether the property, plant and equipment have suffered a material, permanent impairment in value.
44. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been properly accounted for.
45. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
46. Enquire whether there are any restrictions on the property, plant and equipment.
47. Enquire whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

*Prepaid Expenses, Intangibles and Other Assets*

48. Obtain schedules identifying the nature of these accounts and determine whether they agree with the trial balance. Discuss recoverability thereof with management.
49. Enquire whether management have updated their impairment calculations in respect of goodwill or other intangibles. Consider whether there have been any indicators of impairment for intangibles and enquire whether management have appropriately considered discount rates, growth rates, etc.
50. Enquire about the basis for recording these accounts and the amortisation methods used.
51. Compare balances of related expense accounts with those of prior periods and obtain explanations for significant variations with management.
52. Discuss the classification between current and non-current accounts with management.

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*Investment Property*

53. Obtain a schedule of investment property and determine whether it agrees with the trial balance.
54. Enquire whether the accounting policy applied to investment property is consistent with prior periods.
55. Update with management the acquisitions and disposals to investment property and accounting for gains and losses on disposals or de-recognition. Determine whether all significant transactions have been accounted for appropriately.
56. Consider whether there are any indicators of impairment and whether any investment property was subject to recent valuations.

*Loans Payable*

57. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
58. Enquire whether there are any loans where there has been a change to the terms and conditions or management has not complied with the provisions of the loan agreement, including any debt covenants. Assess whether loans have been appropriately classified as current or non-current in the financial report.
59. Where material, consider the reasonableness of interest expense in relation to loan balances.
60. Enquire whether loans payable are secured. Review loan and working capital facilities. Enquire if options to extend terms have been exercised or if any debt requires refinancing.

*Trade Payables*

61. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
62. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
63. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
64. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
65. Consider whether there could be material unrecorded liabilities.
66. Enquire whether payables to shareholders, those charged with governance and other related parties are separately disclosed.

*Other Liabilities and Contingent Liabilities*

67. Obtain a schedule of other liabilities and determine whether the total agrees with the trial balance.
68. Compare major balances of related expense accounts with similar accounts for prior periods.
69. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.

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70. Enquire about other liabilities to assess whether the methodology and assumptions adopted are consistent with prior periods. Enquire whether there are any unusual trends and developments affecting accounting estimates.
71. Enquire as to the nature of amounts included in contingent liabilities and commitments.
72. Enquire whether any actual or contingent liabilities exist which have not been recognised in the accounts. If so, enquire with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

*Income and Other Taxes*

73. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity. Examine correspondence in relation to any significant matters arising and assess whether events have been reflected appropriately in the financial report.
74. Consider the tax expense in relation to the entity's income for the period.
75. Enquire from management as to the adequacy of the recognised deferred and current tax assets and/or liabilities including provisions in respect of prior periods.

*Financial Instruments*

76. Enquire or update knowledge and understanding with persons responsible for financial reporting (including any treasury specialist), of what derivatives are in place, what accounting policies are applied to these derivatives and whether they have been consistently applied.
77. Enquire whether any hedges have been entered into for speculative purposes.
78. Enquire whether there are adequate policies and procedures to determine the fair value of financial assets and financial liabilities.
79. Enquire whether there are any sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity.

*Employee Share Plans*

80. Enquire about any new employee share plans or changes to existing plans, and where employee share plans are material, assess whether the accounting methodology has been consistently applied.

*Subsequent Events*

81. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.
82. Enquire about events after the balance sheet reporting date that would have a material effect on the financial report under review and, in particular, enquire whether:
- a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
  - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
  - c. any unusual adjustments have been made during the period between the balance sheet reporting date and the date of enquiry.

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Consider the need for adjustments or disclosure in the financial report.

83. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the balance sheet date and consider any impact of the financial report and disclosures.

*Litigation*

84. Enquire from persons responsible for financial reporting, and where appropriate in-house litigation specialists, whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the financial report and any provision for loss.

*Equity*

85. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends. Consider whether there are any unusual terms for new issues of debt or equity which could affect classification.
86. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations*

87. Compare results with those of prior periods and those expected for the current period. Obtain explanations of significant variations with management.
88. Enquire whether the recognition of major revenue and expenses have taken place in the appropriate periods.
89. Enquire whether the policies and procedures related to revenue recognition, including accrued income, have been consistently applied and whether there are any new or complex changes, including any changes in major contracts with customers or suppliers.
90. Consider and update with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.
91. Discuss the policy in respect of capitalisation of interest and whether it is in accordance with Australian Accounting Standards.

*Going Concern Assessment*

92. Consider the going concern assumption. When events or conditions come to attention which cast significant doubt on the entity's ability to continue as a going concern, perform additional procedures to assess the impact on the financial report and review report. Additional procedures may include:
- i. Discussion with those charged with governance to understand the events and circumstances that have contributed to the current situation to determine whether the risk arising can be mitigated.
  - ii. Plans for future actions, such as plans or intentions to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
  - iii. Feasibility of the plans and whether those charged with governance believe that the outcome of these plans will improve the situation.
93. Consider the adequacy of disclosure about such matters in the financial report

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*Evaluation of Misstatements*

- 94. Ensure significant review differences have been summarised and their effect evaluated.
- 95. Ensure material adjustments identified are notified to management/ those charged with governance (as appropriate).

*Written Representations*

- 96. Obtain written representation from the directors/management/those charged with governance (as appropriate) to confirm matters arising during the course of the review engagement.

*Documentation*

- 97. Ensure that review documentation is sufficient and appropriate to provide a basis for the conclusion and to provide evidence of compliance with ASRE 2410.

## **Appendix 3**

(Ref: Para. A41)

### **AN AUDITOR'S REVIEW REPORT UNDER THE CORPORATIONS ACT 2001**

#### **Financial Report for a Half-year**

##### **Introduction**

1. This Appendix has been prepared to assist an auditor, engaged to undertake a review engagement, by providing an example of an auditor's review report on a review of a financial report for a half-year prepared in accordance with Part 2M.3 of the *Corporations Act 2001* ("The Act"). The example reflects both requirements of this Auditing Standard and the Act, but is not intended to require standard wording for the circumstances of particular modifications.
2. This Appendix contains limited extracts from the Act and the Australian Accounting Standards in order to provide a context for the example report included in this Appendix. These selected extracts are included in this Appendix only for the purpose stated and accordingly are not intended to be an exhaustive list of an auditor's obligations and requirements which are found elsewhere in this Auditing Standard, the Act, the Australian Accounting Standards and other relevant mandates.
3. This Appendix:
  - a) Includes selected extracts from the Act and Australian Accounting Standards, and references to other relevant information, to provide a contextual framework; and
  - b) Provides an example of a review report.

##### **Contextual Framework**

###### ***Corporations Act 2001***

The following selected extracts from the Act are included in this Appendix only to point to some of the important requirements of the Act that affect auditors engaged to undertake a review engagement in accordance with the Act.

4. Section 302 states:

“A disclosing entity<sup>18</sup> must:

  - (a) prepare a financial report and directors' report for each half-year; and
  - (b) have the financial report audited or reviewed in accordance with Division 3 and obtain an auditor's report; and
  - (c) lodge the financial report, the director's report and the auditor's report on the financial report with ASIC;

unless the entity is not a disclosing entity when lodgement is due”.

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<sup>18</sup> The definition of a “disclosing entity” is found in Part 1.2A, Division 2, section 111AC of the *Corporations Act 2001*.



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5. Section 303(1) states:

- a) “The financial report for a half-year consists of:
- b) the financial statements for the half-year;
- c) the notes to the financial statements; and
- d) the directors’ declaration about the statements and notes”.

6. Section 304 states:

“The financial report for a half-year must comply with the accounting standards and any further requirements in the regulations”.

7. Section 305 states:

“The financial statements and notes for a half-year must give a true and fair view of:

- a) the financial position and performance of the disclosing entity; or
- b) if consolidated financial statements are required the financial position and performance of the consolidated entity.

This section does not affect the obligation under section 304 for financial reports to comply with accounting standards.

Note: If the financial statements prepared in compliance with the accounting standards would not give a true and fair view, additional information must be included in the notes to the financial statements under paragraph 303(3)(c)”.

8. Section 309(4) states:

“An auditor who reviews the financial report for a half-year must report to members on whether the auditor became aware of any matter in the course of the review that makes the auditor believe the financial report does not comply with Division 2”.

9. Section 309(5) states:

“A report under subsection (4) must:

- a) Describe any matter referred to in subsection (4); and
- b) Say why that matter makes the auditor believe that the financial report does not comply with Division 2”.

10. Section 309(5A) states:

“The auditor’s report must include any statements or disclosures required by the auditing standards”.

11. Section 320 states:

“A disclosing entity that has to prepare or obtain a report for a half-year under Division 2 must lodge the report with ASIC within 75 days after the end of the half-year”.

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**Other Information – ASIC and ASX**

12. An auditor, in the role of auditor, is required by section 311 of the Act to notify ASIC if the auditor is aware of certain circumstances. ASIC Regulatory Guide 34 *Auditors' obligations: reporting to ASIC* (December 2007), provides guidance to help auditors comply with their obligations under section 311 of the Act.
13. ASIC and the ASX have agreed that listed entities can satisfy the requirements of the Act by lodging the half-year financial report, the directors' report, and the review report on the financial report with the ASX. Details are provided in ASIC Regulatory Guide 28 *Relief from dual lodgement of financial reports* (July 2003) and *Class Order 98/104* (as amended by Class Orders 99/90 and 99/837).

**Australian Accounting Standards**

14. Minimum Components of an Interim Financial Report – AASB 134 Interim Financial Reporting, paragraph 8:

An interim financial report shall include, at a minimum, the following components:

- a. a condensed statement of financial position;
- b. a condensed statement of comprehensive income;
- c. a condensed statement of changes in equity showing either:
  - i. all changes in equity; or
  - ii. changes in equity other than those arising from capital transactions with owners and distributions to owners;
- d. a condensed statement of cash flows; and
- e. selected explanatory notes.

15. Form and Content of Interim Financial Reports - AASB 134 paragraph 9 states:

“If an entity publishes a complete financial report as its interim financial report, the form and content of that report shall conform to the requirements of AASB 101 for a financial report”.

16. Form and Content of Interim Financial Reports – AASB 134 paragraph 10 states:

“If an entity publishes a condensed financial report as its interim financial report, that condensed report shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial report and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial report misleading”.

17. Materiality - AASB 134 paragraph 23 states:

“In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data”.

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**EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON  
 A HALF-YEAR FINANCIAL REPORT – SINGLE DISCLOSING  
 ENTITY**

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of [name of entity]

**Report on the Half-Year Financial Report**

*Conclusion*

We have reviewed the accompanying half-year financial report of [name of entity], which comprises the condensed statement of financial position as at 31 December 20XX, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies [statement or description of accounting policies<sup>19</sup>] and other explanatory information, and the directors' declaration.<sup>20</sup>

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of [name of entity] is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the [name of entity's] financial position as at 31 December 20XX and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of [name of entity], would be in the same terms if given to the directors as at the time of this auditor's review ~~report~~ report.<sup>21</sup>

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year

<sup>19</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>20</sup> When the auditor is aware that the half-year financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited half-year financial report is presented.

<sup>21</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

## Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

### *Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the [entity's] financial position as at 31 December 20XX and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>22</sup>

[Date of the auditor's review report]<sup>23</sup>

[Auditor's address]

**Commented [WA32]:** Added as previously agreed with the AUASB, consistent with ASA 700 and the responsibilities are the same for a review. Also added to the auditor's responsibilities

**Commented [WA33]:** ASA 700 requires the auditor to include their responsibility in relation to GC in the audit report. The first sentence is based on the responsibilities detailed in ASRE 2410, the rest of the paragraph is consistent with ASA 700.

<sup>22</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

<sup>23</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Auditor of the Entity*

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**Appendix 4**

(Ref: Para. A41)

**Illustrations of Auditors' Review Reports—Unmodified and Modified Conclusions**

Example of an Unmodified Auditor's Review Report on a Financial Report  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion (Except For) for a Departure from the Applicable Financial Reporting Framework  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion for a Limitation On Scope Not Imposed by Management  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of An Auditor's Review Report with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion (Except for) on the Basis that Comparatives have not been Reviewed or Audited  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

**EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON A  
 FINANCIAL REPORT**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
 FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>24</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>25</sup>].<sup>26, 27</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>28</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the [entity] for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

<sup>24</sup> Insert relevant statement or description of accounting policies.

<sup>25</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>26</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>27</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>28</sup> *ASA 700 Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

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Commented [WA34]: Same as the auditor's report. Independence

Commented [WA35]: Added as previously agreed with the AUASB, consistent with ASA 700 and the responsibilities are the same for a review. Also added to the auditor's responsibilities

## Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial does not present fairly, in all material respects, [or "give a true and fair view of"] the financial position of the [entity] as at [date] and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

~~Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.~~

~~A review of a [period] financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.~~

### Conclusion

~~Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>29</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].~~

### Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]<sup>30</sup>

[Date of the auditor's review report]<sup>31</sup>

<sup>29</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report* contains information on the wording of reports that may be helpful.

<sup>30</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>31</sup> The date of the auditor's report is the date the auditor signs the report.



**Proposed Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Auditor of the Entity*

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[Auditor's address]

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH A QUALIFIED CONCLUSION (EXCEPT FOR) FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies,<sup>32</sup>] other selected explanatory notes, and [the declaration of those charged with governance<sup>33</sup>].<sup>34</sup>,<sup>35</sup>

Based on our review, which is not an audit, with the exception of the matter described in the *Basis for Qualified Conclusion* paragraph, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>36</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ \_\_\_\_\_, long-term debt by \$ \_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$ \_\_\_\_\_ and \$ \_\_\_\_\_ respectively for the [period] ended on that date.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

<sup>32</sup> Insert relevant statement or description of accounting policies.

<sup>33</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>34</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>35</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>36</sup> [ASA 700 \*Forming an Opinion and Reporting on a Financial Report\*, contains information on the wording of reports that may be helpful.](#)

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Commented [WA36]: Same as the auditor's report. Independence

## Proposed Auditing Standard on Review Engagements ASRE 2410

### Review of a Financial Report Performed by the Auditor of the Entity

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>37</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

#### *Basis for Qualified Conclusion*

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ \_\_\_\_\_, long-term debt by \$ \_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$ \_\_\_\_\_ and \$ \_\_\_\_\_ respectively for the [period] ended on that date.

#### *Qualified Conclusion*

Based on our review, which is not an audit, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>38</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

#### **Report on Other Legal and Regulatory Requirements**

<sup>37</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report, contains information on the wording of reports that may be helpful.

<sup>38</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Auditor of the Entity*

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[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>39</sup>

[Date of the auditor's review report]<sup>40</sup>

[Auditor's address]

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<sup>39</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>40</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION FOR A LIMITATION ON SCOPE NOT IMPOSED BY  
MANAGEMENT**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

~~Except for the adjustments to the [period] financial report that we might have become aware of had it not been for the situation described above, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>41</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].~~

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>42</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>43</sup>].<sup>44, 45</sup>

~~Except for the adjustments to the [period] financial report that we might have become aware of had it not been for the situation described in the Basis for Qualified Conclusion paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>46</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].~~

*Basis for Qualified Conclusion*

~~As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$ \_\_\_\_\_ included in the [period] financial report. The [entity] is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial report.~~

~~We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical~~

<sup>41</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>42</sup> Insert relevant statement or description of accounting policies.

<sup>43</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>44</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>45</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>46</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

**Commented [WA37]:** Same as the auditor's report. Independence

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity

for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view"<sup>47</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

~~Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report. A review of a [period] financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.~~

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<sup>47</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

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*~~Basis for Qualified Conclusion~~*  
*~~Qualified Conclusion~~*

~~Except for the adjustments to the [period] financial report that we might have become aware of had it not been for the situation described above, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor’s review report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature<sup>49</sup>]

[Date of the auditor’s review report]<sup>50</sup>

[Auditor’s address]

<sup>48</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report contains information on the wording of reports that may be helpful.

<sup>49</sup> The auditor’s review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>50</sup> The date of the auditor’s report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH AN ADVERSE CONCLUSION FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Adverse Conclusion*

Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, this [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>52</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>52</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>53</sup>].<sup>54, 55</sup>

Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the *Basis for Adverse Conclusion* paragraph, this [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>56</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Adverse Conclusion*

As explained in Note X, commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial reports of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had a consolidated financial report been prepared, virtually every account in the financial report would have been materially different. The effects on the financial report of the failure to consolidated have not been determined.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant

<sup>51</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>52</sup> Insert relevant statement or description of accounting policies.

<sup>53</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>54</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>55</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>56</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.



**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

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to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>57</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a [period] financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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<sup>57</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

---

*Basis for Adverse Conclusion*

~~Commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial reports of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had a consolidated financial report been prepared, virtually every account in the financial report would have been materially different.~~

*Adverse Conclusion*

~~Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, this [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>58</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>59</sup>]

[Date of the auditor's review report]<sup>60</sup>

[Auditor's address]

<sup>58</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report contains information on the wording of reports that may be helpful.

<sup>59</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>60</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH A QUALIFIED CONCLUSION (EXCEPT FOR) ON THE BASIS THAT COMPARATIVES HAVE NOT BEEN REVIEWED OR AUDITED**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>61</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>62</sup>].<sup>63</sup> <sup>64</sup>

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Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the *Basis for Qualified Conclusion* paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of<sup>65</sup>" the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

As this is the first year that [name of entity] is required to prepare a [period] financial report and have it reviewed, the balance sheet, income statement, statement of changes in equity, cash flow statement, [statement or description of accounting policies<sup>66</sup>] and other selected explanatory notes for the preceding corresponding [period] have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the [period] ended [date of preceding corresponding period]. We have, however, audited the financial report for the preceding financial year ended [date of preceding financial year] and therefore our review statement is not qualified in respect of the comparative information for the year ended [date of preceding financial year] included in the balance sheet.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. [We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.]

Commented [WA38]: Same as the auditor's report. Independence

<sup>61</sup> Insert relevant statement or description of accounting policies.

<sup>62</sup> Amend these terms to reflect the appropriate assertion and title for those charged with governance.

<sup>63</sup> When the auditor is aware that the interim financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed interim financial report is presented.

<sup>64</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>65</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>66</sup> Insert relevant statement or description of accounting policies.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of [name of entity], would be in the same terms if given to the directors as at the time of this auditor's review report.<sup>67</sup>

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>68</sup>]; other selected explanatory notes, and [the declaration of those charged with governance<sup>69</sup>].<sup>70</sup> <sup>71</sup>

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>72</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern. Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity],

<sup>67</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

<sup>68</sup> Insert relevant statement or description of accounting policies.

<sup>69</sup> Amend these terms to reflect the appropriate assertion and title for those charged with governance.

<sup>70</sup> When the auditor is aware that the interim financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed interim financial report is presented.

<sup>71</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>72</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Auditor of the Entity*

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~~ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.~~

~~A review of a [period] financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.~~

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
**Review of a Financial Report Performed by the Auditor of the Entity**

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*~~Basis for Qualified Conclusion~~*

~~As this is the first year that [name of entity] is required to prepare a [period] financial report and have it reviewed, the balance sheet, income statement, statement of changes in equity, cash flow statement, [statement or description of accounting policies<sup>73</sup>] and other selected explanatory notes for the preceding corresponding [period] have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the [period] ended [date of preceding corresponding period]. We have, however, audited the financial report for the preceding financial year ended [date of preceding financial year] and therefore our review statement is not qualified in respect of the comparative information for the year ended [date of preceding financial year] included in the balance sheet.~~

*~~Qualified Conclusion~~*

~~Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the preceding paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>74</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor’s review report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature<sup>75</sup>]

[Date of the auditor’s review report]<sup>76</sup>

[Auditor’s address]

<sup>73</sup> Insert relevant statement or description of accounting policies.

<sup>74</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report contains information on the wording of reports that may be helpful.

<sup>75</sup> The auditor’s review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>76</sup> The date of the auditor’s report is the date the auditor signs the report.



EXPOSURE DRAFT

**ED 2019-1**  
(March 2019)

# Proposed Auditing Standard on Review Engagements ASRE 2410

## *Review of a Financial Report Performed by the Auditor of the Entity*

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



## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than . Comments should be addressed to:

The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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***Review of a Financial Report Performed by the Auditor of the Entity***

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**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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## PREFACE

### Reasons for Issuing ED 2019-1

The AUASB issues exposure draft ED 2019-1 of proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

### Main Proposals

This proposed Auditing Standard on Review Engagements represents the Australian equivalent of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and will replace the current ASRE 2410 issued by the AUASB in July 2013. The *Explanatory Memorandum: Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity* provides an overview of proposed amendments.

### Proposed Operative Date

It is intended that this proposed Auditing Standard on Review Engagements will be operative for financial reporting periods commencing on or after 1 July 2019 with early adoption permitted.

### Main changes from existing ASRE 2410 *Auditing Standard on Review Engagements ASRE 2410 (July 2013)*

The main differences between this proposed Auditing Standard on Review Engagements and the Auditing Standard on Review Engagements that it supersedes, ASRE 2410 *Auditing Standard on Review Engagements ASRE 2410 (July 2013)*, are included in the *Explanatory Memorandum: Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity*. This ED is also available in a track changes version to assist stakeholders ([LINK](#)).

### Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* by no later than 20 May 2019. The AUASB is seeking comments from respondents on the following questions:

- 1 Do you agree with the proposals to incorporate the reporting requirements made to the annual report consistently into the interim review report?
- 2 Do you agree with the scoping of these proposals that they do not require the communication of key review matters, or an update on the status of key audit matters from the previous audit report, for review reports?

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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- 3 Do you agree with the scoping of these proposals that they do not require the inclusion of an Other Information section in the interim review report?
- 4 Do agree with requiring the auditor's responsibilities section to be included in the review report, and not provide an option to include parts of this on the AUASB website?
- 5 Do you agree with the proposed amendments to incorporate conforming amendments as a result of NOCLAR?
- 6 Do you consider that there are any further amendments required to be made to ASRE 2410?
- 7 Do you agree with the proposed effective date? If not, please explain why not.
- 8 Have applicable laws and regulations been appropriately addressed in the proposed standard?
- 9 Are there any references to relevant laws or regulations that have been omitted?
- 10 Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 11 Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 12 What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a) Where these costs are likely to occur;
  - b) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - c) Whether expected costs outweigh the benefits to the users of audit services?
- 13 Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard on Review Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard on Review Engagements.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Auditor of the Entity*

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard on Review Engagements is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**Conformity with International Standards on Review Engagements**

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard on Review Engagements (and do not appear in the text of the equivalent ISRE) are identified with the prefix “Aus”.

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410.

## AUDITING STANDARD ON REVIEW ENGAGEMENTS ASRE 2410

### *Review of a Financial Report Performed by the Auditor of the Entity*

#### Application

1. This Auditing Standard on Review Engagements applies to:
  - (a) a review by the independent auditor of the entity, of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose.

#### Operative Date

2. This Auditing Standard on Review Engagements is operative for financial reporting periods commencing on or after 1 July 2019.

#### Introduction

##### Scope of this Auditing Standard on Review Engagements

3. This Auditing Standard on Review Engagements (Auditing Standard) deals with the auditor's responsibilities when an auditor undertakes an engagement to review a financial report of an audit client, and on the form and content of the auditor's review report. The term "auditor" is used throughout this Auditing Standard, not because the auditor is performing an audit function but because the scope of this Auditing Standard is limited to a review of a financial report performed by the independent auditor of the financial report of the entity.

#### Objective

4. The objective of the auditor is to plan and perform the review to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report, or complete set of financial statements, is (are) not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A1-A3)

#### Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) An interim financial report means a financial report that is prepared in accordance with an applicable financial reporting framework<sup>1</sup> for a period that is shorter than the entity's financial year.
  - (b) A financial report means a complete set of financial statements including the related notes and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report. For example, a financial report, as defined under section 303 of the *Corporations Act 2001* consists of

<sup>1</sup> See, for example, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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financial statements for the half-year, notes to the financial statements and the directors' declaration about the statements and notes.

- (c) An applicable financial reporting framework means a financial reporting framework that is designed to achieve fair presentation.

## **Requirements**

### **Performing a Review**

6. The auditor who is engaged to perform a review of a financial report shall perform the review in accordance with this Auditing Standard. (Ref: Para. A4)
7. Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement in this Auditing Standard, the auditor shall:
- (a) if possible, perform appropriate alternative procedures; and
  - (b) document in the working papers:
    - (i) the circumstances surrounding the inability to comply;
    - (ii) the reasons for the inability to comply; and
    - (iii) justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report.

### **General Principles of a Review of a Financial Report**

8. The auditor shall comply with relevant ethical requirements relating to the audit of the annual financial report of the entity. (Ref: Para. A5)
9. The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)
10. The auditor shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial report to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A7)

### **Agreeing the Terms of the Engagement** (Ref: Para. A8, A55 and A57)

#### *Preconditions for a Review*

11. The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
- (a) for the preparation and fair presentation of the financial report;
  - (b) for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
  - (c) to provide the auditor with:



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- (i) access to information relevant to the preparation of the financial report;
- (ii) additional information that the auditor may request for the purposes of the review engagement; and
- (iii) unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.

*Agreement on Review Engagement Terms*

12. The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.

**Procedures for a Review of a Financial Report**

*Understanding the Entity and its Environment, Including its Internal Control*

13. The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports, sufficient to plan and conduct the engagement so as to be able to:
- (a) identify the types of potential material misstatements and consider the likelihood of their occurrence; and
  - (b) select the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A9-A12)
14. In order to plan and conduct a review of a financial report, a recently appointed auditor, who has not yet performed an audit of the annual financial report in accordance with Australian Auditing Standards, shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports. (Ref: Para. A13)

**Materiality** (Ref: Para. A14-A18)

15. The auditor shall consider materiality, using professional judgement, when:
- (a) determining the nature, timing and extent of review procedures; and
  - (b) evaluating the effect of misstatements.

**Enquiries, Analytical and Other Review Procedures**

16. The auditor shall make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A19-A23)
17. The auditor shall obtain evidence that the financial report agrees or reconciles with the underlying accounting records. (Ref: Para. A24)

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18. The auditor shall enquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the financial report.  
 (Ref: Para. A25)
19. The auditor shall enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
- (a) enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
  - (b) consider the adequacy of the disclosure about such matters in the financial report.  
 (Ref: Para. A26)
20. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the review report. (Ref: Para. A27)

**Comparatives – First Financial Report** (Ref: Para. A28-A31)

21. When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report.

**Evaluation of Misstatements** (Ref: Para. A32-A34)

22. The auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the financial report.

**Written Representations**

23. The auditor shall endeavour to obtain written representations from management and, where appropriate, those charged with governance, that:
- (a) They acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
  - (b) The financial report is prepared and presented in accordance with the applicable financial reporting framework;
  - (c) They believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of such items is included in or attached to the written representations;
  - (d) They have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
  - (e) They have disclosed to the auditor the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (f) They have disclosed to the auditor all identified or suspected non-compliance with laws and regulations, the effects of which are to be considered when preparing the financial report; and

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- (g) They have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A35)
24. If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate.

**Auditor's Responsibility for Other Information**

25. The auditor shall read the other information that accompanies the financial report to consider whether there is a material inconsistency with the financial report. (Ref: Para. A36)
26. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management, and where appropriate, those charged with governance. (Ref: Para. A37)

**Communication**

27. When, as a result of performing a review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall communicate this matter as soon as practicable to the appropriate level of management.
28. When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance. (Ref: Para. A38)
29. When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor shall consider:
- (a) whether to modify the review report; or
  - (b) the possibility of withdrawing from the engagement; and
  - (c) the possibility of resigning from the appointment to audit the annual financial report. (Ref: Para. Aus A36.1 and A58)
30. When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that indicates the existence of fraud or non-compliance with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:
- (a) communicate the matter unless prohibited by law or regulation, as soon as practicable to those charged with governance and shall consider the implications for the review. (Ref: Para. A39)
  - (b) request management's assessment of the effect (s) on the auditor's conclusion and the review report;
  - (c) consider the effect on the auditor's conclusion and the review report; and
  - (d) determine whether law, regulation or relevant ethical requirements:
    - (i) require the auditor to report to an appropriate authority outside the entity;

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- (ii) establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

31. The auditor shall communicate relevant matters of governance interest arising from the review of the financial report to those charged with governance. (Ref: Para. A40 and A59)

**Reporting the Nature, Extent and Results of the Review of a Financial Report**

32. The auditor shall issue a written report that contains the following:

- (a) An appropriate title clearly identifying it as a review report of the independent auditor of the entity.
- (b) An addressee, as required by the circumstances of the engagement.

33. The first section of the report shall include the auditor's conclusion, and shall have the heading "Conclusion". The Conclusion section of the report shall:

- (a) Identify the entity whose financial report has been reviewed;
- (b) State that the financial report has been reviewed;
- (c) Identify the title of each statement contained in the financial report and the date and period covered by the financial report; and
- (d) Refer to the notes, including the summary of significant accounting policies.
- (e) Include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report does not present fairly, or if applicable, is not true and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used).

34. The report shall include a section directly following the Conclusion section, with the heading "Basis for Conclusion", that:

- (a) States that the review of the financial report was conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, and that that Auditing Standard requires the auditor to comply with ethical requirements relevant to the audit of the annual financial report.
- (b) Refers to the section of the auditor's review report that describes the auditor's responsibilities.
- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.

35. The report shall include a section with a heading "Responsibilities of Those Charged with Governance for the Financial Report". This section of the report shall describe the responsibilities of those charged with governance for:

- (a) The preparation and fair presentation of the financial report in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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- (b) Assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.
36. When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities of those charged with governance for the financial report in the auditor’s report shall refer to “the preparation and fair presentation of this financial report” or “the preparation of the financial report that gives a true and fair view”, as appropriate in the circumstances.
37. The report shall include a section with a heading “Auditor’s Responsibilities for the Review of the Financial Report”. This section of the report shall:
- (a) State that the auditor is responsible for expressing a conclusion on the financial report based on the review.
- (b) State that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
- (c) State that a review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed.
- (d) State that the auditor makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the conclusion. Our conclusions are based on the evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.
38. The report shall include:
- (a) The date the auditor signs the review report.
- (b) The location in the country or jurisdiction where the auditor practices.
- (c) The name of the engagement partner where required by law or regulation.
- (d) The auditor’s signature. (Ref: Para. A41)

**Departure from the Applicable Financial Reporting Framework**

39. The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor’s attention that causes the auditor to believe that a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall amend the heading “Basis for Conclusion” to “Basis for Qualified Conclusion or “Basis for Adverse Conclusion” in the report, that describes the nature of the departure and, if practicable, states the effects on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor shall be included in the Basis for Conclusion section. The Conclusion section shall be headed “Qualified Conclusion” or “Adverse Conclusion”, whichever is relevant. (Ref: Para. A42)
40. When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or

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incomplete nature of the financial report, the auditor shall express an adverse conclusion.  
 (Ref: Para. A43)

**Limitation on Scope** (Ref: Para. A44)

41. When the auditor is unable to complete the review, the auditor shall communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

**Limitation on Scope Imposed by Management**

42. Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review. (Ref: Para. A45 and A58)
43. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. (Ref: Para. A46)
44. If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed. (Ref: Para. A47)
45. When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph 34 (b).
46. When the auditor disclaims a conclusion on the financial report, the auditor shall amend the descriptions of the auditor's responsibilities required by paragraph 37 to include only:
- (a) A statement that the auditor's responsibility is to conduct the review of the entity's financial report in accordance with this Auditing Standard; and
  - (b) A statement that because of the matter(s) described in the Basis for Disclaimer of Conclusion section, the auditor was not able to obtain sufficient evidence to provide a review conclusion on the financial report.
  - (c) The statement about auditor independence and other ethical responsibilities.

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. A48-A49)

47. The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified opinion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed "Qualified Conclusion".

**Going Concern and a Material Uncertainty Exists** (Ref: Para. A50-A54)

48. If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified review conclusion and the auditor's review report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to the review report to highlight a material uncertainty relating to an event or condition that

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casts significant doubt on the entity's ability to continue as a going concern. This section shall:

- (a) Draw attention to the note in the financial report that discloses the matter;
  - (b) State that the events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's conclusion is not modified in respect of the matter.
49. If a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern is not adequately disclosed in the financial report, the auditor shall:
- (a) express a qualified or adverse conclusion, as appropriate; and
  - (b) In the Basis for Qualified or Adverses Conclusion section of the review report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.

**Emphasis of Matter Paragraphs**

50. The auditor shall consider adding an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
51. When the auditor includes an Emphasis of Matter paragraph in the review report the auditor shall:
- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".
  - (b) Include a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report. The paragraph shall refer only to information presented or disclosed on the financial report; and
  - (c) Indicate that the auditor's review conclusion is not modified in respect of the matter emphasised.

**Documentation** (Ref: Para. A60)

52. The auditor shall prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion, and to provide evidence that the review was performed in accordance with this Auditing Standard and applicable legal and regulatory requirements.

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## **Application and Other Explanatory Material**

### **Objective** (Ref: Para. 4)

- A1. Under paragraph 13, the auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the financial report is materially misstated.
- A2. The objective of a review of a financial report differs significantly from that of an audit conducted in accordance with Australian Auditing Standards. A review of a financial report does not provide a basis for expressing an opinion whether the financial report gives a true and fair view, or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- A3. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial report to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

### **Performing a Review** (Ref: Para 6)

- A4. Through performing the audit of the annual financial report, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial report, under paragraph 13, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of a financial report, and who is not the auditor of the entity, does not perform the review in accordance with ASRE 2410\*, as the practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity.

Although other Auditing Standards do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this Auditing Standard.

### **General Principles of a Review of a Financial Report**

- A5. Relevant ethical requirements<sup>2</sup> govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behaviour, and technical standards. (Ref: Para. 8)
- A6. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. ASQC 1 and ASA 220<sup>3</sup> include guidance that may be helpful. (Ref: Para. 9)
- A7. An attitude of professional scepticism denotes that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that

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\* See ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.

<sup>2</sup> See ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.

<sup>3</sup> See ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information.



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contradicts or brings into question the reliability of documents or representations by management of the entity. ASA 200 includes guidance which may be helpful.\* (Ref: Para. 10)

**Agreeing the Terms of the Engagement**

- A8. Written agreement of the terms of the engagement helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of management and, where appropriate, those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:
- (a) the objective of a review of a financial report;
  - (b) the scope of the review;
  - (c) the responsibilities of management and, where appropriate, those charged with governance for:
    - (i) the financial report;
    - (ii) establishing and maintaining effective internal control relevant to the preparation of the financial report; and
    - (iii) making all financial records and related information available to the auditor;
  - (d) agreement from management and, where appropriate, those charged with governance:
    - (i) to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
    - (ii) that where any document containing the financial report indicates that the financial report has been reviewed by the entity's auditor, the review report also will be included in the document; and
  - (e) the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1. The terms of engagement to review a financial report can also be combined with the terms of engagement to audit the annual financial report. ASA 210 includes guidance which may be helpful.\* (Ref: Para. 12)

**Procedures for a Review of a Financial Report**

Understanding the Entity and its Environment, Including its Internal Control

- A9. Under ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, the auditor who has audited the entity's financial report for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial report, that was sufficient to conduct the audit. In planning a review of a financial report, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the preparation of the financial

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\* See ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.

\* See ASA 210 Agreeing the Terms of Audit Engagements.

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- report subject to review, as it may differ from internal control as it relates to the preparation of the annual financial report. (Ref: Para. 13)
- A10. The auditor needs to use the understanding of the entity and its environment, including its internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 13)
- A11. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
- (a) reading the documentation, to the extent necessary, of the preceding year's audit, reviews of prior period(s) of the current year, and corresponding period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period financial report;
  - (b) considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial report;
  - (c) reading the most recent annual and comparable prior period financial report;
  - (d) considering materiality with reference to the applicable financial reporting framework as it relates to the financial report, to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
  - (e) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
  - (f) considering significant financial accounting and reporting matters that may be of continuing significance, such as material weaknesses in internal control;
  - (g) considering the results of any audit procedures performed with respect to the current year's financial report;
  - (h) considering the results of any internal audit performed and the subsequent actions taken by management;
  - (i) enquiring of management about the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (j) enquiring of management about the effect of changes in the entity's business activities;
  - (k) enquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of the financial report; and
  - (l) enquiring of management of the process by which the financial report has been prepared and the reliability of the underlying accounting records to which the financial report is agreed or reconciled. (Ref: Para. 13)
- A12. The auditor needs to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the financial report components, and the auditor's understanding of the extent to which internal control over the preparation of such reports is centralised or decentralised. (Ref: Para. 13)
- A13. Obtaining an understanding of the entity and its environment enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review

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of the financial report in accordance with this Auditing Standard. As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior periods in the current year that have been reviewed by the predecessor auditor. In doing so, ordinarily the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control. (Ref: Para. 14)

**Materiality** (Ref: Para. 15)

- A14. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- A15. Ordinarily, the auditor's consideration of materiality for a review of a financial report is based on the period financial data and accordingly, materiality based on interim period financial data may be less than materiality for annual financial data. If the entity's business is subject to cyclical variations or if the financial results for the current period show an exceptional decrease or increase compared to prior periods and expected results for the current year, the auditor may, for example, conclude that materiality is more appropriately determined using a normalised figure for the period.
- A16. The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial report.
- A17. If the applicable financial reporting framework contains a definition of materiality, it will ordinarily provide a frame of reference to the auditor when determining materiality for planning and performing the review.
- A18. The auditor needs, when relevant, to consider materiality from the perspective of both the entity and the consolidated entity.

**Enquiries, Analytical and Other Review Procedures**

- A19. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of a financial report ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial report. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial report, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 16)
- A20. The auditor ordinarily performs the following procedures:
- (a) Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the financial report.
  - (b) Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - (c) Communicating, where appropriate, with other auditors who are performing a review of the financial report of the entity's significant components.

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- (d) Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
- (i) whether the financial report has been prepared and presented in accordance with the applicable financial reporting framework;
  - (ii) whether there have been any changes in accounting principles or in the methods of applying them;
  - (iii) whether any new transactions have necessitated the application of a new accounting principle;
  - (iv) whether the financial report contains any known uncorrected misstatements;
  - (v) unusual or complex situations that may have affected the financial report, such as a business combination or disposal of a segment of the business;
  - (vi) significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
  - (vii) whether related party transactions have been appropriately accounted for and disclosed in the financial report;
  - (viii) significant changes in commitments and contractual obligations;
  - (ix) significant changes in contingent assets and contingent liabilities including litigation or claims;
  - (x) compliance with debt covenants;
  - (xi) matters about which questions have arisen in the course of applying the review procedures;
  - (xii) significant transactions occurring in the last several days of the period or the first several days of the next period;
  - (xiii) knowledge of any fraud or suspected fraud affecting the entity involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial report; and
  - (xiv) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial information communicated by employees, former employees, analysts, regulators or others; and
  - (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial report. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* provides guidance.
- (e) Applying analytical procedures to the financial report designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the financial report. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and

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may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to this Auditing Standard contains examples of analytical procedures the auditor may consider when performing a review of a financial report.

- (f) Reading the financial report and considering whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A21. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial report. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial report. (Ref: Para. 16)
- A22. The auditor performing a review of the financial report is also the auditor of the annual financial report of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the financial report. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the financial report may also be used for the annual audit. The auditor may decide also to perform, at the time of the review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial report, for example, performing auditing procedures on:
- (a) significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
- (b) opening balances (when applicable). (Ref: Para. 16)
- A23. A review of a financial report ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the financial report is in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A24. The auditor may obtain evidence that the financial report agrees or reconciles with the underlying accounting records by tracing the financial report to:
- (a) the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
- (b) other supporting data in the entity's records as necessary. (Ref: Para. 17)
- A25. The auditor need not perform procedures to identify events occurring after the date of the review report. (Ref: Para. 18)
- A26. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report, or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor needs to enquire also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation. (Ref: Para. 19)

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A27. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract. (Ref: Para. 20)

**Comparatives – First Financial Report** (Ref: Para. 21)

A28. When comparative information is included in the first financial report and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and the auditor needs to modify the review report. Ordinarily, a restriction on the scope of the auditor's work will result in a qualified ("except for") conclusion. In such cases, ordinarily an auditor encourages clear disclosure in the financial report, that the auditor has been unable to review the comparatives. An example of a modified review report is included in Appendix 4.

A29. When comparative information is included in the first financial report and the auditor believes a material adjustment should be made to the financial report, under paragraph 33, the auditor needs to modify the review report.

A30. When an entity has come into existence only within the first financial reporting period, comparative information will not be provided in the first financial report and no modified review report is required.

A31. Accounting Standard AASB 101 *Presentation of Financial Statements* provides requirements and explanatory guidance relating to comparative information included in a financial report prepared in accordance with Australian Accounting Standards. Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* provides requirements and guidance relating to comparative information when an entity adopts Australian Accounting Standards for the first time.

**Evaluation of Misstatements** (Ref: Para. 22)

A32. A review of a financial report, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

A33. The auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or current year, and the potential effect of the misstatements on future interim or annual periods.

A34. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the financial report. In so doing, under paragraph 15, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the financial report.

**Written Representations**

A35. The auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative representation letter is set out in Appendix 1. (Ref: Para. 23)

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**Auditor's Responsibility for Other Information**

A36. If the auditor identifies a material inconsistency, the auditor needs to consider whether the financial report or the other information needs to be amended. If an amendment is necessary in the financial report and those charged with governance refuse to make the amendment, under paragraph 29, the auditor needs to consider the implications for the review report. If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may, for example, consider including in the review report an Other Matter Paragraph describing the material inconsistency (ASA 706 includes guidance which may be helpful<sup>4</sup>) or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the financial report, and such alternative measures are given excessive prominence, or are not clearly defined, or not clearly reconciled to the financial report such that they are confusing and potentially misleading. (Ref: Para. 25)

Aus A36.1 For a review of a half-year financial report under the *Corporations Act 2001 (Act)*, withholding the issuance of the review report and/or withdrawing from the review engagement are not options available under the Act. (Ref: Para. 29)

A37. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (that is, information, not related to matters appearing in the financial report, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice. ASA 720\* includes guidance which may be beneficial. (Ref: Para. 26)

**Communication**

A38. Communications with management and/or those charged with governance are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph 44, the auditor needs to document the communication. (Ref: Para. 28)

A39. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. (Ref: Para. 30)

A40. As a result of performing a review of a financial report, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. (Ref: Para. 31)

**Reporting the Nature, Extent and Results of the Review of a Financial Report** (Ref: Para. 32)

A41. In some cases, law or regulation governing the review of a financial report may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 32(i). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this Auditing Standard for coming to the conclusion

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<sup>4</sup> See ASA 706 Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report.

\* See ASA 720 The Auditor's Responsibilities Relating to Other Information

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remain the same. ASA 700 includes guidance which may be helpful.<sup>5</sup> Illustrative review reports are set out in Appendices 3 and 4.

**Departure from the Applicable Financial Reporting Framework** (Ref: Para. 33–34)

- A42. If matters have come to the auditor's attention that cause the auditor to believe that the financial report is or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the financial report, the auditor needs to modify the review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the financial report, the auditor needs to modify the review report and, if practicable, include the necessary information in the review report. Illustrative review reports with a qualified conclusion are set out in Appendix 4.
- A43. Departures from the applicable financial reporting framework, may result in an adverse conclusion. An illustrative review report with an adverse conclusion is set out in Appendix 4.

**Limitation on Scope** (Ref: Para. 35)

- A44. Ordinarily, a limitation on scope prevents the auditor from completing the review.

**Limitation on Scope Imposed by Management**

- A45. The auditor needs to refuse to accept an engagement to review a financial report if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity. (Ref: Para. 36)
- A46. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor needs to request the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor needs to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, under paragraphs 27, 28 and 30, the auditor needs to communicate such matters to the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. 37)
- A47. The auditor needs to consider the legal and regulatory requirements, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, the auditor needs to disclaim a conclusion and provide in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework the auditor needs to communicate such a matter in the report. (Ref: Para. 38)

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. 39)

- A48. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management or those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion, and is guided by paragraphs 38 and 39. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the financial report. In such circumstances, the auditor needs to modify the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was

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<sup>5</sup> See ASA 700 Forming an Opinion and Reporting on a Financial Report.



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conducted in accordance with this Auditing Standard, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 4.

- A49. The auditor may have expressed a qualified opinion on the audit of the latest annual financial report because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the review report.

**Going Concern and a Material Uncertainty Exists s** (Ref: Para. 40-43)

- A50. The auditor may have alerted users to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern by adding an emphasis of matter paragraph to a prior audit or review report. If the material uncertainty still exists and adequate disclosure is made in the financial report, the auditor needs to continue to alert users by adding a "Material Uncertainty Related to Going Concern" section to the review report to highlight the continued material uncertainty.
- A51. If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that casts significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the financial report, the auditor needs to alert users by adding a "Material Uncertainty Related to Going Concern" section to the review report.
- A52. ASA 570 *Going Concern* provides information that the auditor may find helpful in considering going concern in the context of the review engagement.

**Other Considerations**

- A53. The terms of the engagement include agreement by those charged with governance that, where any document containing a financial report indicates that the report has been reviewed by the entity's auditor, the review report will be also included in the document. If those charged with governance have not included the review report in the document, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances. (Ref: Para. 12)
- A54. If the auditor has issued a modified review report and those charged with governance issue the financial report without including the modified review report in the document containing the financial report, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial report.

**Considerations Specific to Public Sector Entities**

- A55. The auditor needs to agree with the client the terms of engagement. When agreeing the terms of engagement, an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Nevertheless, an engagement letter setting out the matters referred to in paragraph A8 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter. (Ref: Para. 12)
- A56. In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept, or to withdraw from a review engagement. The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial report. (Ref: Para. 29(b)-29(c) and 36)

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A57. The auditor needs to communicate to those charged with governance and consider the implications for the review when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities. (Ref: Para. 31)

**Documentation** (Ref: Para. 44)

A58. The auditor needs to prepare documentation that enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

## **Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity***

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### **Conformity with International Standards on Review Engagements**

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

The underlying standard is extant ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*. The underlying standard to extant ASRE 2410 is ISRE 2410 which has not been drafted in “clarity” format by the IAASB.

In 2009, following consultation with constituents in Australia in accordance with normal exposure draft processes, the AUASB decided that:

- due to the nature of reviews of other historical financial information, a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose; and
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, developed by the AUASB, deals with reviews of other historical financial information.

Accordingly, ASRE 2410 is intended to conform, with the exceptions listed below, to ISRE 2410 to the extent that ISRE 2410 deals with the review of financial statements by the auditor of the entity.

Except as noted below, this Auditing Standard conforms, to the extent described above, with International Standard ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. The main differences between this Auditing Standard and ISRE 2410 are:

1. This Auditing Standard contains the following requirements that are not contained in ISRE 2410:
    - This Auditing Standard applies to:
      - (a) a review, by the independent auditor of the entity, of a financial report for a half-year in accordance with the *Corporations Act 2001*; and
      - (b) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose (Ref: Para. 1(a) and (b)).
    - Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
      - ◆ if possible, perform appropriate alternative procedures; and
      - ◆ document in the working papers:
        - the circumstances surrounding the inability to comply;
        - the reasons for the inability to comply; and
        - justification of how alternative procedures achieve the objectives of the requirement.
- When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor’s review report (Ref: Para. 7).
- The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from

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management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:

- ◆ for the preparation and fair presentation of the financial report;
- ◆ for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
- ◆ to provide the auditor with:
  - access to information relevant to the preparation of the financial report;
  - additional information that the auditor may request for the purposes of the review engagement; and
  - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence (Ref: Para. 11).
- The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation (Ref: Para. 12).
- The auditor shall consider materiality, using professional judgement, when:
  - ◆ determining the nature, timing and extent of review procedures; and
  - ◆ evaluating the effect of misstatements (Ref: Para. 15).
- When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report (Ref: Para. 21).
- If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate (Ref: Para. 24).
- When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the auditor shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review (Ref: Para. 30).
- The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, states the effects on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor shall be included in the basis for modification paragraph. The conclusion paragraph shall be headed "Qualified Conclusion" or "Adverse Conclusion", whichever is relevant (Ref: Para. 33).
- When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the

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misleading or incomplete nature of the financial report, the auditor shall express an adverse conclusion (Ref: Para. 34).

- Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review (Ref: Para. 36).
- If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reasons why the review cannot be completed (Ref: Para. 37).
- If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed (Ref: Para. 38).
- The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified opinion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed "Qualified Conclusion" (Ref: Para. 39).

53. The following requirements in ISRE 2410, paragraph 43(e) and paragraph 43(j), are not contained in this Auditing Standard:

Paragraph 43(e)

"In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework".

Paragraph 43(j)

"In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards)."

Requirements and guidance on the review of financial statements that are prepared in accordance with a financial reporting framework that is not designed to achieve fair presentation are included in ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

54. This Auditing Standard includes explanatory guidance not contained within ISRE 2410 on:
- Materiality (Ref: Para. A14 to A18); and
  - Comparatives (Ref: Para. A28 to A31).
55. This Auditing Standard provides illustrative examples that differ in form and content from those contained in ISRE 2410, namely:

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- An engagement letter (Appendix 1).
- A written representation letter (Appendix 1).
- The auditor's unmodified review reports (Appendices 3 and 4).
- The auditor's modified review reports (Appendix 4).

56. This Auditing Standard provides illustrative detailed procedures that may be performed in an engagement to review a financial report that are not contained in ISRE 2410 (Appendix 2).

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410 to the extent described above.

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## Appendix 1

(Ref: Para. A8)

### EXAMPLE OF AN ENGAGEMENT LETTER FOR A REVIEW OF A FINANCIAL REPORT

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

To [those charged with governance:<sup>6</sup>]

#### Scope

You have requested that we review the half-year financial report<sup>7</sup> of [name of entity], which comprises the statement of financial position as at 31 December 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month<sup>8</sup> period ended on that date, and notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, issued by the Auditing and Assurance Standards Board, with the objective of providing us with a basis for reporting whether we have become aware of any matter [anything has come to our attention<sup>9</sup>] that makes [causes] us [to] believe that the half-year financial report is not prepared, in all material respects, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 2001* [indicate applicable financial reporting framework]. Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of a financial report is substantially less than the scope of an audit conducted in accordance with Auditing Standards whose objective is the expression of an opinion regarding the financial report and accordingly, we shall express no such opinion. ASRE 2410 requires us to also comply with the ethical requirements relevant to the audit of the annual financial report of the entity.

We expect to report on the half-year financial report<sup>10</sup> as follows:

[Include text of sample review report - see Appendix 3 or 4 as appropriate.]

The directors [those charged with governance<sup>11</sup>] of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error. As part of our review, we shall request written representations from management concerning assertions made in connection with the review. We shall also request that where any document containing the half-year financial report indicates that the half-year financial report has been reviewed, our review report will also be included in the document.

<sup>6</sup> Insert the appropriate term, such as "Directors" or "Board of Management".

<sup>7</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>8</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>9</sup> Use in a review of a half-year financial report prepared other than in accordance with the *Corporations Act 2001*.

<sup>10</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>11</sup> Insert the appropriate term, such as "Directors or Board of Management".

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The directors [those charged with governance] of the [company/registered scheme/disclosing entity] acknowledge and understand they have responsibility to provide us with:

- (i) access to information relevant to the preparation of the half-year financial report;
- (ii) additional information that we may request for the purposes of the review engagement; and
- (iii) unrestricted access to persons from whom we determine it is necessary to obtain evidence.

A review of the half-year financial report does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

### **Independence**

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the review of the half-year financial report. In conducting our review of the half-year financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our review process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the reviewed entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- The provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- The prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

### **Presentation of the reviewed half-year financial report in electronic format**

It is our understanding that [the entity] intends to publish a hard copy of the reviewed half-year financial report and the auditor's review report for members, and to electronically present the reviewed half-year financial report and the auditor's review report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by [the entity] to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of reviewed financial information on the entity's web site is beyond the scope of the review of the half-year financial report. Responsibility for the electronic presentation of the half-year financial report on the entity's web site is that of the [governing body of the entity].

### **Fees**

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.



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[This letter will be effective for future years unless it is terminated, amended or superseded.<sup>12</sup>]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the half-year financial report.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

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<sup>12</sup> Use if applicable.

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## **EXAMPLE OF A REPRESENTATION LETTER**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

Representations by management will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management have made oral representations which the auditor wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your review of the half-year<sup>13</sup> financial report<sup>14</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether you became aware of any matter in the course of the review that makes you believe that the half-year financial report is not in accordance with the *Corporations Act 2001*.

We acknowledge our responsibility for ensuring that the half-year financial report is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the [company/entity]'s financial position as at [date] and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

We confirm that the half-year financial report is prepared and presented in accordance with the *Corporations Act 2001* and is free of material misstatements, including omissions.

OR

[This representation letter is provided in connection with your review of the financial report<sup>15</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the financial report is not, in all material respects, presented fairly in accordance with [applicable financial reporting framework<sup>16</sup>].

We acknowledge our responsibility for ensuring that the financial report is in accordance with [applicable financial reporting framework].

We confirm that the financial report is prepared and presented fairly in accordance with [applicable financial reporting framework] and is free of material misstatements, including omissions].

We confirm, to the best of our knowledge and belief, the following representations made to you during your review.

[Include representations required by this Auditing Standard (paragraph 23) and those relevant to the entity. Such representations may include the following examples.]

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<sup>13</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>14</sup> If the term “half-year financial report” is not appropriate, then this term should be changed to reflect the type of report being reviewed.

<sup>15</sup> The term “financial report” should be changed to reflect the type of report being reviewed, as appropriate.

<sup>16</sup> Specify the applicable financial reporting framework/requirements.

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1. We have made available to you:
  - a. all financial records and related data, other information, explanations and assistance necessary for the conduct of the review; and
  - b. minutes of all meetings of [shareholders, directors, committees of directors, Boards of Management].
2. We have disclosed to you the results of our assessment of the risk that the [financial report] may be materially misstated as a result of fraud.
3. There:
  - a. has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
  - b. has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the financial report; and
  - c. have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report.
4. We are responsible for an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of a reliable financial report, and adequate financial records have been maintained. There are no material transactions that have not been recorded properly in the accounting records underlying the financial report.
5. We have no plans or intentions that may affect materially the carrying values, or classification, of assets and liabilities.
6. We have considered the requirements of Accounting Standard AASB 136 *Impairment of Assets*, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.
7. We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the [half-year] financial report taken as a whole.
8. The following have been recorded and/or disclosed properly in the [half-year] financial report:
  9. related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral);
  10. share options, warrants, conversions or other requirements;
  11. arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements;
  12. agreements to repurchase assets previously sold;
  13. material liabilities or contingent liabilities or assets including those arising under derivative financial instruments;
  14. unasserted claims or assessments that our lawyer(s) has advised us are probable of assertion; and

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15. losses arising from the fulfilment of, or an inability to fulfil, any sale commitments or as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.
16. There are no violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial report or as a basis for recording an expense.
17. The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed nor has any asset been pledged as collateral. Allowances for depreciation have been adjusted for all important items of property, plant and equipment that have been abandoned or are otherwise unusable.
18. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial report in the event of non-compliance.
19. There were no material commitments for construction or acquisition of property, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial report.
20. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
21. No events have occurred subsequent to the balance sheet date through to the date of this letter that would require adjustment to, or disclosure in, the [financial report].

We understand that your examination was made in accordance with Auditing Standard on Review Engagements ASRE 2410 and was, therefore, designed primarily for the purpose of expressing a conclusion on the financial report of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

*Notes:*

[The above example representation letter may need to be amended in certain circumstances. The following illustrate some of those situations.]

(b) Exceptions

Where matters are disclosed in the financial report, the associated representation needs to be amended, for example:

- If a subsequent event has been disclosed, Item 14 (above) could be modified to read:  
 “Except as discussed in Note X to the financial report, no events have occurred ....”
- If the entity has plans that impact the carrying values of assets and liabilities, Item 5 (above) could be modified to read:  
 “The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plan to dispose of segment X, as

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disclosed in note Y in the financial report, which is discussed in the minutes of the meeting of the governing body<sup>17</sup> held on [date]”.

(c) Other Required Information

Certain entities may be required to include other information in the financial report, for example, performance indicators for government entities. In addition to identifying this information and the applicable financial reporting framework in paragraphs 1 and 2 of the example management representation letter, an additional paragraph similar to the following may be appropriate:

“The disclosures of key performance indicators have been prepared and presented in conformity with [relevant statutory requirements] and we consider the indicators reported to be relevant to the stated objectives of the [entity]”.

(d) Management’s Opinions and Representation in the Notes to the Financial Statements

Where the notes to the financial statements include opinions and representations by management, such matters may be addressed in the representation letter. For example, notes relating to the anticipated outcome of litigation, the intent and ability to hold long-term securities to maturity and plans necessary to support the going concern basis.

(e) Environmental Matters

In situations where there are environmental matters that may, but probably will not, require an outflow of resources, this may be reflected in an addition to Item 9 (above), for example:

“However, the [entity] has received a notice from the Environmental Protection Agency that it may be required to share in the cost of cleanup of the [name] waste disposal site. This matter has been disclosed in Note A in the financial report and we believe that the disclosure and estimated contingent loss is reasonable based on available information.”

(f) Compliance

If, as part of the review, the auditor is required also to report on the entity’s compliance with laws and regulations, a representation may be appropriate acknowledging that management is responsible for the entity’s compliance with applicable laws and regulations and that the requirements have been met. For example, for reviews under the *Corporations Act 2001*, the following paragraph may be added:

“The financial records of the [company, registered scheme or disclosing entity] have been kept so as to be sufficient to enable a financial report to be prepared and reviewed, and other records and registers required by the *Corporations Act 2001* have been kept properly and are up-to-date.

(g) Other Matters

Additional representations that may be appropriate in specific situations may include the following:

- Justification for a change in accounting policy.
- The work of a management expert has been used.

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<sup>17</sup> Insert the appropriate term, such as “Directors or Board of Management”.

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- Arrangements for controlling the dissemination of the financial report and auditor's review report on the Internet.

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## **Appendix 2**

(Ref: Para. A20)

### **ANALYTICAL PROCEDURES THE AUDITOR MAY CONSIDER WHEN PERFORMING A REVIEW OF A FINANCIAL REPORT**

The analytical procedures carried out in a review of a financial report are determined by the auditor's judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

Examples of analytical procedures the auditor may consider when performing a review of a financial report include the following:

- Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.
- Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the and the cost of sales in the current financial report with corresponding information in:
  - budgets, including expected gross margin(s); and
  - financial information for prior periods.
- Comparing the current financial report with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
  - by product line or source of revenue;
  - by location, for example by component;
  - by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
  - by several attributes of the transaction, for example, sales by product and month.

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**ILLUSTRATIVE DETAILED PROCEDURES THAT MAY BE PERFORMED  
 IN AN ENGAGEMENT TO REVIEW A FINANCIAL REPORT**

The enquiry, analytical and other procedures carried out in a review of a financial report are determined by the auditor exercising professional judgement in light of the auditor's assessment of the risk of material misstatement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

*General*

1. Confirm that the engagement team complies with relevant independence and ethical requirements.
2. Prepare and send an engagement letter to the entity.
3. Discuss the terms and scope of the engagement with the engagement team.
4. Obtain or update knowledge and understanding of the business, the key internal and external changes (including laws and regulations), and their effect on the scope of the review, materiality and risk assessment. This can be performed through the following:
  - a. Ascertaining whether there have been any significant changes to the nature and scope of operations.
  - b. Considering the results and effects of previous audits and review engagements.
  - c. Enquiring of persons responsible for financial reporting in respect of matters that impact on the reliability of the underlying accounting records. For example, considering fraud risk, material weaknesses in internal controls and any significant changes to internal control policies and procedures
  - d. Considering the results of any internal audits performed and the subsequent actions taken by management.
  - e. Considering whether additional procedures will be required on any significant accounts where internal controls relating to significant processes have been historically unreliable in detecting and preventing errors in the financial report.

Assess the relevance and impact of the results of the above procedures on the current period.

5. Determine materiality, exercising professional judgement, considering both qualitative and quantitative factors.
6. Enquire of persons responsible for financial reporting about the following:
  - a. Accounting policies adopted and consider whether:
    - i. they comply with the applicable financial reporting framework;
    - ii. they have been applied appropriately; and
    - iii. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
  - b. Policies and procedures used to assess asset impairment and any consequential estimation of recoverable amount.



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- c. The policies and procedures to determine the fair value of financial assets and financial liabilities.
  - d. New, unusual or complex situations that may have affected the financial report such as a business combination or disposal of a segment of the business. Consider adequacy of additional note disclosures in the financial report.
  - e. Plans to dispose of major assets or business segments.
  - f. Material off-balance sheet transactions, special purpose entities and other equity investments and related accounting treatment and disclosure.
  - g. Knowledge of any allegations of fraud, or suspected fraud.
  - h. Knowledge of any actual or possible significant non-compliance with laws and regulations.
  - i. Compliance with debt covenants.
  - j. Material or unusual related party transactions.
  - k. New or significant changes in commitments, contractual obligations.
7. Obtain and read the minutes of meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquire about matters dealt with at meetings for which minutes are not yet available that may affect the financial report.
  8. Enquire if actions taken at meetings of shareholders or those charged with governance that affect the financial report have been appropriately reflected therein.
  9. Ensure the financial report is agreed to the trial balance and is fairly presented including additional disclosure notes. If applicable, enquire as to whether all intercompany balances have been eliminated.
  10. Review other information included in the financial report and document findings. Discuss any material misstatements of fact with the entity's management.

*Cash*

11. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel to assess reasonableness.
12. Enquire about transfers between cash accounts for the period before and after the review date.
13. Enquire whether there are any restrictions on cash accounts.

*Revenue and Receivables*

14. Enquire about the accounting policies for recognising sales revenue and trade receivables and determine whether they have been consistently and appropriately applied.
15. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
16. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
17. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectability of receivables.

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18. Consider, with management, the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance and other related parties in the financial report.
19. Enquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
20. Enquire whether receivables have been pledged, factored or discounted and determine whether they have been properly accounted for.
21. Enquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
22. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
23. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting date and whether provision has been made for such amounts. Consider the reasonableness of any provisions.

*Inventories*

24. Obtain the inventory list and determine whether:
  - a. the total agrees with the balance in the trial balance; and
  - b. the list is based on a physical count of inventory.
25. Enquire about the method for counting inventory.
26. Where a physical count was not carried out on the balance sheet date, enquire whether:
  - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
  - b. an integrated cost system is used and whether it has produced reliable information in the past.
27. Consider adjustments made resulting from the last physical inventory count.
28. Enquire about procedures applied to control cut-off and any inventory movements.
29. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and replacement cost for not-for-profit organisations).
30. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
31. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
32. Compare inventory turnover with that in previous periods.
33. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
34. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.

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35. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (Including Associated Entities and Financial Instruments)*

36. Obtain a schedule of the investments at the balance sheet reporting date and determine whether it agrees with the trial balance.
37. Enquire whether the accounting policy applied to investments is consistent with prior periods.
38. Enquire from management about the carrying values of investments. Consider whether there are any realisation problems.
39. Enquire whether there are any new investments, including business combinations. Consider classification, measurement and disclosure in respect of material or significant acquisitions.
40. Consider whether gains and losses and investment income have been properly accounted for.
41. Enquire about the classification of long-term and short-term investments.

*Property Plant and Equipment and Depreciation*

42. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
43. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether there are any indicators of impairment and whether the property, plant and equipment have suffered a material, permanent impairment in value.
44. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been properly accounted for.
45. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
46. Enquire whether there are any restrictions on the property, plant and equipment.
47. Enquire whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

*Prepaid Expenses, Intangibles and Other Assets*

48. Obtain schedules identifying the nature of these accounts and determine whether they agree with the trial balance. Discuss recoverability thereof with management.
49. Enquire whether management have updated their impairment calculations in respect of goodwill or other intangibles. Consider whether there have been any indicators of impairment for intangibles and enquire whether management have appropriately considered discount rates, growth rates, etc.
50. Enquire about the basis for recording these accounts and the amortisation methods used.
51. Compare balances of related expense accounts with those of prior periods and obtain explanations for significant variations with management.
52. Discuss the classification between current and non-current accounts with management.

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*Investment Property*

53. Obtain a schedule of investment property and determine whether it agrees with the trial balance.
54. Enquire whether the accounting policy applied to investment property is consistent with prior periods.
55. Update with management the acquisitions and disposals to investment property and accounting for gains and losses on disposals or de-recognition. Determine whether all significant transactions have been accounted for appropriately.
56. Consider whether there are any indicators of impairment and whether any investment property was subject to recent valuations.

*Loans Payable*

57. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
58. Enquire whether there are any loans where there has been a change to the terms and conditions or management has not complied with the provisions of the loan agreement, including any debt covenants. Assess whether loans have been appropriately classified as current or non-current in the financial report.
59. Where material, consider the reasonableness of interest expense in relation to loan balances.
60. Enquire whether loans payable are secured. Review loan and working capital facilities. Enquire if options to extend terms have been exercised or if any debt requires refinancing.

*Trade Payables*

61. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
62. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
63. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
64. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
65. Consider whether there could be material unrecorded liabilities.
66. Enquire whether payables to shareholders, those charged with governance and other related parties are separately disclosed.

*Other Liabilities and Contingent Liabilities*

67. Obtain a schedule of other liabilities and determine whether the total agrees with the trial balance.
68. Compare major balances of related expense accounts with similar accounts for prior periods.
69. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.

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70. Enquire about other liabilities to assess whether the methodology and assumptions adopted are consistent with prior periods. Enquire whether there are any unusual trends and developments affecting accounting estimates.
71. Enquire as to the nature of amounts included in contingent liabilities and commitments.
72. Enquire whether any actual or contingent liabilities exist which have not been recognised in the accounts. If so, enquire with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

*Income and Other Taxes*

73. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity. Examine correspondence in relation to any significant matters arising and assess whether events have been reflected appropriately in the financial report.
74. Consider the tax expense in relation to the entity's income for the period.
75. Enquire from management as to the adequacy of the recognised deferred and current tax assets and/or liabilities including provisions in respect of prior periods.

*Financial Instruments*

76. Enquire or update knowledge and understanding with persons responsible for financial reporting (including any treasury specialist), of what derivatives are in place, what accounting policies are applied to these derivatives and whether they have been consistently applied.
77. Enquire whether any hedges have been entered into for speculative purposes.
78. Enquire whether there are adequate policies and procedures to determine the fair value of financial assets and financial liabilities.
79. Enquire whether there are any sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity.

*Employee Share Plans*

80. Enquire about any new employee share plans or changes to existing plans, and where employee share plans are material, assess whether the accounting methodology has been consistently applied.

*Subsequent Events*

81. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.
82. Enquire about events after the balance sheet reporting date that would have a material effect on the financial report under review and, in particular, enquire whether:
  - a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
  - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
  - c. any unusual adjustments have been made during the period between the balance sheet reporting date and the date of enquiry.

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Consider the need for adjustments or disclosure in the financial report.

83. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the balance sheet date and consider any impact of the financial report and disclosures.

*Litigation*

84. Enquire from persons responsible for financial reporting, and where appropriate in-house litigation specialists, whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the financial report and any provision for loss.

*Equity*

85. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends. Consider whether there are any unusual terms for new issues of debt or equity which could affect classification.
86. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations*

87. Compare results with those of prior periods and those expected for the current period. Obtain explanations of significant variations with management.
88. Enquire whether the recognition of major revenue and expenses have taken place in the appropriate periods.
89. Enquire whether the policies and procedures related to revenue recognition, including accrued income, have been consistently applied and whether there are any new or complex changes, including any changes in major contracts with customers or suppliers.
90. Consider and update with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.
91. Discuss the policy in respect of capitalisation of interest and whether it is in accordance with Australian Accounting Standards.

*Going Concern Assessment*

92. Consider the going concern assumption. When events or conditions come to attention which cast significant doubt on the entity's ability to continue as a going concern, perform additional procedures to assess the impact on the financial report and review report. Additional procedures may include:
- i. Discussion with those charged with governance to understand the events and circumstances that have contributed to the current situation to determine whether the risk arising can be mitigated.
  - ii. Plans for future actions, such as plans or intentions to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
  - iii. Feasibility of the plans and whether those charged with governance believe that the outcome of these plans will improve the situation.
93. Consider the adequacy of disclosure about such matters in the financial report

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*Evaluation of Misstatements*

- 94. Ensure significant review differences have been summarised and their effect evaluated.
- 95. Ensure material adjustments identified are notified to management/ those charged with governance (as appropriate).

*Written Representations*

- 96. Obtain written representation from the directors/management/those charged with governance (as appropriate) to confirm matters arising during the course of the review engagement.

*Documentation*

- 97. Ensure that review documentation is sufficient and appropriate to provide a basis for the conclusion and to provide evidence of compliance with ASRE 2410.

## **Appendix 3**

(Ref: Para. A41)

### **AN AUDITOR'S REVIEW REPORT UNDER THE *CORPORATIONS ACT 2001***

#### **Financial Report for a Half-year**

#### **Introduction**

1. This Appendix has been prepared to assist an auditor, engaged to undertake a review engagement, by providing an example of an auditor's review report on a review of a financial report for a half-year prepared in accordance with Part 2M.3 of the *Corporations Act 2001* ("The Act"). The example reflects both requirements of this Auditing Standard and the Act, but is not intended to require standard wording for the circumstances of particular modifications.
2. This Appendix contains limited extracts from the Act and the Australian Accounting Standards in order to provide a context for the example report included in this Appendix. These selected extracts are included in this Appendix only for the purpose stated and accordingly are not intended to be an exhaustive list of an auditor's obligations and requirements which are found elsewhere in this Auditing Standard, the Act, the Australian Accounting Standards and other relevant mandates.
3. This Appendix:
  - a) Includes selected extracts from the Act and Australian Accounting Standards, and references to other relevant information, to provide a contextual framework; and
  - b) Provides an example of a review report.

#### **Contextual Framework**

##### ***Corporations Act 2001***

The following selected extracts from the Act are included in this Appendix only to point to some of the important requirements of the Act that affect auditors engaged to undertake a review engagement in accordance with the Act.

4. Section 302 states:
 

"A disclosing entity<sup>18</sup> must:

  - (a) prepare a financial report and directors' report for each half-year; and
  - (b) have the financial report audited or reviewed in accordance with Division 3 and obtain an auditor's report; and
  - (c) lodge the financial report, the director's report and the auditor's report on the financial report with ASIC;

unless the entity is not a disclosing entity when lodgement is due".

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<sup>18</sup> The definition of a "disclosing entity" is found in Part 1.2A, Division 2, section 111AC of the *Corporations Act 2001*.



**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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5. Section 303(1) states:

- a) “The financial report for a half-year consists of:
- b) the financial statements for the half-year;
- c) the notes to the financial statements; and
- d) the directors’ declaration about the statements and notes”.

6. Section 304 states:

“The financial report for a half-year must comply with the accounting standards and any further requirements in the regulations”.

7. Section 305 states:

“The financial statements and notes for a half-year must give a true and fair view of:

- a) the financial position and performance of the disclosing entity; or
- b) if consolidated financial statements are required the financial position and performance of the consolidated entity.

This section does not affect the obligation under section 304 for financial reports to comply with accounting standards.

Note: If the financial statements prepared in compliance with the accounting standards would not give a true and fair view, additional information must be included in the notes to the financial statements under paragraph 303(3)(c)”.

8. Section 309(4) states:

“An auditor who reviews the financial report for a half-year must report to members on whether the auditor became aware of any matter in the course of the review that makes the auditor believe the financial report does not comply with Division 2”.

9. Section 309(5) states:

“A report under subsection (4) must:

- a) Describe any matter referred to in subsection (4); and
- b) Say why that matter makes the auditor believe that the financial report does not comply with Division 2”.

10. Section 309(5A) states:

“The auditor’s report must include any statements or disclosures required by the auditing standards”.

11. Section 320 states:

“A disclosing entity that has to prepare or obtain a report for a half-year under Division 2 must lodge the report with ASIC within 75 days after the end of the half-year”.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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12. **Other Information – ASIC and ASX** An auditor, in the role of auditor, is required by section 311 of the Act to notify ASIC if the auditor is aware of certain circumstances. ASIC Regulatory Guide 34 *Auditors’ obligations: reporting to ASIC* (December 2007), provides guidance to help auditors comply with their obligations under section 311 of the Act.
13. ASIC and the ASX have agreed that listed entities can satisfy the requirements of the Act by lodging the half-year financial report, the directors’ report, and the review report on the financial report with the ASX. Details are provided in ASIC Regulatory Guide 28 *Relief from dual lodgement of financial reports* (July 2003) and *Class Order 98/104* (as amended by Class Orders 99/90 and 99/837).

**Australian Accounting Standards**

14. Minimum Components of an Interim Financial Report – AASB 134 Interim Financial Reporting, paragraph 8:

An interim financial report shall include, at a minimum, the following components:

- a. a condensed statement of financial position;
- b. a condensed statement of comprehensive income;
- c. a condensed statement of changes in equity showing either:
  - i. all changes in equity; or
  - ii. changes in equity other than those arising from capital transactions with owners and distributions to owners;
- d. a condensed statement of cash flows; and
- e. selected explanatory notes.

15. Form and Content of Interim Financial Reports - AASB 134 paragraph 9 states:

“If an entity publishes a complete financial report as its interim financial report, the form and content of that report shall conform to the requirements of AASB 101 for a financial report”.

16. Form and Content of Interim Financial Reports – AASB 134 paragraph 10 states:

“If an entity publishes a condensed financial report as its interim financial report, that condensed report shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial report and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial report misleading”.

17. Materiality - AASB 134 paragraph 23 states:

“In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data”.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON  
A HALF-YEAR FINANCIAL REPORT – SINGLE DISCLOSING  
ENTITY**

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of [name of entity]

**Report on the Half-Year Financial Report**

*Conclusion*

We have reviewed the accompanying half-year financial report of [name of entity], which comprises the condensed statement of financial position as at 31 December 20XX, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies [statement or description of accounting policies<sup>19</sup>] and other explanatory information, and the directors' declaration.<sup>20</sup>

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of [name of entity] is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the [name of entity's] financial position as at 31 December 20XX and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of [name of entity], would be in the same terms if given to the directors as at the time of this auditor's review report.<sup>21</sup>

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year

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<sup>19</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>20</sup> When the auditor is aware that the half-year financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited half-year financial report is presented.

<sup>21</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the [entity's] financial position as at 31 December 20XX and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>22</sup>

[Date of the auditor's review report]<sup>23</sup>

[Auditor's address]

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<sup>22</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

<sup>23</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**Appendix 4**

(Ref: Para. A41)

**Illustrations of Auditors' Review Reports—Unmodified and Modified Conclusions**

Example of an Unmodified Auditor's Review Report on a Financial Report  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion (Except For) for a Departure from the Applicable Financial Reporting Framework  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion for a Limitation On Scope Not Imposed by Management  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of An Auditor's Review Report with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

Example of an Auditor's Review Report with a Qualified Conclusion (Except for) on the Basis that Comparatives have not been Reviewed or Audited  
*Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON A  
 FINANCIAL REPORT**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
 FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>24</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>25</sup>].<sup>26 27</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of<sup>28</sup>"] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

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<sup>24</sup> Insert relevant statement or description of accounting policies.

<sup>25</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>26</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>27</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>28</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial does not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [entity] as at [date] and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor’s review report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]<sup>29</sup>

[Date of the auditor’s review report]<sup>30</sup>

[Auditor’s address]

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<sup>29</sup> The auditor’s review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>30</sup> The date of the auditor’s report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410  
Review of a Financial Report Performed by the Auditor of the Entity**

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**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION (EXCEPT FOR) FOR A DEPARTURE FROM THE  
APPLICABLE FINANCIAL REPORTING FRAMEWORK**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies,<sup>31</sup>] other selected explanatory notes, and [the declaration of those charged with governance<sup>32</sup>].<sup>33, 34</sup>

Based on our review, which is not an audit, with the exception of the matter described in the *Basis for Qualified Conclusion* paragraph, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>35</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$\_\_\_\_\_, long-term debt by \$\_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$\_\_\_\_\_ and \$\_\_\_\_\_ respectively for the [period] ended on that date.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

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<sup>31</sup> Insert relevant statement or description of accounting policies.

<sup>32</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>33</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>34</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>35</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.



**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>36</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>37</sup>

[Date of the auditor's review report]<sup>38</sup>

[Auditor's address]

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<sup>36</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>37</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>38</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**EXAMPLE OF AN AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION FOR A LIMITATION ON SCOPE NOT IMPOSED BY  
MANAGEMENT**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>39</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>40</sup>].<sup>41, 42</sup>

Except for the adjustments to the [period] financial report that we might have become aware of had it not been for the situation described in the *Basis for Qualified Conclusion* paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of<sup>43</sup>"] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$\_\_\_\_\_ included in the [period] financial report. The [entity] is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial report.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance]

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<sup>39</sup> Insert relevant statement or description of accounting policies.

<sup>40</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>41</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>42</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>43</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity

for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>44</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>45</sup>]

[Date of the auditor's review report]<sup>46</sup>

[Auditor's address]

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<sup>44</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>45</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>46</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**EXAMPLE OF AN AUDITOR’S REVIEW REPORT WITH AN ADVERSE  
CONCLUSION FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL  
REPORTING FRAMEWORK**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR’S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Adverse Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>47</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>48</sup>].<sup>49, 50</sup>

Our review indicates, because the [entity’s] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the *Basis for Adverse Conclusion* paragraph, this [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of<sup>51</sup>”] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Adverse Conclusion*

As explained in Note X, commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial reports of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had a consolidated financial report been prepared, virtually every account in the financial report would have been materially different. The effects on the financial report of the failure to consolidate have not been determined.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor’s Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance]

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<sup>47</sup> Insert relevant statement or description of accounting policies.

<sup>48</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>49</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>50</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>51</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>52</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>53</sup>]

[Date of the auditor's review report]<sup>54</sup>

[Auditor's address]

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<sup>52</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>53</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>54</sup> The date of the auditor's report is the date the auditor signs the report.

**Proposed Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Auditor of the Entity***

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**EXAMPLE OF AN AUDITOR’S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION (EXCEPT FOR) ON THE BASIS THAT COMPARATIVES  
HAVE NOT BEEN REVIEWED OR AUDITED**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR’S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report**

*Qualified Conclusion*

We have reviewed the accompanying [period] financial report of [name of entity], which comprises the balance sheet as at [date], and the income statement, statement of changes in equity and cash flow statement for the [period] ended on that date, a [statement or description of accounting policies<sup>55</sup>], other selected explanatory notes, and [the declaration of those charged with governance<sup>56</sup>].<sup>57, 58</sup>

Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the *Basis for Qualified Conclusion* paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of<sup>59</sup>”] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

As this is the first year that [name of entity] is required to prepare a [period] financial report and have it reviewed, the balance sheet, income statement, statement of changes in equity, cash flow statement, [statement or description of accounting policies<sup>60</sup>] and other selected explanatory notes for the preceding corresponding [period] have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the [period] ended [date of preceding corresponding period]. We have, however, audited the financial report for the preceding financial year ended [date of preceding financial year] and therefore our review statement is not qualified in respect of the comparative information for the year ended [date of preceding financial year] included in the balance sheet.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Auditor of the Entity*. Our responsibilities are further described in the *Auditor’s Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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<sup>55</sup> Insert relevant statement or description of accounting policies.

<sup>56</sup> Amend these terms to reflect the appropriate assertion and title for those charged with governance.

<sup>57</sup> When the auditor is aware that the interim financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed interim financial report is presented.

<sup>58</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>59</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>60</sup> Insert relevant statement or description of accounting policies.

## **Proposed Auditing Standard on Review Engagements ASRE 2410**

### ***Review of a Financial Report Performed by the Auditor of the Entity***

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We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of [name of entity], would be in the same terms if given to the directors as at the time of this auditor's review report.<sup>61</sup>

#### *[Title of those charged with governance] Responsibility for the [period] Financial Report*

The [title of those charged with governance] of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>62</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>63</sup>]

[Date of the auditor's review report]<sup>64</sup>

[Auditor's address]

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<sup>61</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

<sup>62</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>63</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>64</sup> The date of the auditor's report is the date the auditor signs the report.



# AUASB Board Meeting Summary Paper

<b>AGENDA ITEM NO.</b>	<b>6.0</b>
<b>Meeting Date:</b>	6 March 2019
<b>Subject:</b>	Agreed-Upon Procedures Engagements
<b>Date Prepared:</b>	18 February 2019
<b>Prepared by:</b>	Rene Herman

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

To review, provide input into and agree on the AUASB submission to the IAASB on the proposed international standard on related services engagements ISRS 4400 *Agreed-Upon Procedures Engagements*.

## Background

The IAASB has redrafted the Agreed-Upon Procedures standard using the clarity drafting conventions so that this standard is consistent with other IAASB International Standards as well as to reflect current global practice in Agreed-Upon Procedures (AUP) engagements being undertaken.

At its September 2018 meeting the IAASB approved the proposed ISRS 4400 for a 120-day exposure period. In November, the IAASB issued the Exposure Draft *Proposed International Standard on Related Services 4400 (Revised) Agreed-Upon Procedures Engagements*, with a comments close date of 15 March 2019.

At the September and December 2018 AUASB meetings, the AUASB has been tracking the progress of the development of ISRS 4400 (Revised) and have flagged 3 areas of focus/concern:

- exercise of professional judgement
- independence; and
- restriction on use of report.

these areas have been raised with the Australasian IAASB members as part of our attempt to influence the global exposure draft to incorporate existing elements of ASRS 4400.

While the international standard on AUPs hasn't been revised in more than 20 years. The corresponding Australian Standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* has been. Infact the last Australian revision was as recent as July 2013. The Australian Standard is well accepted and used in practice. Many of the aspects contained in Exposure Draft ISRS 4400 are already

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*



included in the extant Australian standard. For this reason, we have referenced ASRS 4400 throughout our submission.

### **AUASB Outreach**

1. The AUASB issued a consultation paper on the proposed ISRS 4400 with a comment period closing 18 February 2019.
2. The Audit Technical Group (ATG) held a webinar on 8 February 2019 where we had an attendance of over 50 stakeholders. We ran 3 poll questions on the webinar targeting the 3 areas of concern (flagged in the background above).
  - Does the international exposure draft appropriately reflect the role of Professional Judgement and is the wording clear enough? (65% did not consider the role of professional judgement to be clear enough or did not agree with the role of professional judgement as described). The ATG considers this response demonstrative of the lack of clarity around the exercise of professional judgement.
  - Should a practitioner be required to have a level of independence when conducting AUP engagements? (78.5% consider that a level of independence when conducting AUP engagements is necessary) The ATG notes respondents to be largely supportive of the practitioner having a level of independence.
  - Should an AUP report be restricted and contain a restriction of use paragraph? (92% consider that the AUP report should be restricted). The ATG notes respondents to be largely supportive of a restriction of use paragraph – consistent with the independence response.
3. Five formal responses, including one that was marked as confidential were received from stakeholders and are included as Agenda Items 6.4-6.7.

### **Matters to Consider**

#### ***Part A – General***

1. The matters of independence (and associated disclosures) and restriction of use of report are areas that the ATG do not have consensus from written submissions from stakeholders. The board is specifically requested to consider feedback received and provide input on these areas.
2. The table below contains a summary of feedback responses to questions raised in the Consultation Paper. This table has been derived from the Summary of Comments and Disposition Paper as included at Agenda Item 6.3:

	<b>Topic</b>	<b>Confidential</b>	<b>Deloitte (AI 6.4)</b>	<b>KPMG (AI 6.5)</b>	<b>EY (AI 6.6)</b>	<b>PwC (AI 6.7)</b>	<b>Webinar indicator</b>
2	<i>Professional judgement appropriately reflected</i>	No judgement in conduct – further clarity required	No judgement in conduct – further clarity required	No judgement in conduct – further clarity required	No judgement in conduct – further clarity required	Limited judgement in conduct – broadly support ED	Further clarity required

	<b>Topic</b>	<b>Confidential</b>	<b>Deloitte (AI 6.4)</b>	<b>KPMG (AI 6.5)</b>	<b>EY (AI 6.6)</b>	<b>PwC (AI 6.7)</b>	<b>Webinar indicator</b>
3	<i>No precondition for independence</i>	Level of independence should be required – similar to ASRS 4400	Level of independence should be required– similar to ASRS 4400	Support ED Independence should not be required	Support ED Independence should not be required	Support ED Independence should not be required	Level of independence should be required– similar to ASRS 4400
4	<i>Disclosures around independence</i>	N/A	N/A	ED not clear enough	ED not clear enough	No significant issues	N/A
5	<i>Findings vs factual findings</i>	Don't support change to findings	Don't support change to findings	Don't support change to findings	Support Change	Support Change	N/A
6	<i>Acceptance and Continuance appropriate</i>	Largely support	Largely support	Largely support	Largely support	Largely support – but considers that users should acknowledge	N/A
7	<i>Experts appropriate</i>	Agree	Agree	Don't agree	Agree	Agree	N/A
8	<i>Restriction on use</i>	Report should not be restricted*	Report should have a restriction on use paragraph	Report should not be restricted	Report should not be restricted	Report should have a restriction on use paragraph	Report should have a restriction on use paragraph
9	<i>Report content appropriate</i>	Agree but suggestions	Agree but suggestions	Agree but suggestions	Agree but suggestions	Agree but suggestions	N/A

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\* Stakeholder supports a level of independence, modified independence requires a restriction on use paragraph.

3. Based on the table above the draft submission has been prepared on the following basis:

	<b>Topic</b>	<b>How response drafted</b>	<b>Rationale for how response drafted</b>
2	<i>Professional judgement appropriately reflected</i>	No judgement in conduct. Exposure Draft not clear enough. Refer to response to Q2 in the draft submission to the IAASB as contained in AI 6.2.	Only one respondent with a differing view (see table above).
3	<i>No precondition for independence</i>	2 options provided. Refer to response to Q3/4 in the draft submission to the IAASB as contained in AI 6.2.	Very mixed responses, (see table above).
4	<i>Disclosures around independence</i>	Exposure Draft not clear enough. Refer to response to Q3/4 in the draft submission to the IAASB as contained in AI 6.2.	Responses consistently indicate current disclosure requirements unclear, (see table above).
5	<i>Findings vs factual findings</i>	Supporting term factual findings not findings. Refer to response to Q5 in the draft submission to the IAASB as contained in AI 6.2.	Majority view, (see table above).
6	<i>Acceptance and Continuance appropriate</i>	Supportive. Refer to response to Q6 in the draft submission to the IAASB as contained in AI 6.2.	Only one respondent with a differing view (see table above).
7	<i>Experts appropriate</i>	Supportive. Refer to response to Q7 in the draft submission to the IAASB as contained in AI 6.2.	Only one respondent with a differing view (see table above).
8	<i>Restriction on use</i>	Supportive of a restriction of use paragraph. Refer to response to Q8 in the draft submission to the IAASB as contained in AI 6.2.	Mixed views – however, the draft submission is based on the extant ASRS 4400 that has a restriction of use paragraph.
9	<i>Report content appropriate</i>	Supportive. Refer to response to Q9 in the draft submission to the IAASB as contained in AI 6.2.	Majority view, (see table above).

4. The content of the Summary of Comments and Disposition paper as included as Agenda Item 6.3 has been used in the draft submission to the IAASB as included at Agenda Item 6.2.

#### **Part B – NZAuASB**

1. AUP engagements out of the remit of the NZAuASB.

**Material Presented**

Agenda Item 6.0	AUASB Board Meeting Summary Paper
Agenda Item 6.1	AUASB Draft cover letter to the IAASB
Agenda Item 6.2	AUASB Draft submission to the IAASB (includes as Appendix 1: ASRS 4400)
Agenda Item 6.3	Summary of comments received on Consultation Paper
Agenda Item 6.4	Comment received from Deloitte
Agenda Item 6.5	Comment received from KPMG
Agenda Item 6.6	Comment received from EY
Agenda Item 6.7	Comment received from PWC

**Action Required**

No.	Action Item	Responsibility	Due Date	Status
1.	Input into and approval of submission	AUASB	18 February 2019	



**Australian Government**  
**Auditing and Assurance Standards Board**

Podium Level 14, 530 Collins Street  
Melbourne VIC 3000 Australia  
PO Box 204, Collins Street West  
Melbourne VIC 8007

15 March 2019

**Mr Willie Botha**

Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Draft

Dear Willie,

**AUASB Submission on IAASB Proposed ISRS 4400 –Agreed-Upon Procedures Engagements**

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB’s Exposure Draft ISRS 4400 *Agreed-Upon Procedures Engagements*.

The AUASB is supportive of this Exposure Draft, particularly in light of the increasing demand for agreed-upon procedures engagements globally.

In formulating our response the AUASB sought input from its stakeholders in three principal ways:

1. From hosting a webinar that was attended by over 50 stakeholders representing a broad range of backgrounds, including assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
2. Through an open invitation to provide comments on the AUASB issued Consultation Paper on this topic via the AUASB website.
3. Formal discussions and deliberations by AUASB members at recent AUASB meetings.

Whilst the AUASB considers that ED 4400 has been clarified to respond to the needs of stakeholders and address public interest issues, there are a number of matters which we consider need to be addressed by the IAASB to improve consistency in implementation of the standard and that the needs of intended users are met.

Our matters of particular importance for the IAASB’s consideration are elaborated on further in the detailed submission attached. and include particular concerns in relation to professional judgment and independence.

1. *Professional Judgment:*

One of the most significant attributes of an AUP engagement is the lack of subjectivity in both the procedures and the resultant factual findings. The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures as agreed with management and reports factually on the findings.

Introducing the concept of ‘professional judgement’ in relation to the conduct of procedures would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually which may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

The AUASB would like to see a clearer requirement in relation to the exercise of professional judgement and suggests that paragraph 18 of ED ISRS 4400 is replaced with more explicit wording:

*The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed.*

## 2. Independence and Objectivity

In Australia, while the Code of Ethics does not require independence for AUP Engagements, it is a requirement of the Australian Standard on Related Services Engagements ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* for practitioners performing Agreed-Upon Procedures Engagements, to have a level of independence equivalent to the independence requirements applicable to Other Assurance Engagements, unless the engaging party has explicitly agreed to modified independence requirements in the terms of engagement.

While we acknowledge that in many cases AUP engagements are performed by auditors and are already independent, it is our view that in the current market (and in terms of the current global climate of issues facing the auditing profession), users expect more from practitioners and therefore the need for some level of independence.

The AUASB considers it difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition in the Code of Ethics states that:

*“(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.”*

Accordingly, the AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, should have some independence requirements, which can be less onerous than for assurance engagements for example as contained in the Australian ASRS 4400.

In the event that the IAASB ends up in a position that there is no precondition for the practitioner to be independent, the AUASB considers that the variability of outcomes as presented in the Explanatory Memorandum is confusing and accordingly may not be beneficial to intended users. Our response to Q3/4 as contained in the detailed submission (link) contains further comment in this regard.

While the international standard on AUPs hasn’t been revised in more than 20 years. The corresponding Australian Standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* has been. Infact the last Australian revision was as recent as July 2013. The Australian Standard is well accepted and used in practice. Many of the aspects contained in Exposure Draft ISRS 4400 are already included in the extant Australian standard. For this reason, we have referenced ASRS 4400 throughout our submission. For ease of reference we have attached ASRS 4400 as Appendix to our submission and included the hyperlink [here](#).

Should you have any queries regarding this submission, please do not hesitate to contact me or Rene Herman at [rheman@auasb.gov.au](mailto:rheman@auasb.gov.au).

Yours sincerely,

Robin Low  
Deputy Chair

## ***Question 1 Public Interest Issues***

- 1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?

Yes.

The AUASB is supportive of this exposure draft, particularly in light of the increasing demand for agreed-upon procedures engagements globally. The AUASB considers that the proposed standard has been clarified to respond to the needs of stakeholders and address public interest issues, however, there are certain matters covered in specific questions below that should be addressed to improve consistency in implementation of the standard, particularly in relation to professional judgement and independence.

## ***Question 2 Professional Judgement***

- 2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?

The AUASB considers that professional judgement requires further clarity in the standard. The execution of procedures in an AUP engagement should not involve professional judgment.

One of the most significant attributes of an AUP engagement is the lack of subjectivity in both the procedures and the resultant factual findings. The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures as agreed with management and reports factually on the findings. The Australian ASRS 4400\* explicitly states that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. The AUASB considers that this specific clarification is required in the proposed standard.

ED ISRS 4400 is less direct in relation to the exercise of professional judgement, requiring a read of several paragraphs (13(b), 13(j), 18, 20(b), 26, A14-A16) to eventuate in demonstrating the role of professional judgement in an AUP engagement. While the explanatory paragraphs of ED ISRS 4400 make it clear that there should not be judgement in the conduct of the procedures themselves, the wording of paragraph 18 “*and conducting an agreed-upon procedures engagement*” implies that judgement can be used and in fact may have the unintended consequence of implying that professional judgement is required in performing procedures. Introducing the concept of ‘professional judgement’ would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually. This may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

The AUASB considers that that additional wording is required that directly explains that a procedure that requires the exercise of professional judgement in performing or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example that could be used is for NOCLAR or fraud, where the practitioner exercises judgment if they become aware of certain matters but they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as would be applicable in an audit or assurance engagement, as this is not a risk-based standard.

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\* Paragraph 25 of ASRS 4400 Agreed-Upon Procedures to Report Factual Findings: *The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed.*

The AUASB would like to see a clearer requirement in relation to the exercise of professional judgement and suggests that paragraph 18 of ED ISRS 4400 is replaced with more explicit wording:

*The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed.*

### ***Questions 3 and 4 Practitioner's Objectivity and Independence***

- 3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?
- 4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.

*Not including a precondition for the practitioner to be independent when performing an AUP engagement*

**2 responses have been prepared for AUASB discussion. The AUASB is asked to consider both options and determine the most appropriate outcome.**

#### **Option A response:**

The AUASB agrees with not including a precondition for the practitioner to be independent when performing AUP engagements.

The AUASB recognises the challenges in addressing ethical considerations that are ultimately a matter for the Ethics Board to consider in the Code of Ethics. The AUASB considers that the requirement of paragraph 22(d) addresses the need for the practitioner and the engaging parties to agree, within the terms of engagement, whether independence is a necessary precondition.

#### **Option B response:**

The AUASB does not agree with not including a precondition for the practitioner to be independent when performing an AUP engagement.

The AUASB considers it difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition of the Code of Ethics states that:

*“(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.”*

Considering that in many cases AUP engagements are performed by auditors, it is our view that in the current market (and in terms of the current global climate of issues facing the auditing profession), users expect more from practitioners and therefore the need for some level of independence, although the Code does not require independence for AUPs.



The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, should have some independence requirements, which can be significantly less onerous than assurance engagements. As a suggestion, the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to maintain independence equivalent to the independence requirements applicable to Other Assurance Engagements and to disclose in their report if modified independence requirements are agreed.

*Disclosures about independence in the AUP report*

**Note to AUASB: This section is really only relevant where option B above is selected**

In terms of the disclosure tables included in the explanatory memorandum, the AUASB considers that there is a public expectation that practitioners are independent and the notion that a practitioner can have a “not independent” status is not desirable.

In the event that the IAASB ends up in a position that there is no precondition for the practitioner to be independent, the AUASB considers that the variability of outcomes as presented in the Explanatory Memorandum is confusing and accordingly may not be beneficial to intended users. The standard would benefit from criteria to be used by a practitioner to assess their independence where required by law or regulation.

Additionally the AUASB does not agree with the proposals that address reporting about the practitioner’s independence when the practitioner is not required to be independent and either has not determined their independence or has determined that they are not independent.

In scenarios where there is no requirement to be independent and the auditor has not determined their independence, a statement in the AUP report to the effect that “the practitioner is not required to be independent” could lead to misinterpretation by users and lead users to draw their own conclusions.

In scenarios where there is no requirement to be independent and the auditor has determined that they are not independent, the criteria of such an assessment is open to interpretation. For example it is possible for the practitioner to be independent in accordance with the requirements for assurance engagements but not independent in accordance with the requirements for audit engagements. Whether the practitioner is expected to disclose that they are “not independent” in these circumstances is not clear.

The AUASB’s suggestion for these 2 scenarios is to expand the statement in the AUP report to be “the practitioner is not required to be independent and does not make any assertions regarding their independence. This suggestion aids in the following:

- a consistent statement in the AUP report when independence is not required
- explicitly conveying to users that they cannot make any assumptions about the practitioner’s independence
- The requirement to disclose when the practitioner is “not independent” is not capable of being consistently applied without an explicit basis in the standard or in relevant ethical requirements against which this determination is to be made

## ***Question 5 Findings***

5) Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?

The AUASB does not agree with the change in definition from “factual findings” to “findings” for the following reasons:

- The removal of the word factual from the title may suggest a reduction in the level of objectivity. This combined with the matters referred to under independence and judgement above, does cause a level of concern.
- The term findings can also cause confusion as it is a term commonly used in consulting and advisory services where a level of professional judgement is applied in the conduct of those engagements.
- The fact that the phrase “findings” has to be defined in the ED as “findings that are the factual results of procedures performed” suggests that use of the adjective “factual” is a key part of the definition. As a result, the phrase “factual results” or “factual findings” appears to be fit for purpose. It is relevant to note that the Australian Standard ASRS 4400 doesn’t define the phrase “factual findings” as the phrase itself implies what type of findings they are.

## ***Question 6 Engagement Acceptance and Continuance***

6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?

The AUASB considers that the requirements in paragraphs 20-21 are appropriate for engagement acceptance however notes that the standard could include more detail on:

- A. the practitioners consideration of whether an assurance engagement may be required; and
- B. understanding the needs of intended users

*Practitioners consideration of whether an assurance engagement may be required*

The AUASB considers that more should be done to differentiate an AUP engagement from an assurance engagement (see suggestion c) below), and that the practitioner should apply their judgement not to accept an AUP if the intended user/engaging party might misconstrue the nature of this service.

The AUASB makes the following suggestions:

- a) Apply the concept in paragraph 21 of the Australian Standard ASRS 4400 *Agreed-Upon Procedures Engagements*, that the practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner the circumstances of the engagement indicated that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter.
- b) The standard could also benefit from an introduction similar to the Australian Standard’s ASRS 4400 paragraphs 4-6 which articulate how an AUP engagement is different to assurance, consulting, compilation and business services. This would be helpful to include to ensure that practitioners globally are clear on these differences themselves. They could use this language

to assist them in their conversations with clients when discussing how their service types can help solve various client issues.

- c) Finally, ASRS 4400 has two dedicated appendices (1 and 2) to this topic and practically how AUP differs from assurance. Appendix 1 focuses on differentiating factors between the two services and Appendix 2 provides examples of differences in scope. This could be invaluable to practitioners to keep a clear distinction globally between these service offerings and avoid any potential creep of an AUP turning into a quasi-assurance engagement.

#### *Understanding the needs of intended users*

The AUASB is supportive of the inclusion of the pre-condition as set out in Paragraph 20(a) of ED-4400 where ‘the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement’. We also agree with the IAASB’s position that this requirement should not be extended to cover acknowledgement that the procedures are appropriate for the purpose of the intended users as it may not be possible or practical to do so.

However, the AUASB recommends additional requirements and guidance in the following areas:

- a) Application material to guide practitioners to obtain a statement from the engaging party that the procedures are appropriate to the needs of the engaging party and other intended users or that they considered their needs in agreeing to the procedures. Otherwise there is more onus on the practitioner to look at communication and correspondence between the engaging party and the intended users, to follow up regarding absence of response from intended users, or to use judgement to determine whether procedures are appropriate.
- b) It would be helpful to include a precondition to consider whether there is a rational purpose to the engagement. This would relate to the exercise of professional judgement in considering whether to accept, and to plan the engagement, with regard to the consideration of the purpose of the engagement. Paragraphs 20(b), 21 (which are somewhat duplicative), related application material, and A28 discuss whether the procedures agreed are appropriate to the purpose of the engagement, but it would be helpful to have a higher-level requirement around the purpose itself, linked to the practitioner’s understanding of the needs of the intended users.

For example, paragraph 21 (e) of the Australian Standard ASRS 4400 states that the assurance practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner, the engagement has no rational purpose. This is particularly important if the engaging party wishes for the report to be distributed to other parties who may not understand what an agreed upon procedures report is and how it differs from assurance (and the fact that the practitioner has not verified any data that may be included in the report).

- c) The AUASB notes that the standard contemplates the practitioner’s report being made more widely available, e.g. to the general public on a website. In such situations, the practitioner may have difficulty identifying the intended users, and there may be user groups that are not intended users – it is unclear what the practitioner’s responsibility would be towards such groups. In this regard, we also note a lack of clarity in terminology between “users” and “intended users”, as the IAASB appears to use these terms interchangeably. We believe the practitioner, together with the engaging party, should attempt to identify and meet the needs of intended users, but that the standard should clarify that they do not have a responsibility towards additional users who are not intended users.

## Question 7 Practitioner's Expert

7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?

The AUASB agrees with the proposed requirements and application material on the use of a practitioner's expert and references to the use of the expert in an AUP report as this is the current practice in Australia.

The AUASB does have some additional recommendations in this regard:

- The wording of paragraph 28 as may be seen as an outsourcing arrangement and it is not clear that the expert's role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: "When the practitioner involves a practitioner's expert to assist in performing the agreed-upon procedures, the practitioner shall:"
- Furthermore, the principle that the procedures to be performed and related findings should not require judgement and should be described objectively should be reinforced when using an expert and it may be beneficial to incorporate this message in the application material.
- The illustrative example in Appendix 2 could include a more useful example of using the work of an expert. The AUASB is unsure as to why the example described in the illustration would require an external expert. The example from A35, would be more relevant.

## Question 8 AUP Report

8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?

9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

### *Restriction on use:*

The AUASB considers that the use of an AUP report should be restricted to parties that have agreed to the procedures performed.

The AUASB when they revised the Australian AUP standard made a distinction between the use of an AUP report and distribution of such a report, this distinction was deliberately included in the requirements of the Australian standard. Paragraph 42/ASRS 4400 specifically restricts the **use of** the report to *'those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter....'* Reliance on that report is effectively restricted to the intended users identified, even if the report is distributed to other parties. Paragraph 43(n) requires a restriction **on use** paragraph to be included in an AUP report.

The purpose of the distinction is not to prevent distribution of a report per se, but to deter use of that report by those other than the intended users which are identified in the terms of engagement. Reliance on the AUP report is effectively restricted to the intended users identified, even if the report is distributed to other parties. Restriction of the distribution of a report is ultimately a risk management decision for the practitioner. We suggest that the IAASB make a similar distinction and paragraph A43 should not refer to restriction on distribution as this is not practically possible.

*Content of report:*

The AUASB largely supports the content of the proposed AUP report, however amendments would be required after consideration of feedback above. For example paragraphs 30(f)-30(g) would be impacted by the AUASB's comments about independence and independence disclosures as presented in the response to Q3/4 above. The AUASB considers it impractical to require the practitioner to include a statement on independence when independence is not a requirement of the standard nor the engagement.

Readers of an AUP report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.

The AUASB makes the following additional comments/suggestions:

- Paragraph 30(b) requires “an addressee as set forth in the terms of the engagement” however there is no further clarification on who the addressee should be. Given that under ED 4400 only the engaging party is required to acknowledge the appropriateness of the procedures, should consideration be given as to whether an intended user other than the engaging party may be included as an addressee?
- It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the particular engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.

### ***Question 9 Request for General Comments***

- 10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below
- (a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.
- (b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.

The AUASB have no comments on translations and supports the suggested effective date.

**APPENDIX 1:**

**ASRS 4400 AGREED-UPON PROCEDURES ENGAGEMENTS TO  
REPORT FACTUAL FINDINGS**

*Draft*

**ASRS 4400**  
(July 2013)

# **Standard on Related Services ASRS 4400** *Agreed-Upon Procedures Engagements to Report Factual Findings*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Standard on Related Services**

This Standard on Related Services is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au).

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**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements to Report Factual Findings***

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## PREFACE

### **Reasons for Issuing Standard on Related Services ASRS 4400**

The Auditing and Assurance Standards Board (AUASB) issues Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB develops auditing and assurance standards other than for historical financial information. The AUASB uses the standards of the International Auditing and Assurance Standards Board as a base on which to develop standards and incorporates additional requirements considered to be in the public interest. Accordingly, the AUASB has decided to issue ASRS 4400 using the equivalent International Standard on Related Services ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

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## **Main Features**

This Standard on Related Services establishes mandatory requirements and provides application and other explanatory material for assurance practitioners when accepting, undertaking and reporting on engagements to perform agreed-upon procedures.

This Standard on Related Services:

- (a) details ethical requirements, including independence, applicable to agreed-upon procedures engagements;
- (b) describes acceptance requirements for agreed-upon procedures engagements;
- (c) requires terms of the engagement to be agreed;
- (d) requires the assurance practitioner to plan the work;
- (e) specifies that the assurance practitioner does not perform a risk assessment and does not apply materiality;
- (f) describes quality control requirements;
- (g) describes requirements for using the work of others;
- (h) describes the documentation requirements;
- (i) requires the procedures to be performed when conducting the engagement to be limited to those agreed; and
- (j) describes the form and content of the report of factual findings.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services ASRS 4400 is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

Dated: 1 July 2013

M H Kelsall  
Chairman - AUASB

## STANDARD ON RELATED SERVICES ASRS 4400

### *Agreed-Upon Procedures Engagements to Report Factual Findings*

#### Application

1. This Standard on Related Services applies to agreed-upon procedures engagements to be performed by an assurance practitioner, where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the assurance practitioner. The intended users draw their own conclusions based on the factual findings reported combined with any other information they have obtained.
2. This standard may also be applied, as appropriate, to agreed-upon procedures engagements to be performed by a practitioner other than an assurance practitioner.

#### Operative Date

3. This standard is operative for agreed-upon procedures engagements commencing on or after 1 July 2013.

#### Introduction

4. An agreed-upon procedures engagement involves the performance of procedures of an assurance nature from which no conclusion or opinion is expressed by the assurance practitioner and no assurance is provided to intended users. Instead only factual findings obtained as a result of the procedures performed are reported.
5. An assurance practitioner may be asked to perform other types of engagements for which assurance is also not provided but in contrast to agreed-upon procedures engagements, the procedures conducted are not primarily of an assurance nature. These engagements are not dealt with in this standard and include:
  - (a) consulting (or advisory) services;
  - (b) compilation engagements; and
  - (c) business services, such as accounting and taxation services.

The objective of consulting services is the provision of professional advice and recommendations with respect to the subject matter. The objective of compilation engagements is the presentation of financial information in a specified form. The objective of business services is the conduct of accounting procedures, computations or the provision of business or taxation advice. These engagements are not subject to the requirements of this standard.

6. An agreed-upon procedures engagement is not an assurance engagement,<sup>1</sup> even though similar procedures are performed, as the purpose of the procedures performed is not to obtain sufficient appropriate evidence on which to base a conclusion. In contrast, the sufficiency and appropriateness of the evidence obtained in an assurance engagement is based on the assurance practitioner's assessment of materiality and risk of material misstatement or non-compliance. As the assurance practitioner does not assess materiality or engagement risk to determine the evidence gathering procedures to be performed in an agreed-upon procedures engagement, the assurance practitioner is unable to determine whether the evidence is sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.
7. ASRS 4400 addresses the assurance practitioner's professional responsibilities to accept agreed-upon procedures engagements to report factual findings only if:

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<sup>1</sup> See *Framework for Assurance Engagements*, paragraph Aus 7.1. "Assurance engagement" is defined as an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

## Standard on Related Services ASRS 4400

### *Agreed-Upon Procedures Engagements to Report Factual Findings*

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- (a) the assurance practitioner has the capabilities and competence to perform the procedures;
  - (b) assurance is not deemed to be necessary to meet the needs of intended users of the assurance practitioner's report;
  - (c) the assurance practitioner is not required to determine the sufficiency of the procedures to be performed;
  - (d) neither an assurance conclusion nor assurance opinion will be provided on the findings but the intended users may draw their own conclusions with respect to the subject matter; and
  - (e) each of the procedures to be performed is to be clearly specified in the engagement letter.
8. ASRS 4400 deals with the conduct of agreed-upon procedures engagements and identifies that risk assessment, responding to assessed risks, evaluation of evidence gathered and expressing a conclusion or opinion are aspects of an assurance engagement which are not performed when no assurance is to be provided.
  9. An agreed-upon procedures engagement may be misunderstood as providing assurance, as the engagement is performed by an assurance practitioner and involves the conduct of the same or similar procedures to an assurance engagement. The *Framework for Assurance Engagements*<sup>2</sup> states that the assurance practitioner should clearly distinguish a report on an engagement that is not an assurance engagement from an assurance report. This standard deals with the content of a report of factual findings in order to differentiate it from an assurance report.
  10. This standard deals with how the form, content and restrictions on use of an assurance practitioner's report of factual findings helps to minimise misinterpretation and promote the intended users' understanding of that report.

### Objective

11. The objective of the assurance practitioner in an agreed-upon procedures engagement is to apply their professional capabilities and competence in carrying out procedures of an assurance nature, to which the assurance practitioner, the engaging party and any third party (as applicable) have agreed, and to report factual findings, without providing assurance or implying that assurance has been provided.

### Definitions

12. Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.<sup>3</sup>
13. Engaging party means the party(ies) that engages the assurance practitioner to perform the agreed-upon procedures engagement.
14. Intended users means the individual(s) or organisation(s), or class(es) thereof for whom the assurance practitioner prepares the report of factual findings.
15. Procedures of an assurance nature means procedures performed by an assurance practitioner which are the same or similar to procedures performed in an assurance engagement.

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<sup>2</sup> See *Framework for Assurance Engagements*, paragraph 15.

<sup>3</sup> The term "assurance practitioner" is used throughout this ASRS as defined in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Such reference is not intended to imply that assurance is being provided. The term is used to indicate that the work is required to be performed and the report prepared by persons who have adequate training, experience and competence in conducting assurance engagements.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements to Report Factual Findings***

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## Requirements

### Conduct of an Agreed-Upon Procedures Engagement

16. The assurance practitioner shall comply with this standard and with the terms of the engagement agreed with the engaging party.

### Ethical Requirements Relating to an Agreed-Upon Procedures Engagement

17. When conducting an agreed-upon procedures engagement, the assurance practitioner shall comply with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements,<sup>4</sup> including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements in the terms of the engagement.<sup>5</sup> If modified independence requirements have been agreed in the terms of the engagement, the level of independence applied shall be described in the report of factual findings.<sup>6</sup> (Ref: Para. A1)

### Acceptance of an Agreed-Upon Procedures Engagement

18. The assurance practitioner shall obtain an understanding of the needs and objectives of the intended users, including a class of intended users, of the assurance practitioner's report of factual findings and the purpose for which that report will be used. (Ref: Para. A2-A3)
19. A regulator or representative of a class of users, industry or the accounting profession may specify the agreed-upon procedures to be performed to meet the needs of a class of intended users. In these circumstances, the assurance practitioner shall be satisfied that the needs of the class of users for whom the engagement is intended have been appropriately considered and addressed.
20. Before accepting an agreed-upon procedures engagement, the assurance practitioner shall determine that the persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the procedures.
21. The assurance practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner:
- (a) the provision of factual findings alone which provide no assurance is unlikely to meet the needs of the intended users; or (Ref: Para. A3)
  - (b) the circumstances of the engagement indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter; or
  - (c) use of the report of factual findings cannot be restricted to the engaging party and any intended users identified, due to legal requirements or other circumstances; or
  - (d) all of the elements of an assurance engagement<sup>7</sup> are met; or (Ref: Para. A4-A6)
  - (e) the engagement has no rational purpose; or
  - (f) the circumstances of the engagement indicate that it will be necessary for the assurance practitioner to do any of the following:
    - (i) determine the sufficiency of the procedures to be performed; (Ref: Para. A7)
    - (ii) perform a risk assessment in order to determine the procedures to be undertaken; (Ref: Para. A8)

<sup>4</sup> The ethical requirements, including independence, applicable to Other Assurance Engagements are defined in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. For ethical requirements specifically relating to Other Assurance Engagements, refer to APES 110 *Code of Ethics for Professional Accountants* (as referenced in ASA 102), section 291 *Independence - Other Assurance Engagements*, issued by the Accounting Professional & Ethical Standards Board (APESB).

<sup>5</sup> See subparagraph 24(f) of this standard.

<sup>6</sup> See subparagraph 43(f) of this standard.

<sup>7</sup> See *Framework for Assurance Engagements*, paragraph 20.

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- (iii) evaluate the findings in order to determine the sufficiency and appropriateness of the evidence gathered; (Ref: Para. A8) or
  - (iv) reach a conclusion or form an opinion based on the evidence gathered. (Ref: Para. A8)
22. In order to establish whether the preconditions of an agreed-upon procedures engagement are present, the assurance practitioner shall obtain agreement from management [and, where appropriate, those charged with governance and intended users] that it acknowledges and understands its responsibility:
- (a) for determining the adequacy or otherwise of the procedures agreed to be performed;
  - (b) for determining whether the factual findings reported, in combination with any other information obtained, provide an appropriate basis for any conclusions which management or the intended users wish to draw on the subject matter;
  - (c) to provide the assurance practitioner with:
    - (i) access to all information of which management is aware that is necessary for the performance of the procedures agreed;
    - (ii) additional information that the auditor may request from management for the purpose of the engagement; and
    - (iii) unrestricted access to persons within the entity from whom the assurance practitioner requires co-operation in order to perform the procedures agreed.

**Agreeing the Terms of the Agreed-Upon Procedures Engagement**

23. The assurance practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party, and intended users who use the report.<sup>8</sup> If the intended users of the report of factual findings are not signatories to the terms of the engagement, those intended users shall be identified in the terms of the engagement and all other parties shall be excluded from using the report. (Ref: Para. A9-A10)
24. The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A11-A13)
- (a) the objective and scope of the engagement;
  - (b) confirmation of the assurance practitioner's acceptance of the appointment;
  - (c) the nature of the engagement, including a statement that the procedures performed will not constitute a reasonable or limited assurance engagement and that accordingly no assurance will be provided;
  - (d) a statement that intended users are expected to conduct their own assessment of the findings, combined with other information available to them and, if necessary, perform further procedures in order to obtain sufficient appropriate evidence on which to base any conclusion on the subject matter;
  - (e) the assurance practitioner's responsibilities to the engaging party and other specified parties;
  - (f) confirmation that the assurance practitioner will apply ethical requirements equivalent to those applicable to Other Assurance Engagements or, if modified independence requirements have been agreed, the level of independence agreed;
  - (g) identification of the subject matter to which the procedures will be applied;

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<sup>8</sup> See Appendix 3 of this standard for an example of an engagement letter for an agreed-upon procedures engagement.



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- (h) the nature, timing and extent of the specific procedures to be performed;
  - (i) management's responsibilities;
  - (j) identification of the intended users of the report including those users who may not be party to the terms of the engagement, such as a class of user, regulator or bank;
  - (k) a statement that the use of the report of factual findings would be restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified; and
  - (l) reference to the expected form of any reports to be issued by the assurance practitioner, which may be illustrated by attaching to the engagement letter a draft of the report of factual findings that will be issued, omitting the factual findings.
25. The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. (Ref: Para. A11)
26. When conducting an agreed-upon procedures engagement, if the assurance practitioner is unable to perform the exact nature, timing or extent of procedures agreed, but alternative procedures can be performed and the engaging party requires those procedures to be performed, then new terms of the engagement shall be agreed with the engaging party in writing.

### **Planning**

27. The assurance practitioner shall plan the work so that the engagement will be performed in an effective manner, in accordance with the terms of the engagement and this standard.
28. The engagement plan for an agreed-upon procedures engagement shall be restricted to the nature, timing and extent of procedures agreed in the terms of the engagement. The plan does not include alternative or further procedures unless agreed with the engaging party in amended terms of the engagement. (Ref: Para. A14)

### **Risk Assessment**

29. The assurance practitioner does not perform a risk assessment for an agreed-upon procedures engagement, as the nature, timing and extent of procedures to be performed are agreed with the engaging party rather than determined by the assurance practitioner in response to assessed risks.

### **Materiality**

30. The assurance practitioner does not apply materiality to designing the procedures to be performed nor to assessing the factual findings to determine whether the subject matter information is free from material misstatement or non-compliance, as this is the responsibility of the intended users.

### **Quality Control**

31. The assurance practitioner shall take responsibility for the overall quality of the agreed-upon procedures engagement and shall apply the firm's quality control procedures equivalent to those applicable to Other Assurance Engagements.<sup>9</sup>
32. Throughout the engagement, the assurance practitioner shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements, including independence, by members of the engagement team. If matters come to the assurance practitioner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the assurance practitioner shall determine the appropriate action.

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<sup>9</sup> See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements*.

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33. The assurance practitioner shall be satisfied that the engagement team,<sup>10</sup> and any experts engaged who are not part of the engagement team, collectively have the appropriate competence, capabilities and resources to perform the agreed-upon procedures in accordance with this standard.

**Using the Work of Others**

34. The assurance practitioner shall take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings.
35. When the assurance practitioner uses the work of another assurance practitioner, internal auditor or an expert, the assurance practitioner shall evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.

**Documentation**

36. The assurance practitioner shall document:
- (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
  - (b) conclusions on compliance with independence requirements equivalent to ‘Other Assurance Engagements’ or modified independence agreed;
  - (c) conclusions reached regarding the acceptance and continuance of client relationships and acceptance of the agreed-upon procedures engagement;
  - (d) the nature, timing and extent of procedures performed and the factual findings obtained, as identified in the agreed-upon procedures report; and
  - (e) evidence that the engagement was carried out in accordance with this standard and the terms of the engagement.

**Performing the engagement**

37. As no assurance is to be provided, the assurance practitioner shall carry out only the procedures agreed in the terms of the engagement and use the results of the procedures to provide a report of factual findings. (Ref: Para. A15-16)
38. If the engaging party’s requirements alter during the course of the engagement which require the assurance practitioner to draw conclusions from the findings, the terms of the agreed-upon procedures engagement cannot be extended to the provision of assurance. However, a new engagement may be agreed for the provision of assurance, if appropriate, to be conducted in accordance with applicable AUASB standards.

**Reporting**

39. The assurance practitioner shall provide a report of factual findings for the agreed-upon procedures engagement. In contrast to an assurance report, a report of factual findings does not include an evaluation of those findings in order to draw a conclusion or form an opinion. (Ref: Para. A17)
40. The assurance practitioner shall not express a conclusion or opinion in an agreed-upon procedures engagement as the assurance practitioner has not performed a risk assessment, responded to assessed risks by determining the procedures to be performed or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion.

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<sup>10</sup> Engagement team, as defined in ASQC 1, paragraph 12(f), means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

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41. If the assurance practitioner is undertaking an agreed-upon procedures engagement in parallel with an assurance engagement, the factual findings from the agreed-upon procedures engagement shall be presented separately from the report on the assurance engagement.
42. Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.
43. The report of factual findings for an agreed-upon procedures engagement shall contain:  
 (Ref: Para. A18-A19)
- (a) a title;
  - (b) an addressee (ordinarily the engaging party);
  - (c) identification of the specific information to which the procedures have been applied;
  - (d) a statement that the procedures performed were those agreed with the engaging party;
  - (e) a statement that the engagement was performed in accordance with ASRS 4400;
  - (f) a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied;
  - (g) identification of the purpose for which the agreed-upon procedures engagement was performed;
  - (h) a statement that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the assurance practitioner is that of the engaging party;
  - (i) a listing of the specific procedures performed, detailing the nature, timing and extent of each procedure;
  - (j) a description of the assurance practitioner's factual findings in relation to each procedure performed, including sufficient details of errors and exceptions found;
  - (k) identification of any of the procedures agreed in the terms of the engagement which could not be performed and why that has arisen;
  - (l) a statement that the procedures performed do not constitute either a reasonable or limited assurance engagement and, as such, no assurance is provided;
  - (m) a statement that had the assurance practitioner performed additional procedures, a reasonable assurance engagement or a limited assurance engagement, other matters might have come to the assurance practitioner's attention which would have been reported;
  - (n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;
  - (o) a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial report, or other specified report, taken as a whole;
  - (p) the date of the report;
  - (q) the assurance practitioner's address; and
  - (r) the assurance practitioner's signature.

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44. If the assurance practitioner is required by law or regulation to use a specific layout or wording for the report of factual findings, the report of factual findings shall refer to ASRS 4400 only if the assurance practitioner's report includes, at a minimum, each of the elements in paragraph 43.
45. Law or regulation of the relevant jurisdiction may prescribe the layout or wording of the report of factual findings in a form or in terms which are significantly different from the requirements of this standard. In these circumstances, the assurance practitioner shall evaluate:
- (a) whether intended users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so;
  - (b) whether additional explanation in the report of factual findings can mitigate possible misunderstanding.

If the assurance practitioner considers that additional explanation in the report of factual findings cannot mitigate possible misunderstanding, the auditor shall not accept the engagement unless required by law or regulation to do so. As an agreed-upon procedures engagement conducted in accordance with such law or regulation does not comply with this standard, the assurance practitioner shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with ASRS 4400.

(Ref: Para. A20)

46. The assurance practitioner shall not issue modifications or an emphasis of matter in a report of factual findings, as no conclusion or opinion is expressed. Nevertheless, the following matters, if applicable, are reported as part of the factual findings:
- (a) errors or exceptions identified as a result of the procedures performed, regardless of whether they were subsequently rectified by the entity; and (Ref: Para. A21)
  - (b) the inability of the assurance practitioner to perform any of the agreed-upon procedures. (Ref: Para. A22)
47. The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain:
- (a) a statement of compliance with AUASB standards, except for reference to ASRS 4400;
  - (b) inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion"; or
  - (c) any statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.<sup>11</sup>

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<sup>11</sup> See *Framework for Assurance Engagements*, paragraph 16.

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### Application and Other Explanatory Material

#### Ethical Requirements Relating to an Agreed-Upon Procedures Engagement (Ref: Para. 17)

- A1. Ethical requirements, applicable to Other Assurance Engagements, permit the independence requirements to be modified, if the intended users of the assurance practitioner's report are knowledgeable as to the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modified independence requirements. In these circumstances, the report is to include a restriction on use to the intended users only, which is already included in the report of factual findings. If modified independence requirements are adopted in the terms of the engagement, but the intended users include a class of users who are not party to the terms of the engagement, they are required to be made aware of the modified independence requirements, such as by reference to them in the report of factual findings. In any case, the independence of the assurance practitioner and the engagement team will need to be assessed.

#### Acceptance of an Agreed-Upon Procedures Engagement (Ref: Para. 18-22)

- A2. The assurance practitioner needs to understand the engaging party's objectives in engaging the assurance practitioner to ensure that an engagement is agreed which is appropriate to those objectives and to avoid any misunderstandings with respect to the scope of the engagement.
- A3. In determining whether a report of factual findings is likely to meet the needs of intended users, or class of intended users, of the report, the assurance practitioner considers the purpose for which users intend to use the report. In doing so, the assurance practitioner, does not take responsibility for the sufficiency of the agreed-upon procedures to be performed to meet the needs of intended users. If intended users are likely to be able to interpret the factual findings resulting from procedures performed, whether alone or in combination with other available evidence, to reach appropriate conclusions, then an engagement to report factual findings may be acceptable. If intended users are unlikely to be able to interpret the factual findings to reach appropriate conclusions, then the assurance practitioner does not accept an agreed-upon procedures engagement, but may accept an assurance engagement if appropriate.
- A4. An agreed-upon procedures engagement may be accepted if it satisfies some but not all of the elements of an assurance engagement,<sup>12</sup> with the exception of a written assurance report, as that requires the provision of assurance.
- A5. If all of the elements of an assurance engagement are met,<sup>13</sup> the assurance practitioner declines an agreed-upon procedures engagement, however an assurance engagement may be accepted if appropriate and applicable AUASB standards are applied. Appendix 1 provides a table of *Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements* to assist the assurance practitioner in determining whether the engagement is an agreed-upon procedures engagement or an assurance engagement.
- A6. The extent of the subject matter does not affect whether an engagement is an assurance engagement or not. Even if the subject matter of an engagement is very specific, when the engagement contains the elements of an assurance engagement, the assurance practitioner complies with the requirements of either:
- (a) *ASA 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* when providing reasonable assurance on historical financial information other than a financial report;
  - (b) *ASA 2405 Review of Historical Financial Information Other than a Financial Report* when providing limited assurance on historical financial information other than a financial report; or
  - (c) *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* when providing reasonable or limited assurance on matters other than historical financial information.<sup>14</sup>

<sup>12</sup> See *Framework for Assurance Engagements*, paragraph 20 for the elements of an assurance engagement.

<sup>13</sup> See *Framework for Assurance Engagements*, paragraph 20 for the elements of an assurance engagement.

<sup>14</sup> See *ASAE 3100 Compliance Engagements* and *ASAE 3500 Performance Engagements*, as appropriate.

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Example engagements are described in Appendix 2 illustrating how an engagement could be scoped as an agreed-upon procedures engagement or an assurance engagement for the same subject matter.

- A7. The assurance practitioner may assist the engaging party and intended users in determining the procedures to be performed to ensure that the procedures are able to be performed and are likely to meet the needs of the intended users. Nevertheless, the assurance practitioner is not responsible for the adequacy of the agreed-upon procedures nor for assessing whether the findings will be sufficient either alone or in combination with other evidence to support any conclusions which the users intend to draw. The assurance practitioner's role in an agreed-upon procedures engagement is to use their professional competence and capabilities in the performance of the agreed-upon procedures and to report the findings accurately.
- A8. If it is necessary for the assurance practitioner to perform a risk assessment, respond to assessed risks or evaluate the evidence gathered, then this indicates that the assurance practitioner is using their professional judgement to gather sufficient appropriate evidence to support a conclusion. In these circumstances, the engagement may be an assurance engagement and, if so, the relevant requirements in the AUASB standards need to be applied.

### **Agreeing the Terms of the Agreed-Upon Procedures Engagement** (Ref: Para. 23-26)

- A9. The agreed terms would ordinarily be recorded in an engagement letter or other suitable form of written agreement. It is in the interests of both the engaging party and the assurance practitioner that the assurance practitioner sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement.
- A10. In certain circumstances, for example when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the assurance practitioner may not be able to discuss the procedures with all the intended users who will use the report of factual findings. In such cases, the assurance practitioner may consider, for example, discussing the procedures to be applied with appropriate representatives of the intended users, reviewing relevant correspondence from such users or sending them a draft of the report of factual findings that will be issued.
- A11. In an agreed-upon procedures engagement, as the assurance practitioner does not express a conclusion, it is the engaging party's responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or intended users' conclusions. It is only appropriate for the assurance practitioner to select the procedures if they will be assessing the evidence to support a conclusion provided in an assurance engagement.
- A12. Not all intended users may be available to agree to the terms of the engagement or the agreed-upon procedures to be performed. These intended users may still be specified in the letter of engagement where the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings is intended to be used. These intended users may include:
- (a) regulators or industry bodies which issue requirements for procedures to be performed and factual findings to be reported; and
  - (b) an identifiable class of users which are intended to receive the report of factual findings for a specified purpose.
- A13. An example of an engagement letter for an agreed-upon procedures engagement is set out in Appendix 3.

### **Planning** (Ref: Para. 27-28)

- A14. Planning in an agreed-upon procedures engagement is restricted by the nature, timing and extent of procedures as agreed in the terms of the engagement. Therefore, the assurance practitioner does not have the discretion to perform alternative or additional procedures without obtaining the engaging party's agreement. Nevertheless, the assurance practitioner will still need to plan the nature, timing and extent of the resources necessary to perform the engagement.

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### **Performing the Engagement** (Ref: Para. 37-38)

- A15. The procedures applied in an engagement to perform agreed-upon procedures may include:
- (a) inspection;
  - (b) observation;
  - (c) external confirmation;
  - (d) re-calculation;
  - (e) re-performance;
  - (f) analytical review procedures, where those procedures are based solely on comparison against expectations defined in the terms of the engagement; and
  - (g) enquiry.
- A16. Analytical procedures are not performed in an agreed-upon procedures engagement unless the engaging party provides an expectation of recorded amounts or ratios on which the assurance practitioner may base the analytical procedures. The engaging party's expectations are defined in the procedures described in the terms of the engagement. It is necessary for the engaging party to provide the expectations as a basis for the analytical procedures so that the assurance practitioner does not use their professional judgement to develop expectations, which is only appropriate when conducting an assurance engagement. The assurance practitioner does not interpret the findings from the analytical procedures but simply presents the findings against the expectations provided by the engaging party.

### **Reporting** (Ref: Para. 39-47)

- A17. Even though assurance is not provided by the assurance practitioner, the intended users are entitled to rely on the accuracy of the reported findings by virtue of the assurance practitioner's capabilities and competence in conducting the agreed-upon procedures.
- A18. The report of factual findings needs to describe the procedures performed and findings in sufficient detail to enable the intended users to understand the nature, timing and extent of the work performed as well as the nature of the errors and exceptions identified in order to assess the findings reported and draw their own conclusions on the subject matter. In order to draw conclusions, intended users may need to assess the factual findings along with information from other sources. Intended users will need to satisfy themselves that the evidence, which the report of factual findings and other sources provide, is sufficient and appropriate to provide a basis for any conclusion which they may reach.
- A19. An illustrative report of factual findings, incorporating the elements set forth in paragraph 43, is set out in Appendix 4.
- A20. If the law or regulation prescribes the layout or wording of the assurance practitioner's report in a form or in terms that are significantly different from the requirements of this standard and an additional explanation cannot mitigate possible misunderstanding, in addition to excluding any reference to this standard in the report, the assurance practitioner may consider including a statement that the agreed-upon procedures engagement is not conducted in accordance with this standard.
- A21. If the assurance practitioner is aware that an error or exception identified has been substantially rectified, the fact that it has been rectified may be included in the report.
- A22. The assurance practitioner's inability to perform the agreed-upon procedures may arise from:
- (a) circumstances beyond the control of the engaging party;
  - (b) circumstances relating to the nature or timing of the assurance practitioner's work; or
  - (c) limitations imposed by management of the engaging party.

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### **Conformity with International Standards on Related Services**

Except as noted below, this Standard on Related Services conforms with International Standard on Related Services ISRS 4400, issued by the International Auditing and Assurance Standards Board, an independent standard-setting board of the International Federation of Accountants (IFAC). The main differences between ASRS 4400 and ISRS 4400 are:

- ASRS 4400 is not limited to procedures regarding “financial information”, whereas ISRS 4400 is limited to financial information. (Ref: Para. 4)
- ASRS 4400 applies to “procedures of an assurance nature” whereas ISRS 4400 applies to “procedures of an audit nature”. Whilst the terms differ, they can be taken to have the same meaning as indicated by the procedures listed in ISRS 4400, paragraph 16, which are equivalent to those listed in ASRS 4400, paragraph A15. (Ref: Para. 4 & 11)
- ASRS 4400 applies to the “assurance practitioner”, whereas ISRS 4400 applies to the “auditor”. Whilst the terms differ, they can be taken to have the same meaning. (Ref: Para. 1)
- The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, needs to either be independent or to have agreed modified independence requirements with the engaging party and agreed or disclosed those modified independence with intended users. Therefore, ASRS 4400 requires the assurance practitioner to maintain independence equivalent to the independence requirements applicable to Other Assurance Engagements and to disclose in their report if modified independence requirements are agreed. ISRS 4400 does not require the auditor to be independent, but requires the auditor to state in the report of factual findings if they are not independent. (Ref: Para. 17)
- ASRS 4400 includes requirements, which are additional to those contained in ISRS 4400, for the assurance practitioner to:
  - understand the needs and objectives of the intended users; (Ref: Para. 18)
  - satisfy themselves that a regulator or representative of a class of users, industry or the accounting profession does represent the class of users for whom the engagement is intended; (Ref: Para. 19)
  - only accept the engagement if those persons who are to perform the engagement collectively have the capabilities and competence to perform the procedures; (Ref: Para. 20)
  - not accept an agreed-upon procedures engagement if: (Ref: Para. 21)
    - it is unlikely to meet the needs of intended users;
    - users are likely to construe the outcome as providing assurance;
    - all of the elements of an assurance engagement are met;
    - the engagement has no rational purpose; or
    - the assurance practitioner needs to determine the sufficiency of procedures to be performed, perform a risk assessment, evaluate the sufficiency and appropriateness of the evidence or reach a conclusion;
  - state in the terms of the engagement that intended users are responsible for reaching any conclusions on the subject matter; (Ref: Para. 22)
  - not exercise professional judgement to determine or modify the procedures to be performed during the course of the engagement; (Ref: Para. 25)
  - request amended terms of the engagement if alternative or further procedures are to be performed; (Ref: Para. 26)



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- limit planning to the procedures agreed in the terms of the engagement; (Ref: Para. 28)
- not perform a risk assessment; (Ref: Para. 29)
- not apply materiality to design procedures nor to assess factual findings; (Ref: Para. 30)
- establish and maintain a system of quality control within the firm, although this requirement is imposed indirectly on engagements under ISRS 4400 by virtue of ISQC1<sup>15</sup> which, unlike ASQC 1, applies to related services engagements; (Ref: Para. 31)
- take responsibility for overall quality control and apply quality control procedures on the engagement, including the engagement team's compliance with ethical requirements; (Ref: Para. 31-32)
- satisfy themselves that the engagement team and any experts collectively have competence, capabilities and resources to perform the agreed-upon procedures; (Ref: Para. 33)
- take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings and, when using the work of others, evaluate the adequacy of their work and the findings communicated; (Ref: Para. 34-35)
- document matters with respect to compliance with ethical requirements, including independence, acceptance and continuance of client relationships and acceptance of the engagement; (Ref: Para. 36)
- not extend the terms of engagement to the provision of assurance; (Ref: Para. 38)
- not evaluate the findings or provide a conclusion or opinion; (Ref: Para. 39)
- state in the report of factual findings that the responsibility for determining the adequacy of the agreed-upon procedures is that of the engaging party; (Ref: Para. 43(h))
- not issue a modified report or emphasis of matter, but instead report all errors or exceptions in the factual findings, even if they are subsequently rectified, or the inability to perform any of the agreed-upon procedures; and (Ref: Para. 46)
- exclude wording from the report of factual findings which may indicate that assurance is being provided. (Ref: Para. 47)

Compliance with this standard enables compliance with ISRS 4400.

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<sup>15</sup> See ISQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

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**Appendix 1**

(Ref: Para. A5)

**Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements**

<b>Differentiating Factor</b>	<b>Agreed-Upon Procedures Engagement</b>	<b>Assurance Engagement</b>
Nature, timing and extent of procedures responsibility of:	Engaging party	Assurance practitioner
Nature, timing and extent of procedures determined in:	Terms of the engagement	Engagement plan
Changes to the nature, timing and extent of procedures are documented in:	Terms of the engagement	Engagement plan
Extent of assurance practitioner's professional judgement exercised in selecting procedures:	Professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence is exercised when conducting the agreed-upon procedures.	Professional judgement exercised in selecting procedures
Sufficiency and appropriateness of evidence assessed by:	Intended user	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or assurance provided	Conclusion providing assurance
Reporting of procedures performed:	Detail of the exact nature, timing and extent of all procedures performed are reported	Summary of work performed
Reporting of findings:	Detail of exact findings resulting from each procedure performed, including errors and exceptions identified, even if rectified.	No detail of findings, unless a modified report is to be issued when the basis for modification is provided or if a management letter is provided in addition to the assurance report.

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**Appendix 2**

(Ref: Para. A6)

**Examples of Differences in Scope between an Agreed-Upon Procedures Engagement and an Assurance Engagement**

The following brief descriptions of engagements are intended to illustrate that engagements relating to the same subject matter may be scoped in the terms of the engagement as an agreed-upon procedures engagement providing no assurance or an assurance engagement depending on the needs of the engaging party and intended users. The scope provided in each of the following examples, which would be reflected in the terms of the engagement, is to be used as a guide only and will need to be adapted to the individual engagement requirements and circumstances.

<b>Nature of Engagement</b>	<b>Purpose of Engagement</b>	<b>Scope of an Agreed-Upon Procedures Engagement</b>	<b>Scope of an Assurance Engagement</b>
<b>1. Turnover lease agreement</b>	To assist parties to a lease agreement based on turnover in assessing compliance with the agreement.	<ul style="list-style-type: none"> <li>• Agree gross turnover to underlying data;</li> <li>• Recalculate adjusted turnover based on agreed formula; and</li> <li>• Recalculate the turnover rent payable under the lease agreement.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review compliance with the turnover lease agreement to provide a reasonable/limited assurance conclusion as to whether the entity has complied, in all material respects, with the lease agreement over the period.</li> </ul>
<b>2. Management agreement</b>	To assist the directors of each entity to fulfil their reporting requirements under management agreements with the managing entity.	<ul style="list-style-type: none"> <li>• Agree specified data from entities' income statements to the entities' trial balances, parent entity consolidation schedule and audited consolidated financial report.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review compliance with the reporting requirements of the management agreement to provide a reasonable/limited assurance conclusion as to whether each entity has complied, in all material respects, with the management agreement over the period.</li> </ul>
<b>3. Leave provisions</b>	To assist management assessment of whether leave provisions were calculated in accordance with corporate policy as a basis for negotiating the consideration for transferring staff.	<ul style="list-style-type: none"> <li>• Agree start date and employment terms for a random sample of X staff to employment contracts.</li> <li>• Agree leave taken to employee records.</li> <li>• Recalculate long service leave and annual leave provisions for X staff to be transferred as part of a novation agreement.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review employee leave provisions to provide a reasonable/limited assurance conclusion as to whether leave balances are calculated, in all material respects, in accordance with corporate policy.</li> </ul>
<b>4. Loan securitisation</b>	To assist the engaging party and potential investors in determining the data on which to base the securitisation of a pool of loans.	<ul style="list-style-type: none"> <li>• Select X loans based on criteria provided by the engaging party.</li> <li>• Agree specified loan data to supporting documentation and check loan data against given criteria.</li> <li>• Recalculate total loan pool data.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review the loan pool to provide a reasonable/limited assurance conclusion as to whether the loan pool is reported, in all material respects, in accordance with the agreed basis.</li> </ul>
<b>5. Stocktake procedures</b>	To assist management in determining the value of stock on hand.	<ul style="list-style-type: none"> <li>• Attend X sites randomly selected, test count X randomly selected stock items to stock count sheets.</li> <li>• Trace those stock count</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review stock at period end to provide a reasonable/limited assurance conclusion as to whether stock is valued</li> </ul>

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Nature of Engagement	Purpose of Engagement	Scope of an Agreed-Upon Procedures Engagement	Scope of an Assurance Engagement
		sheets to summary stock data. <ul style="list-style-type: none"> <li>• Agree X randomly selected stock items to inventory account and agree cost to supplier invoices.</li> </ul>	fairly, in all material respects, in accordance with corporate policy.
<b>6. Debtors' balances</b>	To assist management in identifying issues in debtors' collection.	<ul style="list-style-type: none"> <li>• Agree aged debtors to the trial balance at period end.</li> <li>• Agree the largest (at period end) X debtors to sales invoices.</li> <li>• Trace X randomly selected debtor balances to subsequent receipts.</li> <li>• Itemise bad debt written off for the period with explanations provided by management.</li> <li>• Itemise customers on stop supply or COD.</li> <li>• Determine value and number of credit notes for the period.</li> <li>• Calculate debtors ageing percentages at period end.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review debtors and provision for doubtful debts to provide a reasonable/limited assurance conclusion as to whether debtors and provision for doubtful debts are presented fairly, in all material respects, in accordance with the agreed basis of accounting.</li> </ul>
<b>7. Controls to meet contractual obligations</b>	To assist client in completing their certificate of compliance with respect to confidentiality and privacy agreements, in circumstances where data supplied by providers under confidentiality and privacy agreements requiring controls to protect data.	<ul style="list-style-type: none"> <li>• Agree list of users with access to restricted data for any part of the reporting period to signed confidentiality statements.</li> <li>• Agree individual confidentiality statements to confidentiality agreement.</li> <li>• Identify confidentiality training held over reporting period, percentage of users attended and average hours training attended per user.</li> <li>• Trace data access log for X days, spread throughout the period, to list of approved users.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit/review controls in place to comply with confidentiality and privacy agreements in order to provide a reasonable/limited assurance conclusion as to whether the description fairly presents the controls, the controls are suitably designed and operating effectively throughout the reporting period.</li> </ul>

## Standard on Related Services ASRS 4400 *Agreed-Up On Procedures Engagements to Report Factual Findings*

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### Appendix 3

(Ref: Para. A13)

#### Example of an Engagement Letter for an Agreed-Up On Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement prepared in accordance with ASRS 4400. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this standard. It will need to be varied according to individual requirements and circumstances of each engagement. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To the appropriate representative of management or those charged with governance<sup>16</sup> of name of Entity [and name of other intended users or class of users as appropriate]:

*[The objective and scope of the engagement]*

You have requested that we perform the agreed-upon procedures specified below [as required by [name of representative of class of intended users or regulator] to meet the needs of [class of intended users]]. We are pleased to confirm our acceptance and understanding of this agreed-upon procedures engagement and the nature and limitations of the procedures we will conduct. Our engagement will be conducted with the objective of reporting factual findings resulting from each procedure for the purpose of [specify purpose]. The procedures performed will not constitute a reasonable or limited assurance engagement, accordingly, no assurance will be provided.

*[The responsibilities of the assurance practitioner]*

We will conduct our engagement in accordance with Standard on Related Services ASRS 4400 *Agreed-Up On Procedures Engagements to Report Factual Findings*. That standard requires that we comply with ethical requirements equivalent to Other Assurance Engagements,<sup>17</sup> [including independence/ except with respect to independence for which modified independence requirements will be applied], and plan and perform the agreed procedures to obtain factual findings. [If applicable:<sup>18</sup> We will apply modified independence requirements agreed with you, which will consist of (describe level of independence to be applied).] The procedures which we will perform will be restricted to those procedures agreed with you [which include procedures required by [name of representative of class of intended users or regulator]] and listed below. Information acquired by us in the course of our engagement is subject to strict confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

[describe the nature, timing and extent of each procedure to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.]

If we are unable to perform the exact nature, timing or extent of procedures agreed above but alternative procedures are available, we will only perform these alternative procedures if modified terms of the engagement are agreed with [name of entity and other intended users].

*[The responsibilities of management or those charged with governance and intended users (if appropriate)]*

<sup>16</sup> Those charged with governance means the person(s) or organisation(s) (for example a corporate trustee) with responsibility for overseeing the strategic direction of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

<sup>17</sup> See APES 110 (as referenced in ASA 102), Section 291.

<sup>18</sup> See APES 110 (as referenced in ASA 102), Section 291. Modified independence requirements are only permitted under the ethical requirements applicable to Other Assurance Engagements if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence requirements.

**Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings**

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Our agreed-upon procedures will be performed on the basis that [management and, where appropriate, those charged with governance and intended users] acknowledge and understand that:

- (a) they have responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us;
- (b) they have responsibility for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or the intended users wish to draw on the subject matter;
- (c) they have responsibility to provide us with:
  - (i) access to all information of which management is aware that is necessary for the performance of the procedures agreed;
  - (ii) additional information that we may request from you for the purpose of the engagement; and
  - (iii) unrestricted access to persons within the entity from whom we require co-operation in order to perform the procedures agreed.
- (d) the procedures we will perform are solely to assist you [and name of intended users] in [state purpose]. Our report of factual findings is not to be used for any other purpose and is solely for your [and name of intended users'] information.
- (e) the procedures that we will perform will not constitute a reasonable or limited assurance engagement in accordance with AUASB standards and, consequently, no assurance will be provided.

We look forward to full co-operation with your staff during our engagement.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms as appropriate]*

*[Reporting]*

Our report of factual findings will consist of a detailed listing of the procedures performed and our findings in relation to each procedure, including any errors or exceptions identified regardless of whether those errors or exceptions have since been rectified. Use of our report will be restricted to you [and [name of other intended users or class of users]] and all other parties will be excluded from using the report.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our agreed-upon procedures engagement including the specific procedures which we have agreed will be performed and our respective responsibilities.

Yours faithfully,

.....

Partner

XYZ & Co

Acknowledged on behalf of [name of Entity] by

(signed)

.....

Name and Title

Date

**Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings***

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[Acknowledged on behalf of [name of Intended User] by

(signed)

.....

Name and Title

Date]

**Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings**

**Appendix 4**

(Ref: Para. A19)

**Example of a Report of Factual Findings in Connection with Accounts Payable**

REPORT OF FACTUAL FINDINGS

To [appropriate addressee]

**Report of Factual Findings**

We have performed the procedures agreed with you and [name of any intended users party to the terms of the engagement] to report factual findings for the purpose of assisting you [and [name of other intended users or class of intended users]] in assessing, in combination with other information obtained by you, the accuracy of accounts payable as at [date]. The procedures performed are detailed in the terms of the engagement of [date] and described below [(or if appropriate) set forth in the attached schedules]<sup>19</sup> with respect to the accounts payable of [entity] as of [date].

*[Management / Those Charged with Governance]'s Responsibility for the Procedures Agreed*

[Management / Those Charged with Governance and any intended users party to the terms of the engagement] are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You and [name of other intended users or class of intended users] are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

*Assurance Practitioner's Responsibility*

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements,<sup>20</sup> [including independence/ except that we applied modified independence requirements as agreed with you in the terms of the engagement consisting of (describe level of independence applied)].

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on the accounts payable of [entity] as of [date]. Had we performed additional procedures or had we performed an audit or a review of the accounts payable in accordance with AUASB standards, other matters might have come to our attention that would have been reported to you.

*Factual Findings*<sup>21</sup>

The procedures were performed solely to assist you in evaluating the accuracy of the accounts payable. The procedures performed and the factual findings obtained are as follows:

<b>Procedures Performed</b>	<b>Factual Findings</b>	<b>Errors or Exceptions Identified</b>
1. We obtained and checked the addition of the trial balance of accounts payable as at [date] prepared by [entity], and we compared the total to the balance in the related general ledger account.	We found the addition to be correct and the total amount to be in agreement.	None
2. We compared the attached schedule (not shown in this	We found the amounts compared to be in agreement, except for the	<i>[Detail the exceptions]</i>

<sup>19</sup> If schedules are attached, describe and reference the schedules (not shown in this example).

<sup>20</sup> See APES 110 (as referenced in ASA 102), Section 291.

<sup>21</sup> The assurance practitioner may choose instead to present the table of factual findings as an attachment to the report, particularly if it is lengthy.



**Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings**

<b>Procedures Performed</b>	<b>Factual Findings</b>	<b>Errors or Exceptions Identified</b>
example) provided by [entity] of major suppliers and the amounts owing at [date] to each of the related names and amounts in the trial balance.	exceptions noted.	
3. For X suppliers randomly selected from the attached schedule we obtained suppliers' statements or requested suppliers to confirm balances owing at [date].	We found there were suppliers' statements for all such suppliers.	None
4. We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from [entity]. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and payments, each of which was greater than \$XXX. We agreed outstanding invoices over \$XXX for suppliers selected to accounts payable for the subsequent period, invoices subsequently received and either credit notes or payment made.	We found the amounts agreed, or with respect to amounts which did not agree, we found [entity] had prepared reconciliations and that the credit notes, invoices and payments over \$XXX as agreed to reconciling items unless exceptions noted.	<i>[Detail exceptions]</i>

[The following procedures included in the terms of the engagement could not be performed for the reasons set out below:]<sup>22</sup>

<b>[Procedure Unable to be Performed]</b>	<b>[Reasons Procedure was Unable to be Performed]</b>
<i>[Detail procedure in terms of the engagement]</i>	<i>[Detail reasons]</i>

*Restriction on Use of Report*

This report is intended solely for the use of [entity] and [intended users identified in the terms of the engagement] for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, use of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [company full name, name of intended users and name of class of users] for any consequences of reliance on this report for any purpose.

<sup>22</sup> Insert this table where there has been a limitation of scope such that certain procedures could not be performed.

**Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings***

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[Assurance practitioner's signature]

[Date of the report of factual findings]

[Assurance practitioner's address]



# AUASB Comments Received and Proposed Disposition Paper

**AGENDA ITEM NO.**      **6.3**

**Meeting Date:**            6 March 2019

**Subject:**                    Agreed-Upon Procedures Engagements

**Date Prepared:**            18 February 2019

**Document Type:**            Consultation Paper

**Document Number:**

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<b>EXHIBIT 2:Deloitte</b>	9
<b>EXHIBIT 3:KPMG</b>	18
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<b>EXHIBIT 4:PWC</b>	46

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**LISTING OF RESPONDENTS**

<b>Exhibit number</b>	<b>Short Form Name</b>	<b>Date Received</b>
1	Stakeholder 1 - Confidential	11 February
2	Deloitte	14 February
3	KPMG	18 February
4	EY	19 February
5	PWC	20 February

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**EXHIBIT 1:**

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
1	Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?	Refer below, for our comments on the consultation paper.	No additional points to note	Yes
2	Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?	<p>We suggest that there is a cross reference inserted in para 13 j to para 18 and or from para 18 to para 13 j.</p> <p>While the explanatory paragraphs make it clear that there should not be judgment in the procedures themselves, the wording of para 18 “and conducting an AUP” would imply judgement can be used in the procedures, which the guidance clarifies. We would suggest revising as follows “The practitioner shall apply professional judgment in accepting and the conduct of an agreed-upon procedures engagement but there should be no professional judgement in the actual procedures undertaken, taking into account the circumstances of the engagement”.</p> <p>This would be more consistent with the clarifying guidance in A16.</p>	No additional points to note	Yes
3	Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what	With the clarification that the procedures themselves should not have judgment required in their execution the need for independence over and above the objectivity required under the IESBA code is conceptually sound, however, given that independence is defined as in fact and appearance, the achieving objectivity as a practitioner without independence seems to be a very fine line to draw and one which the public/users may or may not fully comprehend.	No additional points to note – while the respondent has not specifically answered yes or no, the ATG reads this response as support for the	Yes

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?</p>		<p>practitioner to have a level of independence.</p>	
<p>4</p>	<p>What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.</p>	<p>The varying outcomes I believe do not help users as they are not familiar with, nor is it likely they will read the standard and therefore how the inclusion of a statement regarding not being independent impact their consideration of the report. There is we believe perception/publc expectation that practitioners are and should be “independent” as part of their role, and therefore the idea that the practitioner can have a “not independent” status is not a preferred option. Further the variability of the outcome may create confusion and reduce the value of the service being provided particularly for intended users who are not engaged parties.</p>	<p>No additional points to note</p>	<p>Yes</p>

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
5	Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?	The removal of the word factual from the title of the findings suggests to me that the level of objectivity has been reduced. Given that findings are then defined as the factual results, the change seems to be making it less clear that findings are factual and a redundant change at the same time. This change does not service the public interest or enhance quality in our opinion.	No additional points to note	Yes
6	Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?	<p>In principle the paragraphs referred to are an enhancement to the extant standard and will assist in the appropriate acceptance and documentation of the engagement. We do note:</p> <p>A22 describes “inquire” as an acceptable term and A23 describes “discuss” as an unacceptable term without specifying which whom and the specific questions asked, it would seem that it would be better to define in A22 as acceptable, “inquiry, enquiry and or discussion where the procedures specify with whom, and what questions are to be asked” as the critical point appears to be that for any verbal discourse as a procedure the questions and parties involved should be established in advance to avoid subjectivity.</p> <p>Further this does not provide guidance or commentary on the nature of the questions to be asked i.e. that they should be directed/closed questions not open-ended questions to which the answers are likely to require judgement or interpretation.</p> <p>A22 use of confirm, this is potentially a grey term, if a party wants for example confirmation of their accounting treatment this would potentially require considerable professional judgment and be a miss use of the AUP standard, as opposed to obtaining a confirmation from another party, or a factual confirmation such as the title deed has the clients name on it.</p>	The ATG considers the current wording in A22 and A23 to be clear enough, additionally, this is the only stakeholder to have raised this matter, and accordingly the ATG have not included this comment in the feedback to the IAASB.	N

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
7	Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?	Yes.	No additional points to note	Yes
8	Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?	The acceptance that an AUP may be used by parties other than those directly engaged is a positive commercial move, the continued inclusion of the ability to restrict distribution or use provides the auditor with the tools to appropriately serve their clients.	This is a contrary view to feedback from the poll conducted on the webinar and is a contrary view to the independence requirements currently contained in ASRS 4400 and supported in this submission under point 3 above Accordingly the ATG have taken a different response in the draft submission to the IAASB.	N
9	Do you support the content and structure of the proposed	It does not seem appropriate that non-accountants are using Auditing and Assurance Standards to report. We would suggest that the highlighted	The ATG notes that other industry groups	N

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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
	AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?	wording above be removed from the standard, Auditing and Assurance Standards should be used by appropriately qualified accountants. Further this would appear to be somewhat contrary to the definition in para 13c	do use the AUASB suite of standards. Additionally, this is the only stakeholder to have raised this matter, accordingly the ATG have not included this comment in the feedback to the IAASB.	
10	In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:  a) Translations— recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents’ note in reviewing the ED-4400.  b) Effective Date— recognising that ED-4400 is a substantive revision and given	Translations – N/A  Effective Date - support	No additional comments	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.</p>			

\* \* \*

**EXHIBIT 2:**

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
1	Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?	Yes – however refer below	No additional comments	Y

<p>2</p>	<p>Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?</p>	<p>The definition of professional judgement in paragraph 13 (j) is the same as in auditing standard ASA 200 and we believe this was envisioned for assurance engagements and not necessarily for an AUP engagement.</p> <p>The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures <u>as agreed</u> with management and reports factually on the findings. Introducing the concept of ‘professional judgement’ would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually.</p> <p>Although we acknowledge that when accepting and agreeing to perform an AUP engagement, the practitioner would need to apply professional judgement, including this requirement, as in par 18 (applying professional judgement in <u>conducting</u> the engagement) of the ED, would result in the practitioner including subjectivity in the performance of an AUP. This will mean the results of the procedures performed would not necessarily be factual findings as defined in the proposed standard i.e. as “being capable of being objectively verified”.</p> <p>If the standard allows use of professional judgement in conducting the engagements, this may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.</p> <p>Therefore, it is our view that the standard does not appropriately reflect the role of professional judgement in an AUP engagement.</p>	<p>No additional comments</p>	<p>Y</p>
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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
3	<p>Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?</p>	<p>In Australia, removing the precondition will be a step backwards in terms of “raising the bar” of what is expected of professional accountants, as this is the current practice.</p> <p>The proposed standard does not require the practitioner to be independent. Based on the explanatory memorandum, one of the factors considered by the IAASB was that “the practitioner is reporting on factual results from performing the AUP, independence is less important as it is unlikely that factual results would be susceptible to potential bias”. The draft standard is also proposing allowing professional judgement in conducting the engagement, see point above. This will contradict with the IAASB view noted above relating to why independence is less important.</p> <p>It will be difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition in the Code of Ethics states that:</p> <p>“(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.”</p> <p>Considering that in most cases these AUP engagements are performed by auditors, it is our view that, the current market (and in terms of the current global climate of issues facing the auditing profession) expects more from practitioners and therefore the need</p>	No additional comments	Y

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>for some level of independence, although the Code does not require independence for AUPs.</p> <p>In addition, paragraph A12 states “A practitioner performing an agreed-upon procedures engagement is required to fulfil the practitioner’s responsibilities in accordance with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the APESB Code, together with national requirements that are more restrictive. The APESB Code requires practitioners to comply with fundamental principles including <u>objectivity</u>, which requires practitioners not to compromise their <u>professional or business judgement because of bias, conflict of interest or the undue influence of others</u>. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, <u>require the practitioner to be objective when performing an agreed-upon procedures engagement</u>.”</p> <p>This paragraph implies there is a level of independence expected and accordingly, it is our view that the practitioners performing these engagements should have some independence requirements, which can be significantly less onerous than assurance engagements.</p> <p>We also question if the practitioner were not independent, and performs such engagements, how the user will value such a report, considering the current market perceptions.</p> <p>Accordingly, we do not agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. Although an AUP engagement is not an assurance</p>		

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
		engagement, there is an expectation that the practitioner performing these engagements will be objective.		
4	What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.	<p>See our overarching comment in point three above relating to independence.</p> <p>However, if the IAASB lands at a position that there is no requirement to be independent, we expect the practitioner is not required to make an independence determination and no disclosures should be required in the AUP report.</p> <p>We suggest that, the requirements and guidance need to be enhanced to cover the documentation expectations for practitioners especially in scenarios where, the practitioner has not assessed independence. Is there any expectation that they document why they have not assessed independence? If not, what is the expectation?</p> <p>Overall, we believe that the practitioners performing these engagements should have some independence requirements that can be significantly less onerous than assurance engagements.</p>	No further comment	Yes
5	Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?	<p>We do not necessarily agree with the change from “factual findings” to “findings”.</p> <p>This is because findings as defined in the Macmillan dictionary is “information that you discover, or opinions that you form</p>	No further commentary	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>after doing research.” and factual is defined as “based on <b>facts</b> or containing only <b>facts</b>, rather than theories or opinions.” Therefore using findings on its own in ED 05/18 could be subject to various interpretations.</p> <ul style="list-style-type: none"> <li>• We agree with the principle of providing the definitions in paragraph 13 (f).</li> <li>• If the AUASB intend to keep the term findings, the we proposed the following change: <ul style="list-style-type: none"> <li>○ Delete Paragraph A11. In some jurisdictions, the term “findings” may be replaced with “factual findings” as the term findings is defined in the standard.</li> </ul> </li> </ul>		
6	<p>Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?</p>	<p>The requirements in paragraphs 20-21 are appropriate for engagement acceptance. However, the application material specifically paragraph A26 suggests that the practitioner needs to perform procedures to satisfy themselves that the AUP engagement procedures are appropriate for the purpose. We believe this is not necessary as:</p> <ul style="list-style-type: none"> <li>• Paragraph 22 (b) requires the engagement letter to include an acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement; and</li> <li>• Paragraph 30 h (ii) also requires the report to include that “The engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement, and that the</li> </ul>	<p>The ATG are of the view that A26 is more about guidance so understand how intended users may be kept informed of the terms of the engagement. The ATG is of the view that A26 is beneficial.</p>	N



	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
		<p>practitioner makes no representation regarding their appropriateness;”</p> <p>It is our view that this should be sufficient and appropriate evidence of the engaging party’s intentions.</p>		
7	Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?	We agree with the proposed requirements and application material on the use of a practitioner’s expert and references to the use of the expert in an AUP report as this is the current practice in Australia.	No additional comments	Y
8	Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?	<p>The AUP report should be restricted to parties that have agreed to the procedures performed. It is our view that the recipient of the report and ultimately the user of the report are required to understand the terms of the engagement. This can only happen if either they were a party to the engagement letter or before they receive a copy and rely on the report, they understood the terms of the engagement.</p> <p>Although paragraph A43 provides an option to the practitioner to consider restricting use, having too many options and differing treatment, will result in inconsistencies.</p>	No additional comments	Y
9	Do you support the content and structure of the proposed AUP report as set out in	Comments link into above changes.	No further comment	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?</p>			
10	<p>In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:</p> <p>c) Translations— recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.</p> <p>d) Effective Date— Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard</p>	<p>Translations – N/A</p> <p>Effective Date - support</p>	No additional comments	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.</p>			

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**EXHIBIT 3:**

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
1	Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?	<p>We believe that ED-4400 has been modernised and is a better fit to the current needs of stakeholders than the extant ISRS 4400, however the standard could benefit from further clarification in certain areas – refer below.</p> <p>We will expand on these areas in our responses to the specific questions below.</p>	No additional comments	Y

<p>2</p>	<p>Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?</p>	<p>Although many of the improvements on professional judgement are helpful and we generally support them, we note the following:</p> <ul style="list-style-type: none"> <li>• The reference to “professional standards” in the definition at paragraph 13(j) is broad and may be unclear. In ISAE 3000 (Revised) the equivalent reference is more specifically to assurance standards and ethical requirements. We therefore suggest that the IAASB be similarly specific here.</li> <li>• We believe there is particular exercise of professional judgement in deciding whether to accept an AUP engagement, and in agreeing the procedures themselves, as well as in describing the findings in the report, with less relevance in performing the procedures themselves. It would be helpful to provide further clarity around this.</li> <li>• It would be helpful to highlight that although the practitioner exercises judgment if they become aware of certain matters, e.g. potential NOCLAR or fraud, they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as would be applicable in an audit or assurance engagement, as this is not a risk-based standard.</li> <li>• It would be helpful to elevate the consideration of the extent of the need for use of professional judgement as part of determining whether the pre-conditions for an AUP engagement have been met – i.e. the more a procedure requires professional judgement, the more judgement will be needed to describe it objectively, and therefore as described at A16, the less likely it will be that an AUP engagement is appropriate.</li> <li>• Related to this is the consideration of resources – the more senior, or the more expert the resources need to be, the more this points away from an AUP engagement. We note that the description of the value of the engagement, at paragraph 4, results from compliance with professional standards, including ethical requirements, and clear communication of the procedures and the findings. Unlike audit/assurance standards, it does not refer to skills, knowledge and</li> </ul>	<p>No additional comments</p> <p>The ATG considers that Bullet points 4 and 5 and dealt with in application material paragraphs A15/A16.</p>	<p>Y</p>
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		<p>experience of the practitioner, and since the procedures should be capable of being objectively verified, presumably by a “reasonable” practitioner who is not an expert, we suggest the IAASB consider whether the concept of skills and experience, and the “collective competence and capabilities of the engagement team”, including experts, as described at paragraph 19(b) ii, is appropriate.</p> <ul style="list-style-type: none"><li>• It would also be helpful to describe the granularity of description of findings as an example of application of professional judgement.</li></ul>		
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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
3	<p>Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?</p>	<p>We agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. This allows for much broader use of this style of engagement which reflects current demand in the Australian market.</p> <p>When performing an agreed-upon procedures engagement for an audit or assurance client, the practitioner has strict independence requirements to comply with so in many cases, a practitioner will already be independent.</p> <p>We agree that where required by regulation or contract, the practitioner would apply an independence requirement as a pre-condition for acceptance of the engagement and should include their independence disclosure in the report so long as the regulation or contract was clear on how the practitioner would make this determination or assessment. It would also be helpful to further emphasise the need to disclose clearly the criteria used by the practitioner to assess independence, if relevant, since these may be drawn from various sources.</p> <p>Furthermore, this may be an area where exercise of professional judgement is required – as such, it may be helpful to include this as a specific example of professional judgement.</p>	<p>There are mixed views on this topic, the draft AUASB submission has been done giving 2 options of response. – for AUASB discussion and consideration</p>	N
4	<p>What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements</p>	<p>We believe that it’s not clear in ED-4400 what would determine whether the practitioner is required to be independent or how that determination would be made.</p> <p>We disagree with the requirement to state that you are not independent in circumstances in which there is no requirement to be independent.</p>	No further comment	Yes

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.	Readers of the report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.		
5	Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?	<p>Findings is a challenging word as this is often used in a consulting or advisory service context where professional judgement and expertise has been applied.</p> <p>KPMG Australia has historically used the phrase “factual findings” in accordance with the title of ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings.</p> <p>The fact that the phrase “findings” has to be defined in the ED as “findings that are the factual results of procedures performed” suggests that use of the adjective “factual” is a key part of the definition. As a result, the phrase “factual results” or “factual findings” appears to be fit for purpose.</p> <p>It is relevant to note that ASRS 4400 doesn’t define the phrase “factual findings” as the definition implies what type of findings they are.</p> <p>The “findings” definition in ED-4400 has also specified that “findings” does not refer to any recommendations that the practitioner may make.</p>	No further commentary	Y



	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>These additional explanations by their nature imply that there could be confusion over the term “findings”.</p>		
6	<p>Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?</p>	<p>We are generally supportive of the requirements and application material regarding engagement acceptance and continuance as extant ISRS 4400 only sets out requirements and guidance dealing with the terms of the engagement. Extant ISRS 4400 does not contain any requirements or application material on conditions required to be met before the practitioner can accept an AUP engagement so ED-4400 is an improvement; however, the standard is silent on the practitioner’s consideration of whether an assurance engagement may be required.</p> <p>We believe that more should be done to differentiate an AUP engagement from an assurance engagement and that the practitioner should apply their judgement not to accept an AUP if the intended user/engaging party might misconstrue the nature of this service.</p> <p>ASRS 4400 addresses this well. ASRS 4400 paragraph 7 and 21 repeatedly talk about the practitioner’s responsibilities to ensure that agreed-upon procedures is the best fit for the needs of the client and to apply judgement to consider whether an assurance engagement is required. This pre-condition of consideration of whether the engagement should be assurance is articulated in paragraph 7 (b) and (d) as well as four more explicit mentions in paragraph 21 (a), (b), (d) and (f).</p> <p>ED-4400 is silent on whether assurance should be required or not. Introducing pre-conditions to consider this matter up front would assist in consistent application and introduce a boundary of where the use of AUP is appropriate.</p>	<p>Many of the suggestions as provided have been included in the draft submission.</p>	Y

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>It is important that AUPs not be offered as a “cheaper assurance” alternative that also does not require independence so as to devalue the assurance offering. AUPs have a clear place in the market and there is professional judgement required to make choices about appropriate acceptance of engagements that do not cause any further confusion about the nature of this service.</p> <p>It’s also helpful to have the engaging party and any other intended users acknowledge their understanding and agreement of this but we agree with ED-4400 that this acknowledgement is not always practical to obtain from intended users.</p> <p>A simple solution could be to apply the concept in paragraph 21 of ASRS 4400 that the practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner the circumstances of the engagement indicated that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter.</p> <p>The standard could also benefit from an introduction similar to ASRS 4400 paragraphs 4-6 which articulate how an AUP engagement is different to assurance, consulting, compilation and business services. This would be helpful to include to ensure that practitioners globally are clear on these differences themselves. They could use this language to assist them in their conversations with clients when discussing how their service types can help solve various client issues.</p>		

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>Finally, ASRS 4400 has two dedicated appendices (1 and 2) to this topic and practically how AUP differs from assurance. Appendix 1 focuses on differentiating factors between the two services and Appendix 2 provides examples of differences in scope. This could be invaluable to practitioners to keep a clear distinction globally between these service offerings and avoid any potential creep of an AUP turning into a quasi-assurance engagement.</p> <p>Engaging party’s acknowledgement</p> <p>We are supportive of the inclusion of the pre-condition as set out in Paragraph 20(a) of ED-4400 where ‘the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement’. We also agree with the IAASB’s position that this requirement should not be extended to cover acknowledgement that the procedures are appropriate for the purpose of the intended users as it may not be possible or practical to do so.</p> <p>It would be helpful to guide practitioners to obtain a statement from the engaging party that to the “best of their knowledge and belief”, or similar, the procedures are appropriate to the needs of the engaging party and other intended users or that they considered their needs in agreeing to the procedures. Otherwise there is more onus on the practitioner to look at communication and correspondence between the engaging party and the intended users, to follow up regarding absence of response from intended users, or to use judgement to determine whether procedures are appropriate. It is also unclear as to the expected further actions of the</p>		

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>practitioner if they do not hear back from the intended users, or if there is disagreement between the engaging party and the intended user.</p> <p>It would be helpful to include a precondition to consider whether there is a rational purpose to the engagement. This would relate to the exercise of professional judgement in considering whether to accept, and to plan the engagement, with regard to the consideration of the purpose of the engagement. Paragraphs 20(b), 21 (which are somewhat duplicative), related application material, and A28 discuss whether the procedures agreed are appropriate to the purpose of the engagement, but it would be helpful to have a higher-level requirement around the purpose itself, linked to the practitioner’s understanding of the needs of the intended users.</p> <p>For example, paragraph 21 (e) of ASRS 4400 states that the assurance practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner, the engagement has no rational purpose. This is particularly important if the engaging party wishes for the report to be distributed to other parties who may not understand what an agreed upon procedures report is and how it differs from assurance (and the fact that the practitioner has not verified any data that may be included in the report).</p> <p>We also note that the standard contemplates the practitioner’s report being made more widely available, e.g. to the general public on a website. In such situations, the practitioner may have difficulty identifying the intended users, and there may be user groups that are not intended users – it is unclear what the practitioner’s responsibility would be towards such groups. In this regard, we also note a lack of clarity in terminology between “users” and “intended users”, as the IAASB appears to use these</p>		

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>terms interchangeably. We believe the practitioner, together with the engaging party, should attempt to identify and meet the needs of intended users, but that the standard should clarify that they do not have a responsibility towards additional users who are not intended users.</p> <p>The standard also acknowledges that the engaging party may not be the party that is responsible for the subject matter information, or for the underlying subject matter. It would be helpful for the standard to provide more guidance around such situations, such as assessing the reliability of information and explanations, as well as consideration as to whether the practitioner will have access to information and explanations, as part of the preconditions, and additionally, whether the practitioner believes there is a rational purpose to the engagement.</p> <p>Lastly, in addressing agreement to the terms of the engagement at paragraph 22, it would be helpful to include acknowledgement by the engaging party to provide information and explanations as required by the practitioner, and unrestricted access to persons at the entity. Although the procedures are clearly defined and agreed, it is still important that the engaging party acknowledges upfront that they need to provide information and access to the practitioner so that the practitioner can perform the procedures.</p> <p>Terminology</p> <p>We are supportive of the examples of potentially inappropriate terminology and guidance on the steps a practitioner may take i.e. A22-A26.</p> <p>We also suggest including clearer links to the application of professional judgement in determining whether procedures are capable of being</p>		

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>performed and described objectively, as well as in determining the level of granularity appropriate/ necessary in the description of procedures, both in agreeing the scope and in the report itself. For example, in some cases it will be appropriate for every test to be described in detail and in other cases it may be appropriate to group tests together under summary descriptions. As noted elsewhere in the ED, the key concept is that another practitioner would be able to replicate the test and obtain the same findings from the description. Accordingly, we are supportive that the ED allows practitioners to apply a degree of judgement in describing the procedures and findings where the nature and scope of the procedures are well understood by users.</p>		
7	<p>Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?</p>	<p>We recognise that the IAASB has attempted to introduce concepts in this area from auditing and assurance standards, to improve the understanding of the practitioner’s responsibilities in this area.</p> <p>However, we have concerns about the applicability of this concept to an AUP engagement. We note that experts (in matters other than auditing and accounting) may be used by an auditor in performing an audit but we believe this is less likely in an AUP engagement in which the practitioner is executing procedures over specific subject matter information.</p> <p>If the practitioner does not have sufficient expertise in the underlying subject matter then it may not be appropriate for them to accept the AUP engagement. See also our comments earlier regarding the collective competence and capability of the engagement team and the fact that procedures must be capable of being performed objectively, should be capable of replication and the same findings obtained.</p>	<p>The ATG have not included this view in the draft submission, as this is a contrary view to other feedback received. Additionally, the use of experts is already contemplated in the extant ASRS 4400 and the ATG consider this to be current practice in Australia– for AUASB discussion and consideration.</p>	N

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>Use of an expert suggests that there may need to be use of professional judgement above and beyond what would usually be contemplated in an AUP engagement, and furthermore, that the findings from the procedures would not be capable of being objectively verified and described, which is a fundamental principle of an AUP engagement.</p> <p>It would be helpful to include guidance that an expert’s involvement should not be so extensive that they are essentially performing the majority of the procedures.</p>		
8	<p>Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?</p>	<p>We are generally supportive of the AUP report not being restricted to parties who have agreed to the procedures to be performed as this aligns to local market demand. As recognised by the IAASB’s Exposure Draft, it is sometimes difficult to obtain agreement from all intended users.</p> <p>A43 allows for a practitioner to apply a restriction of use should they wish to do so. We support the practitioner having the ability to make their own decisions on use and distribution of the report and the conditions that they may choose to accept based on their risk appetite.</p> <p>We note that there is an expectation gap regarding public perceptions as to what an AUP engagement is, what the procedures constitute and whether or not “assurance” is imparted. As a result, it would be helpful for the IAASB to provide further guidance as to the practitioner’s responsibilities to the intended users, in particular, for situations where there may be a lack of clarity as to whether intended users understand/agree on the procedures and/or the purpose of the engagement, as well as in situations where the report will be made more widely available, e.g. on a website, and therefore it is more difficult to</p>	<p>The KPMG and EY submissions have a different perspective to that received from other submissions and the feedback received from stakeholders on the webinar Accordingly, the draft AUASB submission has been done on the basis of an expectation of a restriction of use para which would be required if modified independence was allowed. – for AUASB discussion and consideration.</p>	N

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>identify the “intended” users or user groups, or to consider the needs of all user groups.</p> <p>We also highlight that the statement that the report may not be suitable for another purpose is derived from ISA 800, in which the equivalent requirement is to include an Emphasis of Matter paragraph. Whilst such a paragraph would not be appropriate in an AUP report, as no opinion/conclusion is provided, it would be helpful for the standard to emphasise that the statement must be sufficiently prominent, e.g. to include a heading, and language that makes clear that this is a “warning”.</p>		
9	<p>Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?</p>	<p>We are generally supportive of the content and structure of the proposed AUP report; however, it does not seem practical to require the practitioner to include a statement on independence when independence is not a requirement of the standard nor the engagement.</p> <p>As stated above, readers of the report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.</p> <p>Our preference would be to only include a sentence on the practitioner’s assessment of independence in the report, including the criteria the practitioner used in the assessment, where independence is a requirement of the engagement.</p>	No further comment	Y



	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>We believe for clarity the practitioner should identify and make clear who the intended users of their report are and to restrict other parties from inadvertently relying on the report when it may not be appropriate to do so. It also makes it clear from a legal perspective to whom the practitioner owes a duty of care. This would also provide a clear boundary for the practitioner’s responsibilities.</p> <p>We suggest to include identification of any procedures agreed in the terms of the engagement that could not be performed and why that has arisen.</p> <p>It would be helpful to indicate in the guidance that there should be no inclusion of a management response to the practitioner’s factual findings. Any management commentary on the practitioner’s report should be made completely separate from the AUP report of factual findings.</p>		
10	<p>In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:</p> <p>e) Translations— recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues</p>	No issues to note.	No additional comments	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>respondents note in reviewing the ED-4400.</p> <p>f) Effective Date— Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.</p>			

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**EXHIBIT 4:**

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
1	Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?	We believe that ED-4400 has been modernised and is a better fit to the current needs of stakeholders than the extant ISRS 4400, however the standard could benefit from further clarification in certain areas – refer below.	No additional comments	Y

<p>2</p>	<p>Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?</p>	<p>No, we do not believe that the definition of professional judgment or the discrete requirement to apply professional judgment appropriately reflects the role professional judgment plays in an AUP engagement.</p> <p>The execution of procedures in an AUP engagement should not involve professional judgment. We believe that including a definition, as well as a requirement to apply professional judgment in “conducting the engagement”, has the unintended consequence of conveying the exact opposite (i.e., that professional judgment is required in performing the procedures). We therefore believe that both the definition of professional judgment and the requirement in paragraph 18 should be removed from ED-4400.</p> <p>We however agree that professional judgment is applied in various aspects of an AUP engagement. In particular, professional judgment can be critical to engagement acceptance decisions (i.e., to make the judgments required by paragraphs 20(b) and 21 of ED-4400). We also agree with the other examples in paragraph A15 of when professional judgment may play a role. Instead, our disagreement is with the approach taken to require the application of professional judgment holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasize the role of professional judgment in the application material where its application is of most relevance and importance. For example, we believe that the application material in paragraph A16 is most relevant, and would be better placed, to support the requirement in paragraph 20(b) related to engagement acceptance.</p> <p>We would not oppose an overarching statement in the introduction or application material of ED-4400 that explains that professional judgment is applied in determining whether to accept AUP engagements and in determining certain courses of action during the engagement. However, such a statement should be contrasted with the fact that an AUP</p>	<p>No additional comments</p>	<p>Y</p>
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		engagement involves performing procedures that are required to be objective in nature such that different practitioners performing the same procedures are expected to arrive at the same findings.		
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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
3	Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?	<p>Yes, we agree with not including a precondition for the practitioner to be independent when performing AUP engagements.</p> <p>Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner's independence may be required or expected as a term of the engagement. For the avoidance of doubt, we believe that the terms of the AUP engagement should be required to include the status of the practitioner's independence using wording consistent with the statement about the practitioner's independence that will be included in the AUP report (refer to the Other Matters section of our letter for further comments).</p>	There are mixed views on this topic, the draft AUASB submission has been done giving 2 options of response. – for AUASB discussion and consideration.	N
4	What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so,	<p>First, we find the table in paragraph 22 of the EM to be clearer than the standard in regard to the possible independence scenarios and the required reporting for each of the scenarios. In particular, it is not helpful that the independence reporting requirements are split between paragraph 30(f) and 30(g), which makes it difficult to understand how the requirements are expected to be actioned together.</p> <p>When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis therefor. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement. However, we do not agree with the proposals that address reporting</p>	No further comment	Yes

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>why and what disclosures might be appropriate in the AUP report in this circumstance.</p>	<p>about the practitioner’s independence when the practitioner is not required to be independent and is not prepared to assert their independence voluntarily. The paragraphs that follow explain our rationale.</p> <p>When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination. We have this view not only because of the complexity that may be involved in making a determination of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined.</p> <p>In particular, the IESBA Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the IESBA Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination. For the same reasons, we also do not believe it is appropriate for the practitioner to make a determination that they are “not independent”. For example, under the IESBA Code of Ethics, it is possible for the practitioner to be independent in accordance with the requirements for assurance engagements but not independent in accordance with the requirements for audit engagements. Whether the practitioner is expected to disclose that they are “not independent” in these circumstances is not clear.</p> <p>In regard to the reporting requirements when independence is not required for the AUP engagement (and the practitioner is not voluntarily</p>		

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>asserting their independence), we believe that the proposal to simply require a statement that “the practitioner is not required to be independent” is subject to misinterpretation by users. This statement will inappropriately allow users to make their own assumptions about the status of the practitioner’s independence. It is unreasonable to expect a user to understand the reporting scenarios in ED-4400 and know that, if the practitioner was independent, the AUP report would have an explicit statement to this effect. At a minimum, we believe that the statement that “the practitioner is not required to be independent” needs to be clarified and enhanced to avoid the possibility of users inappropriately assuming the practitioner is independent.</p> <p>Our recommendation is to expand the required statement in the AUP report to be “the practitioner is not required to be independent and the practitioner does not make any assertions regarding their independence”. We are further recommending that this requirement also replace the extant and ED-4400 requirement for the practitioner to disclose that they are “not independent”. Our rationale is as follows:</p> <ul style="list-style-type: none"> <li>• Our suggested requirement will result in a consistent statement in the AUP report when independence is not required</li> <li>• We believe the wording we have suggested will more explicitly convey to users that they cannot make any assumptions about the practitioner’s independence</li> <li>• The requirement to disclose when the practitioner is “not independent” is not capable of being consistently applied</li> </ul>		

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		without an explicit basis in the standard or in relevant ethical requirements against which this determination is to be made		
5	Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?	Yes, we agree with the term “findings” and the related definitions and the application material contained in the standard.	EY and PWC have this view the remainder of feedback does not agree, accordingly this comment has not made its way into the draft submission.	N
6	Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?	<p>Yes, the requirements and application material that address engagement and acceptance are appropriate. However, we suggest a few enhancements. Paragraph 20(b) and 21 involve important judgments by the practitioner. As we suggest in our response to Q2, we believe paragraph A16 should be relocated to support the requirement in 20(b). Further, we believe that paragraph 20(b) should refer to “expected procedures,” which is consistent with the reference to procedures in paragraph 20(a).</p> <p>In regard to paragraph 21, we believe a reference to paragraph A28 should be added to this requirement and consideration should be given to expanding this guidance in light of the expansion of the scope of the standard to non-financial subject matters. In particular, we do not believe A28 adequately emphasizes the importance of the auditor’s consideration of the appropriateness of the subject matter independent of the appropriateness of the procedures to be applied to the subject matter. It would also be useful for the application material to explain that the judgment regarding the appropriateness of the procedures involves determining that the procedures will not result in a report that may convey misleading information or be misunderstood by users.</p>	Comments noted in relation to EER, as noted by EY guidance is being developed to support such assurance engagement. Where an AUP engagement may be sought on an emerging subject matter where the engaging party’s understanding of the subject matter and of the intended users’ needs may still be developing, the requirements of the AUP standard still need to be followed.	N

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>As the IAASB finalizes ED-4400, we also encourage the IAASB to consider the guidance that is being developed in regard to Extended External Reporting and the possible applicability to AUP engagements, including to assist in enhancing the application material to paragraph A21. Although we understand that this guidance is being developed to support assurance engagements in accordance with ISAE 3000 (Revised), practitioners are facing new demands to perform engagements on emerging subject matters, which are being driven by emerging and evolving needs of users. In dealing with the demands, there are circumstances when an AUP engagement may be sought on an emerging subject matter where the engaging party’s understanding of the subject matter and of the intended users’ needs may still be developing. In these circumstances, certain of the suggested actions in A26, as well as more involved efforts by the practitioner to understand the subject matter and the purpose of the engagement, may be of greater importance to the practitioner’s determination of whether the pre-conditions of the AUP engagement have been met.</p>		
7	<p>Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?</p>	<p>We support the addition of requirements to address the use of a practitioner’s expert in an AUP engagement, including in regard to referring to an expert in the AUP report. However, the wording of paragraph 28 as drafted connotes an outsourcing arrangement and it is not clear that the expert’s role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: “When the practitioner involves a practitioner’s expert to assist in performing the agreed-upon procedures, the practitioner shall:”</p>	No additional comments	Y

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
8	Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?	<p>We agree with the removal of the requirements to restrict the report and to leave the determination of whether restrictions are necessary to the practitioner in the circumstances of the engagement. However, we do not believe the application material in paragraph A43 is sufficient or useful to assist the practitioner in determining whether restricting the report is appropriate in the circumstances of the engagement. We believe a restriction may be appropriate when the practitioner believes there is a greater risk for users other than the intended users to:</p> <ul style="list-style-type: none"> <li>• Misunderstand the agreed-upon procedures or the purpose of the engagement</li> <li>• Interpret the findings as providing assurance.</li> </ul> <p>In these cases, it is likely in the public interest to restrict the use or distribution of the report.</p> <p>It would also be useful to indicate in the application material that any report restrictions may be specified in the terms of the engagement or communicated to the engaging party through other means. However, it is important not to imply that restricting the report is subject to negotiation with the engaging party. It is the practitioner’s decision whether to restrict the use or distribution of the report.</p>	The KPMG and EY submissions have a different perspective to that received from other submissions and the feedback received from stakeholders on the webinar Accordingly, the draft AUASB submission has been done on the basis of an expectation of a restriction of use para which would be required if modified independence was allowed. – for AUASB discussion and consideration.	N
9	Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and	We generally support the content and structure of the proposed AUP report. Our biggest concern relates to the required statements about the	For the most part, these comments have been included in the draft submission. The ATG	Y

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	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?</p>	<p>practitioner’s independence when the practitioner is not required to be independent as expressed in our response to Q4.</p> <p>We have the following further comments and suggestions for clarifications to the requirements, application material or illustrations:</p> <ul style="list-style-type: none"> <li>• Paragraph 30(b) requires “an addressee as set forth in the terms of the engagement” however there is no further clarification on who the addressee should be. Given that under ED 4400 only the engaging party is required to acknowledge the appropriateness of the procedures, should consideration be given as to whether an intended user other than the engaging party may be included as an addressee?</li> <li>• Paragraph 30(c): “Subject matters” should be singular.</li> <li>• Paragraph 30(f):             <ul style="list-style-type: none"> <li>○ Paragraphs 30(f) and 30(g) should be moved to before paragraph 30(e) so that the ordering of the requirements mirrors the ordering of the statements in the illustrative reports.</li> <li>○ It would be helpful if paragraph 30 (f)(i) had application material that describes the meaning of “basis”. This could be achieved by referencing or using the examples in paragraph A13 (e.g. national ethical codes, laws or regulations, the firm’s policies and procedures or the terms of the engagement).</li> <li>○ Similarly, we suggest including application material to explain what “other reasons” in paragraph 30 (f)(i) may include.</li> </ul> </li> </ul>	<p>do not agree with the suggestion of expanding paragraph 30(i) to require the description of procedures to include materiality limits, if applicable. The practitioner does not apply materiality to the design or performance of procedures or in assessing the factual findings.</p>	

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<ul style="list-style-type: none"> <li>○ The requirement in paragraph 30(f)(i) does not require a statement that the practitioner is required to be independent; however, Illustration 1 of the AUP report includes the phrase “The terms of our engagement require us to be independent...”. We suggest removing the first phrase of the statement in Illustration 1 so that the statement in the illustration aligns to the requirement.</li> <li>● Paragraph 30(i)               <ul style="list-style-type: none"> <li>○ We suggest expanding paragraph 30(i) to require the description of procedures to include materiality limits, if applicable.</li> <li>○ It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the particular engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.</li> </ul> </li> </ul>		
10	<p>In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:</p> <p>g) Translations—recognizing that many</p>	No issues to note.	No additional comments	Y

	Question	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
	<p>respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.</p> <p>h) Effective Date— Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the</p>			

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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
	approval of the final ISRS and the effective date is practicable.			
	Other Matters	Refer to Appendix 1 to this Comments and Disposition Paper for Other comments	Refer Appendix 1	Some

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**EXHIBIT 5:**

	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
1	Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?	Subject to our comments in response to the questions hereafter, we believe the proposed revisions represent an appropriate response to the public interest issues identified in relation to the conduct of an agreed-upon procedures (AUP) engagement. We are pleased to note that the IAASB has included many of the aspects that were taken into account when the AUASB previously revised ASRS 4400 to address stakeholder and public interest issues.	No additional comments	Y

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<p>2</p>	<p>Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?</p>	<p>We agree that a level of professional judgement is required in undertaking an AUP engagement and broadly support the proposed revisions to address this topic within the standard, including the specific examples used to illustrate where judgement is applied. In performing the procedures, once agreed, the practitioner applies due care and competence in performing them, <u>but the need to apply professional judgment is likely to be limited.</u> As the practitioner reports findings only, we agree with the proposal in the Exposure Draft that it is important that the agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. Otherwise, there is a risk that users might draw unwarranted assurance. This will restrict the nature of procedures to those where there is less professional judgment involved in performing it or reporting the findings. <u>We believe the intent of paragraph A16 is to recognise that there may be limited judgement necessary in some circumstances. However, we believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in performing it or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example to illustrate may also be useful.</u></p> <p>Perhaps the most common application of professional judgement by practitioners is in assisting in the design of the procedures performed. Users may not know what procedures can be performed and the type of findings that would be reported. Therefore, the practitioner often works with the user to help design an appropriate AUP engagement that meets their needs, and that achieves the precondition that the procedures are described objectively and not using potentially misleading terminology. In doing so, it remains critical that the engaging party (and any additional intended users) ultimately takes responsibility for the appropriateness of the procedures. We therefore support the precondition in paragraph 20(a) that directly addresses obtaining acknowledgment from the engaging party of this responsibility.</p>	<p>PWC broadly supports the revisions and is the only respondent to suggest a limited professional judgement is required in the conduct of procedures and considers the proposed standard to be drafted as such. As such the draft submission has not taken these views into account.</p>	<p>N</p>
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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
3	Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?	<p>Yes. We consider the proposals to be a pragmatic and transparent solution, recognising the inherent challenges in addressing ethical considerations that are ultimately a matter for IESBA to consider in the Code of Ethics.</p> <p>Recognising the spectrum of AUP engagements that exist, we believe IESBA could usefully articulate its views on whether there are engagement circumstances, taking into account the nature of the AUP engagement and the intended users of the AUP report, when the practitioner should be required to be independent. For example, independence may be seen as more relevant, and in the public interest, in relation to engagements to report to a regulator in relation to the use of public funds. In other cases, such as a private report to management, management or those charged with governance can more readily assess the importance of the practitioner’s independence based on their understanding of the engagement circumstances.</p> <p>Absent any direct legal or ethical requirement, the practitioner and the engaging parties can agree, within the terms of the engagements, whether independence is a necessary precondition.</p>	There are mixed views on this topic, the draft AUASB submission has been done giving 2 options of response. – for AUASB discussion and consideration.	Y
4	What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the	With respect to the required statement in the AUP report, we agree in principle. However, without being able to link back to specific IESBA independence requirements, the proposed independence statement in the report may become confusing to users, as inconsistencies in how the requirements are applied in practice and included within the AUP report may arise. We believe that it would be useful to provide an explanation and illustration of how the basis for the practitioner’s statement may be articulated.	No further comment	Yes

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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
	practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.	<p>We also agree that, in the circumstances when the practitioner is not required to be independent, there would be no reasonable grounds on which to require the practitioner to make a formal assessment of their independence.</p> <p>AUP engagement contacts can often be entered into with multiple parties. For example, a funding bank and entity in receipt of such funding, or a government granting authority and the entity in receipt of such grant. We recommend that the proposed standard provide clarity with respect to independence considerations and the proposed statement within the AUP report as to which entity(ies) this specifically applies when there are multiple “engaging parties”. For example, we do not believe the intent is to address the practitioner’s independence of any third-party engaging party such as a bank.</p> <p>See also our response to question 3 regarding the requirement for an independence assessment.</p>		
5	Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?	Yes. We understand the reason for the inclusion of paragraph A11. To provide some context we suggest it may be helpful to add “pursuant to local law, regulation or practice”.	EY and PWC have this view the remainder of feedback does not agree, accordingly this comment has not made its way into the draft submission.	N
6	Are the requirements and application material regarding engagement acceptance and continuance, as set out in	Yes. As noted in our response to question 2, it is important that the engaging party accepts responsibility for acknowledging the appropriateness of the planned procedures. We believe that any intended users other than the engaging party should also acknowledge the	The ATG notes that PWC is the only respondent to consider that intended users should also	N

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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
	paragraphs 20-21 and A20-A29 of ED-4400, appropriate?	<p>appropriateness of the planned procedures (in a similar manner to paragraph 22 of ASRS 4400).</p> <p>We also welcome the additional guidance on terminology intended to drive clear and specific procedures and findings that are not open to varying interpretation.</p>	acknowledge the appropriateness of planned procedures. As such this view has not been expressed in the draft submission.	
7	Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?	<p>Yes. The proposals, based on the underlying principles when using an expert in an audit, are pragmatic and reasonable. It is important that the principle that the procedures to be performed, and related findings, should not require significant judgement and that they are capable of being described objectively be reinforced when using an expert. The use of a practitioner’s expert does not change this condition and we believe it may be useful to incorporate this message in the application material. The expert applies their competence and capabilities but is not being engaged due to the subject-matter requiring subjective interpretation. We therefore also support the proposed changes to the AUP report with respect to the practitioner’s overall responsibility for the procedures to be performed.</p> <p>We believe that illustration 2 in Appendix 2 to the proposed standard could include a more useful example. It is unclear why the procedure as described in the illustration would require an external expert. Using the example of a chemist analysing toxin levels, from paragraph A35, may be a better example.</p>	No other points to note	Y
8	Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures	We believe that there should be a distinction drawn between use of the report and distribution of the report. We support the current requirement in ASRS 4400 that restricts the use of the report to the engaging party	No other points to note	Y

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	<b>Question</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
	to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?	and any other intended users who have agreed to the procedures being performed and for the purpose for which it was prepared.  Restricting the distribution of the report to any other party is ultimately a risk management decision for the practitioner.		
9	Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?	We support the proposed requirements in relation to the practitioner’s report. We have no substantive comments on the proposed structure and content of the AUP report, noting that this is often prescribed in law or regulation resulting in more bespoke reports.	No further comment	Y
10	In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: i) Translations— recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.	No issues to note.	No additional comments	Y

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	<p>j) Effective Date— Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.</p>			

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## Appendix 1: Other comments received from stakeholders not specifically linked to Consultation Questions

	Topic	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
EY	Agreeing the Terms of Engagement	<p>We have the following suggestions for enhancing the requirement in paragraph 22 relating to the agreeing the terms of an AUP engagement:</p> <ul style="list-style-type: none"> <li>We suggest combining paragraph 24 with paragraph 22 and rewording paragraph 22 to be “The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following:”</li> </ul>	Only one stakeholder has raised this and accordingly this has not been actioned in the draft submission.	N
		<ul style="list-style-type: none"> <li>As we express in our response to Q4, we believe the terms of engagement should be required to include the status of the practitioner’s independence using wording consistent with the statement about the practitioner’s independence in the AUP report; we recommend updating paragraph 22(d) accordingly.</li> </ul>	To be determined after AUASB deliberations on this matter	N
		<ul style="list-style-type: none"> <li>We suggest expanding the requirement in paragraphs 22(f) to require the description of procedures to include materiality limits, if applicable.</li> </ul>	Not agreed by ATG. The practitioner does not apply materiality to the design or performance of procedures or in assessing the factual findings.	N

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	Topic	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		<p>We note that there is no supporting application material for the requirement in paragraph 22. We have the following suggestions for guidance:</p> <ul style="list-style-type: none"> <li>As we express in our response to Q8, we believe that if the practitioner intends to restrict the use or distribution of the report, this intention may be specified in the terms of engagement. In fact, if the practitioner has made the decision to restrict the report at the time the terms of engagement are agreed, we believe that the IAASB should consider requiring the restriction to be included in the terms of the engagement.</li> </ul>	<p>Comments regarding use vs distribution included in draft submission in Q8.</p>	<p>Y</p>
		<ul style="list-style-type: none"> <li>It would be useful to be provide guidance about the effect on the terms of the engagement when the responsible party is different from the engaging party.</li> </ul>	<p>Only one stakeholder has raised this and accordingly this has not been actioned in the draft submission.</p>	<p>N</p>
		<ul style="list-style-type: none"> <li>The illustrative engagement letter in Appendix 1 is for a scenario where the engaging party is also the intended user. We suggest this illustrative letter accommodated a scenario where there is an intended user other than the engaging party and the AUP report will have a restriction of use paragraph.</li> </ul>	<p>Only one stakeholder has raised this and accordingly this has not been actioned in the draft submission.</p>	<p>N</p>
		<ul style="list-style-type: none"> <li>We suggest application material to paragraph 22(f) to clarify that the nature, timing and extent of procedures are typically specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgment in determining or modifying the procedures to be performed. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement.</li> </ul>	<p>Comes through in Q2 of submission.</p>	<p>Y</p>



	Topic	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		In addition, it is our view that the requirement in paragraph 23 to update the terms of the engagement when procedures are modified during the course of the engagement is unnecessarily restrictive. While we agree that updates to procedures should be agreed in writing, there should be flexibility in the form of the documentation that is acceptable for the purpose of agreeing modifications to the procedures. We believe amending the terms of the engagement, specifying the changes in the letter of representations or using another appropriate written format may all be acceptable forms of documentation for such changes. In particular, it should be permissible to obtain the engaging party’s agreement to modifications to procedures through the use of a letter of representations.	Application material A30 already allows this.	N
EY	Performing the AUPs	We believe the requirement in paragraph 26 is incomplete as it does not retain the extant requirement to “use the evidence obtained as the basis for the report”. We recommend expanding the requirement in paragraph 26 to include “and obtain evidence as the basis for the findings in the agreed-upon procedures report”. We also believe the practitioner should be required to capture all findings and include all findings in the report. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement, including that the practitioner should not judgmentally exclude any findings.	Requirement 30(j) considered sufficient.	N
EY	Letter of Representation	We support not requiring a letter of representations and leaving this to the judgment of the practitioner in accordance with paragraph 27. However, we believe that additional guidance is needed to assist the practitioner’s consideration of whether a letter of representations is necessary, including examples of circumstances when a letter of representation may be appropriate to	Application material A34 addresses this.	N

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	Topic	Respondent Comment – summarised where appropriate	ATG Commentary	Comment included in draft submission to IAASB Y/N
		obtain. For example, if a procedure is performed that involves selecting a sample from a population, it may be appropriate to obtain a representation that the population provided to the practitioner by the responsible party is complete and accurate. (See also our comment above regarding the use of the letter of representations to agree modifications to the procedures performed). Paragraph A34 provides an example of obtaining a representation “that the engaging party has disclosed to the practitioner its knowledge of identified or suspected fraud or non-compliance with laws and regulations”. Further clarification should be provided on whether the practitioner should ordinarily obtain such a representation.		
EY	Awareness of facts or circumstances that suggest procedures are inappropriate during course of engagement	During the course of the engagement, the practitioner may become aware that the procedures or related findings are not appropriate for the purpose of the engagement, are misleading or cannot be described objectively such that the pre-conditions of the engagement are called into question. We believe a requirement, or at least application material, should be added to ED-4400 to require or encourage the practitioner to discuss the matter with the engaging party and take appropriate action in the circumstances.	Only one stakeholder has raised this and accordingly this has not been actioned in the draft submission.	N
EY	Misleading / Assurance-centric words and expansion of application guidance on the procedures themselves	Paragraph A23 provides misleading words to avoid. We suggest including additional terms that may be misleading such as “evaluate”, “ascertain”, “assess”, “examine”, “determine” and “verify”. We would like to suggest adding clarification around the role of sampling and selection criteria in agreed upon procedures engagements. Furthermore, we would like to see additional application guidance such as examples of appropriate and inappropriate description of findings for a suite of theoretical agreed upon procedures.	Only one stakeholder has raised this and accordingly this has not been actioned in the draft submission.	N

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	<b>Topic</b>	<b>Respondent Comment – summarised where appropriate</b>	<b>ATG Commentary</b>	<b>Comment included in draft submission to IAASB Y/N</b>
EY	Additional Acceptance Criteria for non-Financial Subject Matters	Recognising the expanded scope of the proposed standard to include non-financial subject-matters, we suggest that an additional acceptance condition may be appropriate that addresses the practitioner’s competence to perform the procedures. Specifically, such a condition could address any need for a practitioner's expert.	19(b)(i) addresses this.	N

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007

14 February 2019

Dear Chairman

**Re: Exposure Draft ED 05/18 - Proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed- Upon Procedures Engagements*.**

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on the IAASB's Proposed International Standard on Related Services (ISRS) 4400 (Revised) Agreed – Upon Procedures Engagements.

We support the need for a revised standard that meets the needs of users and the AUASB's policy to amend or supplement ISRSs when there are compelling reasons to do so.

Please refer to Appendix 1 for our responses to the specific comments posed by the AUASB within ED 05/18.

In addition, we have included comments relating to specific paragraphs within the proposed standard in Appendix 2.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 3434.

Yours sincerely

Gareth Bird  
Partner  
Audit and Assurance Quality Leader  
*(signed in my capacity as a Partner at Deloitte and not as an AUASB Board member)*

## Appendix 1

Responses to specific questions posed with ED 05/18

### Overall Question

*Public Interest Issues Addressed in ED 05/18*

1. *Has ED 05/18 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?*

We believe the proposed standard has been clarified to respond to the needs of stakeholders and address public interest issues, however, there are certain matters covered in specific questions below or in Appendix 2 that should be addressed to improve consistency in implementation of the standard.

### Specific Questions

#### *Professional Judgement*

2. *Does the definition, requirement and application material on professional judgement in paragraphs 13(j), 18 and A14-A16 of ED 05/18 appropriately reflect the role professional judgement plays in an AUP engagement?*

The definition of professional judgement in paragraph 13 (j) is the same as in auditing standard ASA 200 and we believe this was envisioned for assurance engagements and not necessarily for an AUP engagement.

The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures as agreed with management and reports factually on the findings. Introducing the concept of ‘professional judgement’ would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually.

Although we acknowledge that when accepting and agreeing to perform an AUP engagement, the practitioner would need to apply professional judgement, including this requirement, as in par 18 (applying professional judgement in conducting the engagement) of the ED, would result in the practitioner including subjectivity in the performance of an AUP. This will mean the results of the procedures performed would not necessarily be factual findings as defined in the proposed standard i.e. as “being capable of being objectively verified”.

If the standard allows use of professional judgement in conducting the engagements, this may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

Therefore, it is our view that the standard does not appropriately reflect the role of professional judgement in an AUP engagement.

### *Practitioner's Objectivity and Independence*

3. *Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the AUASB would discuss the relevant independence considerations with the APESB?*

In Australia, removing the precondition will be a step backwards in terms of “raising the bar” of what is expected of professional accountants, as this is the current practice.

The proposed standard does not require the practitioner to be independent. Based on the explanatory memorandum, one of the factors considered by the IAASB was that “the practitioner is reporting on factual results from performing the AUP, independence is less important as it is unlikely that factual results would be susceptible to potential bias”. The draft standard is also proposing allowing professional judgement in conducting the engagement, see point above. This will contradict with the IAASB view noted above relating to why independence is less important.

It will be difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition APESB 120.12A1) b) states that:

“(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.”

Considering that in most cases these AUP engagements are performed by auditors, it is our view that, the current market (and in terms of the current global climate of issues facing the auditing profession) expects more from practitioners and therefore the need for some level of independence, although the Code does not require independence for AUPs.

In addition, paragraph A12 states “A practitioner performing an agreed-upon procedures engagement is required to fulfil the practitioner’s responsibilities in accordance with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the APESB Code, together with national requirements that are more restrictive. The APESB Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.”

This paragraph implies there is a level of independence expected and accordingly, it is our view that the practitioners performing these engagements should have some independence requirements, which can be significantly less onerous than assurance engagements.

We also question if the practitioner were not independent, and performs such engagements, how the user will value such a report, considering the current market perceptions.

Accordingly, we do not agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. Although an AUP engagement is not an assurance engagement, there is an expectation that the practitioner performing these engagements will be objective.

4. *What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the IAASB Explanatory Memorandum, and*

*the related requirements and application material in ED 05/18? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.*

See our overarching comment in point three above relating to independence.

However, if the IAASB lands at a position that there is no requirement to be independent, we expect the practitioner is not required to make an independence determination and no disclosures should be required in the AUP report.

We suggest that, the requirements and guidance need to be enhanced to cover the documentation expectations for practitioners especially in scenarios where, the practitioner has not assessed independence. Is there any expectation that they document why they have not assessed independence? If not, what is the expectation?

Overall, we believe that the practitioners performing these engagements should have some independence requirements that can be significantly less onerous than assurance engagements.

### *Findings*

5. *Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED 05/18?*

We do not necessarily agree with the change from “factual findings” to “findings”.

This is because findings as defined in the Macmillan dictionary is “information that you discover, or opinions that you form after doing research.” and factual is defined as “based on **facts** or containing only **facts**, rather than theories or opinions.” Therefore using findings on its own in ED 05/18 could be subject to various interpretations.

- We agree with the principle of providing the definitions in paragraph 13 (f).
- If the AUASB intend to keep the term findings, the we proposed the following change:
  - Delete Paragraph A11. In some jurisdictions, the term “findings” may be replaced with “factual findings” as the term findings is defined in the standard.

### *Engagement Acceptance and Continuance*

6. *Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED 05/18, appropriate?*

The requirements in paragraphs 20-21 are appropriate for engagement acceptance.

However, the application material specifically paragraph A26 suggests that the practitioner needs to perform procedures to satisfy themselves that the AUP engagement procedures are appropriate for the purpose. We believe this is not necessary as:

- Paragraph 22 (b) requires the engagement letter to include an acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement; and

- Paragraph 30 h (ii) also requires the report to include that “The engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement, and that the practitioner makes no representation regarding their appropriateness;”

It is our view that this should be sufficient and appropriate evidence of the engaging party’s intentions.

#### *Practitioner’s Expert*

7. *Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED 05/18, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED 05/18?*

We agree with the proposed requirements and application material on the use of a practitioner’s expert and references to the use of the expert in an AUP report as this is the current practice in Australia.

#### *AUP Report*

8. *Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED 05/18 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?*

The AUP report should be restricted to parties that have agreed to the procedures performed. It is our view that the recipient of the report and ultimately the user of the report are required to understand the terms of the engagement. This can only happen if either they were a party to the engagement letter or before they receive a copy and rely on the report, they understood the terms of the engagement.

Although paragraph A43 provides an option to the practitioner to consider restricting use, having too many options and differing treatment, will result in inconsistencies.

9. *Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED 05/18? What do you believe should be added or changed, if anything?*

See detailed comments in Appendix 2 below.

As indicated above, we do not believe that paragraph 30 (g) should be included. See response in point three above.

Paragraph A42 also explains how the requirement in paragraph 30 (g) will result in challenges in implementation. “If a statement is made that the practitioner is not independent, the practitioner may want to include an explanation as to why the practitioner is not independent.”



## Request for General Comments

10. *In addition to the requests for specific comments above, the AUASB is also seeking comments on the matters set out below:*

- a) *Effective Date—Recognising that ED 05/18 is a substantive revision and given the need for national due process and translation, as applicable, the AUASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.*

We support a period of 18 -24 months after date of approval of the final ISRS as this would provide a sufficient period to support effective implementation of the ISRS. This will allow any government institution with templates for AUPs to be updated for the requirements of the new standard.

## Australian Specific Questions

*Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when considering if any compelling reasons exist:*

11. *Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?*

None that we are aware of.

12. *Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

It appears the proposed standard where applicable has acknowledged that laws and regulations may override some of the application material.

13. *Whether there are any principles and practices considered appropriate in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

Yes, the current practices relating to independence and restriction of use paragraphs. See the point already covered above.

14. *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings (issued in July 2013) requires compliance with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements, including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements. Do stakeholders support this level of compliance?*

We support this level of compliance. See comments in point 3 above.

15. *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings (issued in July 2013) applies to AUP engagements performed by an Assurance Practitioner. Assurance Practitioner is defined in ASAE 3000\* with the term indicating that that the work is required to be*

*performed and the report prepared by persons who have adequate training, experience and competence in conducting assurance engagements. Do stakeholders support the application of ASRS 4400 being restricted to Assurance Practitioners rather than Practitioners as currently proposed in ED 05/18?*

As the AUP engagement is a related service engagement, we support that the application of ASRS 4400 be restricted to Assurance Practitioners.

16. *What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, the AUASB would like to understand:*
- a) Where those costs are likely to occur;*
  - b) The estimated extent of costs, in percentage terms: and*
  - c) Whether expected costs outweigh the benefits to the users of AUP Reports?*

We do not see the application of the requirements in the proposed standard resulting in additional significant costs.

17. *Are there any other significant public interest matters that constituents wish to raise?*

None.

## Appendix 2

REF	Paragraph detail	Proposed amendments	Reasons
Par. A15	<p><b>Professional Judgment</b> Professional judgment may be applied in an agreed-upon procedures engagement as follows:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Discussing the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert.</li> <li><input type="checkbox"/> Describing the findings in an objective manner.</li> <li><input type="checkbox"/> Determining whether any of the terminology used to describe the procedures or findings is unclear, misleading, or subject to varying interpretations.</li> </ul>	<p><b>Professional Judgment</b> Professional judgment may be applied in an agreed-upon procedures engagement as follows:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <del>Discussing</del> Agreeing the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert.</li> <li><input type="checkbox"/> <del>Describing the findings in an objective manner.</del></li> <li><input type="checkbox"/> <del>Determining whether any of the terminology used to describe the procedures or findings is unclear, misleading, or subject to varying interpretations.</del></li> </ul>	<p>This is contrary to paragraph 20 (b) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.</p> <p>In addition, it is not possible to apply professional judgement in discussions.</p>
Par. A16	<p>“..The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively,</p>	<p><del>“..The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described</del></p>	<p>There should not be a need for professional judgment in executing the procedures as these are agreed-upon and to the extent practical, the steps to perform the</p>

REF	Paragraph detail	Proposed amendments	Reasons
	in terms that are clear, not misleading, and not subject to varying interpretations is present.	<del>objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.</del>	procedure should be agreed instead of being left to auditor judgement. Leaving this to auditor judgement will only lead to subjectivity in the description of findings
Par. A25	In cases where law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 20(b) by, for example, obtaining the agreement of the engaging party to:	In cases where law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 20(b) by, for example, <del>obtaining the agreement</del> of requesting the engaging party to:	The use of ‘obtaining the agreement of the engaging party’ implies that prior to this, the procedures have already been agreed to. However in practice this normally happens when the practitioner is still considering whether or not to accept the engagement.
Par. 22	e) Identification of the subject matters on which the agreed-upon procedures will be performed;	Identification of the subject matter (s) on which the agreed-upon procedures will be performed;	Acknowledge that it is not always plural
	(f) The nature, timing and extent of the procedures to be performed;	<del>(f) The nature, timing and extent of the procedures to be performed;</del>	Ordinarily, these are all agreed with the engaging party.
	(h) Identification of the addressee of the agreed-upon procedures report.	N/A – see comment	<p>(a) Wording suggest this could be different to the engaging party?</p> <p>(b) See A43- there is no consistency in inclusion of responsible party- do we not also need to include the consideration that the responsible party/addressee needs to be party to the AUP?</p>

REF	Paragraph detail	Proposed amendments	Reasons
Par. 27	The practitioner shall consider whether it is necessary to request written representations from the engaging party. (Ref: Para. A34)	The practitioner should <del>shall consider</del> <b>evaluate</b> whether it is necessary to request written representations from the engaging party. (Ref: Para. A34)	Use the term ‘consider’ implies it is not a requirement.  Consider changing the wording of “shall” to “should” which is consistent with the Assurance standards and the clarification project in 2010.
Par. 30	(c) Identification of the subject matters on which the procedures have been performed	Identification of the subject matter <b>(s)</b> on which the agreed-upon procedures will be performed;	Acknowledge that it is not always plural
Par. 30	(e) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1;	N/A – see comment	Professional accountant – This is not defined in the standard. Is it expected that the same definition as the Code applies?
Par. 30	(g) When it is known that the practitioner is not independent, a statement to that effect; (Ref: Para. A41–A42)	Propose that this be under the independence section in paragraph 30 h as follows:  (iii) When it is known that the practitioner is not independent, a statement to that effect; (Ref: Para. A41–A42)	The current flow does not read well.
Par. 32	The practitioner shall date the agreed-upon procedures report on the date the practitioner has completed the agreed-upon procedures engagement in accordance with this ISRS.	The practitioner shall date the agreed-upon procedures report <del>on</del> subsequent to the completion of <del>date the practitioner has completed</del> the agreed-upon procedures engagement in accordance with this ISRS.	Is there an expectation that this is the same day as the date as the practitioner signs the report? If yes, this may not be always be practical.

REF	Paragraph detail	Proposed amendments	Reasons
Par. A9	The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user.	N/A – see comment	The term “responsible party” is not defined in this standard. Is this supposed to have the same meaning as in the ASAEs?
Par. A11	In some jurisdictions, the term “findings” may be replaced with “factual findings”.	<del>A11. In some jurisdictions, the term “findings” may be replaced with “factual findings”.</del>	See comment in point 5 above.
Par. A38	If the responsible party is not the engaging party, the practitioner may consider obtaining the responsible party’s agreement in order to include the name of the responsible party in the agreed-upon procedures report.	N/A – see comment	See comment relating to paragraph A9 above with respect of the use of the term responsible party.
Par. fA46	For a procedure requiring inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries made.	N/A – see comment	We question “Inquiries” as procedure. We do not think this will result in objective results.
Appendix 1	N/A – see comment	N/A – see comment	Insert engagement assumptions-similar to what we have in Appendix 2.
Appendix 1	N/A – see comment	N/A – see comment	Documents inspected could be more specific in the description of the procedures.
Appendix 2 Illustration 1	Assumption states the “ The engaging party is the addressee and the intended user.”	We have performed the procedures described below, which were agreed to by [Engaging Party] [you], on the procurement of [xyz] products	The body of the illustrative report uses addressee and engaging party as if they were different parties.
Appendix 2	Management has represented to us that the reason that this contract was not subject to competitive bidding	<del>Management has represented to us that the reason that this contract was not subject to</del>	This does not seem to be a finding as defined in the proposed standard.

REF	Paragraph detail	Proposed amendments	Reasons
Illustration 2	was due to a pressing emergency to meet a contractual deadline	<del>competitive bidding was due to a pressing emergency to meet a contractual deadline</del>	Propose this is deleted and instead include a separate appendix with management comments.
Appendix 2 Illustration 2	We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, we found that the different amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that was effective in September 20X8.	N/A – see comment	In practice some clients have requested the detail in an appendix, as the user of the report might not have access to this detail. Is this acceptable?



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Our ref Comment submission on  
AUASB Consultation Paper,  
Agreed-Upon Procedures  
Engagements  
Contact Jennifer Travers  
(+61 3 9288 5015)

18 February 2019

Dear Sir

**Comment submission on AUASB Consultation Paper, Agreed-Upon Procedures (AUP) Engagements**

We are pleased to have the opportunity to respond to the Australian Auditing and Assurance Standards Board (AUASB) Consultation Paper on the recently issued IAASB Exposure Draft on Proposed ISRS 4400 *Agreed-Upon Procedures Engagements* (ED 4400). The letter represents the views of KPMG Australia.

We understand that the AUASB intends to respond to the International Auditing Standards Board's (IAASB) invitation to comment on the IAASB Exposure Draft on Proposed ISRS 4400 *Agreed-Upon Procedures Engagements* (ED 4400).

The Global KPMG network is still in the process of developing its response to the IAASB ED 4400, which will be submitted in accordance with the IAASB's deadline.

Our overarching comments are set out below. Please refer to Appendix 1 to this letter for our views and responses to the specific questions raised by the AUASB for comment.

**Overarching comments**

Overall, KPMG Australia is supportive of the adoption of the proposed Standard on Related Services.

We are supportive of the overall direction of the changes proposed to ISRS 4400 and believe that these broadly achieve the principal objective of keeping pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters.

We believe that the proposals represent considerable enhancements to the extant standard, as they establish clearer and more granular requirements, supported by detailed applicable guidance as to how and why a practitioner needs to adhere to these requirements.





**Auditing Standards and Assurance Board**  
*Comment submission on AUASB Consultation  
Paper, Agreed-Upon Procedures Engagements  
18 February 2019*

Our comments have a common theme of helping reduce inconsistency in the performance of AUP engagements globally and introducing clear boundaries to some areas requiring professional judgement.

Our detailed views and comments are found below in response to each question.

Should you wish to clarify any aspect of KPMG Australia's submission, I would be pleased to discuss. My contact details are [jltravers@kpmg.com.au](mailto:jltravers@kpmg.com.au) or +61 3 9288 5015.

Yours faithfully

Jennifer Travers  
*Director*



## **Appendix 1 – KPMG’s Australia’s views on specific matters highlighted by the AUASB in the Consultation Paper: *Agreed-Upon Procedures Engagements***

### **Overall Question**

#### ***Public Interest Issues Addressed in ED-4400***

#### **1) Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?**

We believe that ED-4400 has been modernised and is a better fit to the current needs of stakeholders than the extant ISRS 4400.

In particular, the following changes have resulted in a more commercial standard that applies more widely across the Australian market:

- no restriction on distribution of the agreed-upon procedures report;
- no requirement to obtain acknowledgement on the agreed procedures from all intended users due to practical difficulties;
- an increased scope of the standard to address non-financial subject matters; and
- allowance for recommendations.

Additionally, increased practical guidance to assist practitioners apply the standard in a consistent manner is appreciated, in particular for, terminology, practitioner’s expert, modifications to procedures, and recurring engagements.

We believe that the standard could benefit from further clarification in the following areas:

- professional judgement;
- engagement acceptance and continuance;
- independence; and
- use of a practitioner’s expert.

We will expand on these areas in our responses to the specific questions below.



## **Specific Questions**

### ***Professional Judgment***

#### **2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?**

Although many of the improvements on professional judgement are helpful and we generally support them, we note the following:

- The reference to “professional standards” in the definition at paragraph 13(j) is broad and may be unclear. In ISAE 3000 (Revised) the equivalent reference is more specifically to assurance standards and ethical requirements. We therefore suggest that the IAASB be similarly specific here.
- We believe there is particular exercise of professional judgement in deciding whether to accept an AUP engagement, and in agreeing the procedures themselves, as well as in describing the findings in the report, with less relevance in performing the procedures themselves. It would be helpful to provide further clarity around this.
- It would be helpful to highlight that although the practitioner exercises judgment if they become aware of certain matters, e.g. potential NOCLAR or fraud, they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as would be applicable in an audit or assurance engagement, as this is not a risk-based standard.
- It would be helpful to elevate the consideration of the extent of the need for use of professional judgement as part of determining whether the pre-conditions for an AUP engagement have been met – i.e. the more a procedure requires professional judgement, the more judgement will be needed to describe it objectively, and therefore as described at A16, the less likely it will be that an AUP engagement is appropriate.
- Related to this is the consideration of resources – the more senior, or the more expert the resources need to be, the more this points away from an AUP engagement. We note that the description of the value of the engagement, at paragraph 4, results from compliance with professional standards, including ethical requirements, and clear communication of the procedures and the findings. Unlike audit/ assurance standards, it does not refer to skills, knowledge and experience of the practitioner, and since the procedures should be capable of being objectively verified, presumably by a “reasonable” practitioner who is not an expert, we suggest the IAASB consider whether the concept of skills and experience, and the



“collective competence and capabilities of the engagement team”, including experts, as described at paragraph 19(b) ii, is appropriate.

- It would also be helpful to describe the granularity of description of findings as an example of application of professional judgement.

### ***Practitioner’s Objectivity and Independence***

**3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

We agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. This allows for much broader use of this style of engagement which reflects current demand in the Australian market.

When performing an agreed-upon procedures engagement for an audit or assurance client, the practitioner has strict independence requirements to comply with so in many cases, a practitioner will already be independent.

We agree that where required by regulation or contract, the practitioner would apply an independence requirement as a pre-condition for acceptance of the engagement and should include their independence disclosure in the report so long as the regulation or contract was clear on how the practitioner would make this determination or assessment. It would also be helpful to further emphasise the need to disclose clearly the criteria used by the practitioner to assess independence, if relevant, since these may be drawn from various sources.

Furthermore, this may be an area where exercise of professional judgement is required – as such, it may be helpful to include this as a specific example of professional judgement.

**4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

We believe that it’s not clear in ED-4400 what would determine whether the practitioner is required to be independent or how that determination would be made.



We disagree with the requirement to state that you are not independent in circumstances in which there is no requirement to be independent. Readers of the report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.

### **Findings**

#### **5) Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

Findings is a challenging word as this is often used in a consulting or advisory service context where professional judgement and expertise has been applied.

KPMG Australia has historically used the phrase “factual findings” in accordance with the title of ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

The fact that the phrase “findings” has to be defined in the ED as “findings that are the factual results of procedures performed” suggests that use of the adjective “factual” is a key part of the definition. As a result, the phrase “factual results” or “factual findings” appears to be fit for purpose.

It is relevant to note that ASRS 4400 doesn’t define the phrase “factual findings” as the definition implies what type of findings they are.

The “findings” definition in ED-4400 has also specified that “findings” does not refer to any recommendations that the practitioner may make. These additional explanations by their nature imply that there could be confusion over the term “findings”.

### **Engagement Acceptance and Continuance**

#### **6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?**

We are generally supportive of the requirements and application material regarding engagement acceptance and continuance as extant ISRS 4400 only sets out requirements and guidance dealing with the terms of the engagement. Extant ISRS 4400 does not contain any requirements or application material on conditions required to be met before the practitioner can accept an AUP engagement so ED-4400 is an improvement; however, the standard is silent on the practitioner’s consideration of whether an assurance engagement may be required.



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18 February 2019*

We believe that more should be done to differentiate an AUP engagement from an assurance engagement and that the practitioner should apply their judgement not to accept an AUP if the intended user/engaging party might misconstrue the nature of this service.

ASRS 4400 addresses this well. ASRS 4400 paragraph 7 and 21 repeatedly talk about the practitioner's responsibilities to ensure that agreed-upon procedures is the best fit for the needs of the client and to apply judgement to consider whether an assurance engagement is required. This pre-condition of consideration of whether the engagement should be assurance is articulated in paragraph 7 (b) and (d) as well as four more explicit mentions in paragraph 21 (a), (b), (d) and (f).

ED-4400 is silent on whether assurance should be required or not. Introducing pre-conditions to consider this matter up front would assist in consistent application and introduce a boundary of where the use of AUP is appropriate.

It is important that AUPs not be offered as a "cheaper assurance" alternative that also does not require independence so as to devalue the assurance offering. AUPs have a clear place in the market and there is professional judgement required to make choices about appropriate acceptance of engagements that do not cause any further confusion about the nature of this service.

It's also helpful to have the engaging party and any other intended users acknowledge their understanding and agreement of this but we agree with ED-4400 that this acknowledgement is not always practical to obtain from intended users.

A simple solution could be to apply the concept in paragraph 21 of ASRS 4400 that the practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner the circumstances of the engagement indicated that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter.

The standard could also benefit from an introduction similar to ASRS 4400 paragraphs 4-6 which articulate how an AUP engagement is different to assurance, consulting, compilation and business services. This would be helpful to include to ensure that practitioners globally are clear on these differences themselves. They could use this language to assist them in their conversations with clients when discussing how their service types can help solve various client issues.

Finally, ASRS 4400 has two dedicated appendices (1 and 2) to this topic and practically how AUP differs from assurance. Appendix 1 focuses on differentiating factors between the two services and Appendix 2 provides examples of differences in scope. This could be invaluable to practitioners to keep a clear distinction globally between these service offerings and avoid any potential creep of an AUP turning into a quasi-assurance engagement.



### *Engaging party's acknowledgement*

We are supportive of the inclusion of the pre-condition as set out in Paragraph 20(a) of ED-4400 where 'the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement'. We also agree with the IAASB's position that this requirement should not be extended to cover acknowledgement that the procedures are appropriate for the purpose of the intended users as it may not be possible or practical to do so.

It would be helpful to guide practitioners to obtain a statement from the engaging party that to the "best of their knowledge and belief", or similar, the procedures are appropriate to the needs of the engaging party and other intended users or that they considered their needs in agreeing to the procedures. Otherwise there is more onus on the practitioner to look at communication and correspondence between the engaging party and the intended users, to follow up regarding absence of response from intended users, or to use judgement to determine whether procedures are appropriate. It is also unclear as to the expected further actions of the practitioner if they do not hear back from the intended users, or if there is disagreement between the engaging party and the intended user.

It would be helpful to include a precondition to consider whether there is a rational purpose to the engagement. This would relate to the exercise of professional judgement in considering whether to accept, and to plan the engagement, with regard to the consideration of the purpose of the engagement. Paragraphs 20(b), 21 (which are somewhat duplicative), related application material, and A28 discuss whether the procedures agreed are appropriate to the purpose of the engagement, but it would be helpful to have a higher-level requirement around the purpose itself, linked to the practitioner's understanding of the needs of the intended users.

For example, paragraph 21 (e) of ASRS 4400 states that the assurance practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner, the engagement has no rational purpose. This is particularly important if the engaging party wishes for the report to be distributed to other parties who may not understand what an agreed upon procedures report is and how it differs from assurance (and the fact that the practitioner has not verified any data that may be included in the report).

We also note that the standard contemplates the practitioner's report being made more widely available, e.g. to the general public on a website. In such situations, the practitioner may have difficulty identifying the intended users, and there may be user groups that are not intended users – it is unclear what the practitioner's responsibility would be towards such groups. In this regard, we also note a lack of clarity in terminology between "users" and "intended users", as the IAASB appears to use these terms interchangeably. We believe the practitioner, together with the engaging party, should attempt to identify and meet the needs of intended users, but that the standard should



clarify that they do not have a responsibility towards additional users who are not intended users.

The standard also acknowledges that the engaging party may not be the party that is responsible for the subject matter information, or for the underlying subject matter. It would be helpful for the standard to provide more guidance around such situations, such as assessing the reliability of information and explanations, as well as consideration as to whether the practitioner will have access to information and explanations, as part of the preconditions, and additionally, whether the practitioner believes there is a rational purpose to the engagement.

Lastly, in addressing agreement to the terms of the engagement at paragraph 22, it would be helpful to include acknowledgement by the engaging party to provide information and explanations as required by the practitioner, and unrestricted access to persons at the entity. Although the procedures are clearly defined and agreed, it is still important that the engaging party acknowledges upfront that they need to provide information and access to the practitioner so that the practitioner can perform the procedures.

#### *Terminology*

We are supportive of the examples of potentially inappropriate terminology and guidance on the steps a practitioner may take i.e. A22-A26.

We also suggest including clearer links to the application of professional judgement in determining whether procedures are capable of being performed and described objectively, as well as in determining the level of granularity appropriate/ necessary in the description of procedures, both in agreeing the scope and in the report itself. For example, in some cases it will be appropriate for every test to be described in detail and in other cases it may be appropriate to group tests together under summary descriptions. As noted elsewhere in the ED, the key concept is that another practitioner would be able to replicate the test and obtain the same findings from the description. Accordingly, we are supportive that the ED allows practitioners to apply a degree of judgement in describing the procedures and findings where the nature and scope of the procedures are well understood by users.





### ***Practitioner's Expert***

**7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?**

We recognise that the IAASB has attempted to introduce concepts in this area from auditing and assurance standards, to improve the understanding of the practitioner's responsibilities in this area.

However, we have concerns about the applicability of this concept to an AUP engagement. We note that experts (in matters other than auditing and accounting) may be used by an auditor in performing an audit but we believe this is less likely in an AUP engagement in which the practitioner is executing procedures over specific subject matter information.

If the practitioner does not have sufficient expertise in the underlying subject matter then it may not be appropriate for them to accept the AUP engagement. See also our comments earlier regarding the collective competence and capability of the engagement team and the fact that procedures must be capable of being performed objectively, should be capable of replication and the same findings obtained.

Use of an expert suggests that there may need to be use of professional judgement above and beyond what would usually be contemplated in an AUP engagement, and furthermore, that the findings from the procedures would not be capable of being objectively verified and described, which is a fundamental principle of an AUP engagement.

It would be helpful to include guidance that an expert's involvement should not be so extensive that they are essentially performing the majority of the procedures.

### ***AUP Report***

**8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

We are generally supportive of the AUP report not being restricted to parties who have agreed to the procedures to be performed as this aligns to local market demand. As recognised by the IAASB's Exposure Draft, it is sometimes difficult to obtain agreement from all intended users.

A43 allows for a practitioner to apply a restriction of use should they wish to do so. We support the practitioner having the ability to make their own decisions on use and



distribution of the report and the conditions that they may choose to accept based on their risk appetite.

We note that there is an expectation gap regarding public perceptions as to what an AUP engagement is, what the procedures constitute and whether or not “assurance” is imparted. As a result, it would be helpful for the IAASB to provide further guidance as to the practitioner’s responsibilities to the intended users, in particular, for situations where there may be a lack of clarity as to whether intended users understand/agree on the procedures and/or the purpose of the engagement, as well as in situations where the report will be made more widely available, e.g. on a website, and therefore it is more difficult to identify the “intended” users or user groups, or to consider the needs of all user groups.

We also highlight that the statement that the report may not be suitable for another purpose is derived from ISA 800, in which the equivalent requirement is to include an Emphasis of Matter paragraph. Whilst such a paragraph would not be appropriate in an AUP report, as no opinion/conclusion is provided, it would be helpful for the standard to emphasise that the statement must be sufficiently prominent, e.g. to include a heading, and language that makes clear that this is a “warning”.

**9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?**

We are generally supportive of the content and structure of the proposed AUP report set out paragraphs 30-32 and A37-A44 and Appendix 2; however, it does not seem practical to require the practitioner to include a statement on independence (paragraph 30 (f)) when independence is not a requirement of the standard nor the engagement.

As stated above, readers of the report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.

Our preference would be to only include a sentence on the practitioner’s assessment of independence in the report, including the criteria the practitioner used in the assessment, where independence is a requirement of the engagement.

We believe for clarity the practitioner should identify and make clear who the intended users of their report are and to restrict other parties from inadvertently relying on the report when it may not be appropriate to do so. It also makes it clear from a legal perspective to whom the practitioner owes a duty of care. This would also provide a clear boundary for the practitioner’s responsibilities.



We suggest to include identification of any procedures agreed in the terms of the engagement that could not be performed and why that has arisen.

It would be helpful to indicate in the guidance that there should be no inclusion of a management response to the practitioner's factual findings. Any management commentary on the practitioner's report should be made completely separate from the AUP report of factual findings.

### **Request for General Comments**

**10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

**(a) Translations – recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**

None noted. No translation requirement for KPMG Australia.

**(b) Effective Date – Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.**

No issues with the proposed timing noted.

(c) Other comments

Although we are supportive of the practitioner providing recommendations in a separate report or a clear and distinct section of the report of factual findings, we believe it would be helpful to consider a boundary to this inclusion. It may be helpful to include observations, comments and high level recommendations but a practitioner may want to avoid providing so much detail that management simply adopts the recommendation without appropriate challenge or thought or confuses the engagement with a consulting or advisory style service.

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
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19 February 2019

Dear Prof. Simnett

**Consultation Paper: *Agreed-Upon Procedures Engagements***

Ernst & Young Australia welcomes the opportunity to offer its views on the Exposure Draft on Proposed ISRS 4400 Agreed-Upon Procedures Engagements (ED 4400) issued by the International Auditing and Assurance Standards Board (IAASB) and in doing so providing constructive input for the AUASB to consider in formulating its own response to ED 4400. Please find below our responses to the specific questions raised by the IAASB.

**Public interest issues addressed in ED-4400**

**Q1. *Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?***

We support, in particular, the modernizations with respect to:

- The expansion of the scope of the standard to include non-financial subject matters
- The removal of the requirement to restrict the agreed-upon procedures report (AUP report) to those parties that have agreed to the procedures to be performed

Both of these changes enhance the practitioner's capability to perform an agreed-upon procedures engagement in the current environment, which involves both regulatory requirements for agreed-upon procedures engagements in certain jurisdictions and emerging demands for assurance or related services engagements on new subject matters (e.g., in relation to entities' use of blockchain technology or cryptocurrencies). However, we do believe that further enhancements to the standard may be needed to effectively support these modernizations (refer to our responses to Q6 and Q8 for further comments).

With respect to the other public interest issues listed in Section 3-A of the Explanatory Memorandum (EM), we do not agree that ED-4400 appropriately clarifies the role professional judgment plays in an AUP engagement (refer to our response to Q2 for further comments).

We support the update of ED-4400 to the IAASB's clarity format, which improves the overall readability and understandability of the standard. With respect to the specific clarifications identified in Section 3-A of the EM, we are supportive of these with the exception of the wording of the required statements in the AUP report when the practitioner is not required to be independent (refer to our response to Q4 for further comments).

**Specific questions**

**Professional judgment**

**Q2. Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?**

No, we do not believe that the definition of professional judgment or the discrete requirement to apply professional judgment appropriately reflects the role professional judgment plays in an AUP engagement.

The execution of procedures in an AUP engagement should not involve professional judgment. We believe that including a definition, as well as a requirement to apply professional judgment in “conducting the engagement”, has the unintended consequence of conveying the exact opposite (i.e., that professional judgment is required in performing the procedures). We therefore believe that both the definition of professional judgment and the requirement in paragraph 18 should be removed from ED-4400.

We however agree that professional judgment is applied in various aspects of an AUP engagement. In particular, professional judgment can be critical to engagement acceptance decisions (i.e., to make the judgments required by paragraphs 20(b) and 21 of ED-4400). We also agree with the other examples in paragraph A15 of when professional judgment may play a role. Instead, our disagreement is with the approach taken to require the application of professional judgment holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasize the role of professional judgment in the application material where its application is of most relevance and importance. For example, we believe that the application material in paragraph A16 is most relevant, and would be better placed, to support the requirement in paragraph 20(b) related to engagement acceptance.

We would not oppose an overarching statement in the introduction or application material of ED-4400 that explains that professional judgment is applied in determining whether to accept AUP engagements and in determining certain courses of action during the engagement. However, such a statement should be contrasted with the fact that an AUP engagement involves performing procedures that are required to be objective in nature such that different practitioners performing the same procedures are expected to arrive at the same findings.

### **Practitioner’s objectivity and independence**

**Q3. Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

Yes, we agree with not including a precondition for the practitioner to be independent when performing AUP engagements.

Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner’s independence may be required or expected as a term of the engagement. For the avoidance of doubt, we believe that the terms of the AUP engagement should be required to include the status of the practitioner’s independence using wording consistent with the statement about the practitioner’s independence that will be included in the AUP report (refer to the Other Matters section of our letter for further comments).

**Q4. What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

First, we find the table in paragraph 22 of the EM to be clearer than the standard in regard to the possible independence scenarios and the required reporting for each of the scenarios. In particular, it is not helpful that the independence reporting

requirements are split between paragraph 30(f) and 30(g), which makes it difficult to understand how the requirements are expected to be actioned together.

When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis therefor. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement. However, we do not agree with the proposals that address reporting about the practitioner's independence when the practitioner is not required to be independent and is not prepared to assert their independence voluntarily. The paragraphs that follow explain our rationale.

When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination. We have this view not only because of the complexity that may be involved in making a determination of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined.

In particular, the IESBA Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the IESBA Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination. For the same reasons, we also do not believe it is appropriate for the practitioner to make a determination that they are "not independent". For example, under the IESBA Code of Ethics, it is possible for the practitioner to be independent in accordance with the requirements for assurance engagements but not independent in accordance with the requirements for audit engagements. Whether the practitioner is expected to disclose that they are "not independent" in these circumstances is not clear.

In regard to the reporting requirements when independence is not required for the AUP engagement (and the practitioner is not voluntarily asserting their independence), we believe that the proposal to simply require a statement that "the practitioner is not required to be independent" is subject to misinterpretation by users. This statement will inappropriately allow users to make their own assumptions about the status of the practitioner's independence. It is unreasonable to expect a user to understand the reporting scenarios in ED-4400 and know that, if the practitioner was independent, the AUP report would have an explicit statement to this effect. At a minimum, we believe that the statement that "the practitioner is not required to be independent" needs to be clarified and enhanced to avoid the possibility of users inappropriately assuming the practitioner is independent.

Our recommendation is to expand the required statement in the AUP report to be "the practitioner is not required to be independent and the practitioner does not make any assertions regarding their independence". We are further recommending that this requirement also replace the extant and ED-4400 requirement for the practitioner to disclose that they are "not independent". Our rationale is as follows:

- Our suggested requirement will result in a consistent statement in the AUP report when independence is not required
- We believe the wording we have suggested will more explicitly convey to users that they cannot make any assumptions about the practitioner's independence
- The requirement to disclose when the practitioner is "not independent" is not capable of being consistently applied without an explicit basis in the standard or in relevant ethical requirements against which this determination is to be made



## Findings

**Q5. *Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?***

Yes, we agree with the term “findings” and the related definitions and the application material contained in the standard.

## Engagement acceptance and continuance

**Q6. *Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?***

Yes, the requirements and application material that address engagement and acceptance are appropriate. However, we suggest a few enhancements. Paragraph 20(b) and 21 involve important judgments by the practitioner. As we suggest in our response to Q2, we believe paragraph A16 should be relocated to support the requirement in 20(b). Further, we believe that paragraph 20(b) should refer to “expected procedures,” which is consistent with the reference to procedures in paragraph 20(a).

In regard to paragraph 21, we believe a reference to paragraph A28 should be added to this requirement and consideration should be given to expanding this guidance in light of the expansion of the scope of the standard to non-financial subject matters. In particular, we do not believe A28 adequately emphasizes the importance of the auditor’s consideration of the appropriateness of the subject matter independent of the appropriateness of the procedures to be applied to the subject matter. It would also be useful for the application material to explain that the judgment regarding the appropriateness of the procedures involves determining that the procedures will not result in a report that may convey misleading information or be misunderstood by users.

As the IAASB finalizes ED-4400, we also encourage the IAASB to consider the guidance that is being developed in regard to Extended External Reporting and the possible applicability to AUP engagements, including to assist in enhancing the application material to paragraph A21. Although we understand that this guidance is being developed to support assurance engagements in accordance with ISAE 3000 (Revised), practitioners are facing new demands to perform engagements on emerging subject matters, which are being driven by emerging and evolving needs of users. In dealing with the demands, there are circumstances when an AUP engagement may be sought on an emerging subject matter where the engaging party’s understanding of the subject matter and of the intended users’ needs may still be developing. In these circumstances, certain of the suggested actions in A26, as well as more involved efforts by the practitioner to understand the subject matter and the purpose of the engagement, may be of greater importance to the practitioner’s determination of whether the pre-conditions of the AUP engagement have been met.

## Practitioner’s expert

**Q7. *Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?***

We support the addition of requirements to address the use of a practitioner’s expert in an AUP engagement, including in regard to referring to an expert in the AUP report. However, the wording of paragraph 28 as drafted connotes an outsourcing arrangement and it is not clear that the expert’s role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: “*When the practitioner involves a practitioner’s expert to assist in performing the agreed-upon procedures, the practitioner shall:*”

## AUP report

**Q8. *Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?***

We agree with the removal of the requirements to restrict the report and to leave the determination of whether restrictions are necessary to the practitioner in the circumstances of the engagement. However, we do not believe the application material in paragraph A43 is sufficient or useful to assist the practitioner in determining whether restricting the report is appropriate in the circumstances of the engagement. We believe a restriction may be appropriate when the practitioner believes there is a greater risk for users other than the intended users to:

- Misunderstand the agreed-upon procedures or the purpose of the engagement
- Interpret the findings as providing assurance.

In these cases, it is likely in the public interest to restrict the use or distribution of the report.

It would also be useful to indicate in the application material that any report restrictions may be specified in the terms of the engagement or communicated to the engaging party through other means. However, it is important not to imply that restricting the report is subject to negotiation with the engaging party. It is the practitioner's decision whether to restrict the use or distribution of the report.

**Q9. *Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?***

We generally support the content and structure of the proposed AUP report. Our biggest concern relates to the required statements about the practitioner's independence when the practitioner is not required to be independent as expressed in our response to Q4. We have the following further comments and suggestions for clarifications to the requirements, application material or illustrations:

- Paragraph 30(b) requires "an addressee as set forth in the terms of the engagement" however there is no further clarification on who the addressee should be. Given that under ED 4400 only the engaging party is required to acknowledge the appropriateness of the procedures, should consideration be given as to whether an intended user other than the engaging party may be included as an addressee?
- Paragraph 30(c): "Subject matters" should be singular.
- Paragraph 30(f):
  - Paragraphs 30(f) and 30(g) should be moved to before paragraph 30(e) so that the ordering of the requirements mirrors the ordering of the statements in the illustrative reports.
  - It would be helpful if paragraph 30 (f)(i) had application material that describes the meaning of "basis". This could be achieved by referencing or using the examples in paragraph A13 (e.g. national ethical codes, laws or regulations, the firm's policies and procedures or the terms of the engagement).
  - Similarly, we suggest including application material to explain what "other reasons" in paragraph 30 (f)(i) may include.
  - The requirement in paragraph 30(f)(i) does not require a statement that the practitioner *is required to be* independent; however, Illustration 1 of the AUP report includes the phrase "The terms of our engagement require us to be independent...". We suggest removing the first phrase of the statement in Illustration 1 so that the statement in the illustration aligns to the requirement.
- Paragraph 30(i)



- We suggest expanding paragraph 30(i) to require the description of procedures to include materiality limits, if applicable.
- It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the particular engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.

## Request for general comments

**Q10.** *In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:*

*(a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents not in reviewing the ED-4400.*

No comment.

*(b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.*

We believe that an effective date for AUP engagements for which the terms of engagement are agreed at least 18 months after approval of the final revised standard would provide a sufficient period to support effective implementation. However, we are not in favor of an effective date that falls in March, as the annual training period for our practitioners is generally in the April to June timeframe (and is later in the calendar year for some jurisdictions). We do not believe a shorter period between the approval of the final ISRS and the effective date is practicable. We agree earlier application should be permitted.

## Other matters

### Agreeing the terms of engagement

We have the following suggestions for enhancing the requirement in paragraph 22 relating to the agreeing the terms of an AUP engagement:

- We suggest combining paragraph 24 with paragraph 22 and rewording paragraph 22 to be “The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following:”

- As we express in our response to Q4, we believe the terms of engagement should be required to include the status of the practitioner's independence using wording consistent with the statement about the practitioner's independence in the AUP report; we recommend updating paragraph 22(d) accordingly.
- We suggest expanding the requirement in paragraphs 22(f) to require the description of procedures to include materiality limits, if applicable.

We note that there is no supporting application material for the requirement in paragraph 22. We have the following suggestions for guidance:

- As we express in our response to Q8, we believe that if the practitioner intends to restrict the use or distribution of the report, this intention may be specified in the terms of engagement. In fact, if the practitioner has made the decision to restrict the report at the time the terms of engagement are agreed, we believe that the IAASB should consider requiring the restriction to be included in the terms of the engagement.
- It would be useful to provide guidance about the effect on the terms of the engagement when the responsible party is different from the engaging party.
- The illustrative engagement letter in Appendix 1 is for a scenario where the engaging party is also the intended user. We suggest this illustrative letter accommodated a scenario where there is an intended user other than the engaging party and the AUP report will have a restriction of use paragraph.
- We suggest application material to paragraph 22(f) to clarify that the nature, timing and extent of procedures are typically specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgment in determining or modifying the procedures to be performed. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement.

In addition, it is our view that the requirement in paragraph 23 to update the terms of the engagement when procedures are modified during the course of the engagement is unnecessarily restrictive. While we agree that updates to procedures should be agreed in writing, there should be flexibility in the form of the documentation that is acceptable for the purpose of agreeing modifications to the procedures. We believe amending the terms of the engagement, specifying the changes in the letter of representations or using another appropriate written format may all be acceptable forms of documentation for such changes. In particular, it should be permissible to obtain the engaging party's agreement to modifications to procedures through the use of a letter of representations.

### **Performing the agreed-upon procedures**

We believe the requirement in paragraph 26 is incomplete as it does not retain the extant requirement to "use the evidence obtained as the basis for the report". We recommend expanding the requirement in paragraph 26 to include "and obtain evidence as the basis for the findings in the agreed-upon procedures report". We also believe the practitioner should be required to capture all findings and include all findings in the report. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement, including that the practitioner should not judgmentally exclude any findings.

### **Letter of representations**

We support not requiring a letter of representations and leaving this to the judgment of the practitioner in accordance with paragraph 27. However, we believe that additional guidance is needed to assist the practitioner's consideration of whether a letter of representations is necessary, including examples of circumstances when a letter of representation may be appropriate to obtain. For example, if a procedure is performed that involves selecting a sample from a population, it may be appropriate to obtain a representation that the population provided to the practitioner by the responsible party is complete and accurate. (See also our comment above regarding the use of the letter of representations to agree modifications to the procedures performed). Paragraph A34 provides an example of obtaining a representation "that the engaging party has disclosed to the practitioner its knowledge of identified or suspected fraud or non-compliance with laws and regulations". Further clarification should be provided on whether the practitioner should ordinarily obtain such a representation.

### **Awareness of facts or circumstances that suggest procedures are inappropriate during course of engagement**

During the course of the engagement, the practitioner may become aware that the procedures or related findings are not appropriate for the purpose of the engagement, are misleading or cannot be described objectively such that the pre-conditions of the engagement are called into question. We believe a requirement, or at least application material, should be added to ED-4400 to require or encourage the practitioner to discuss the matter with the engaging party and take appropriate action in the circumstances.

### **Misleading / Assurance-centric words and expansion of application guidance on the procedures themselves**

Paragraph A23 provides misleading words to avoid. We suggest including additional terms that may be misleading such as “evaluate”, “ascertain”, “assess”, “examine”, “determine” and “verify”. We would like to suggest adding clarification around the role of sampling and selection criteria in agreed upon procedures engagements. Furthermore, we would like to see additional application guidance such as examples of appropriate and inappropriate description of findings for a suite of theoretical agreed upon procedures.

### **Additional Acceptance Criteria for non-Financial Subject Matters**

Recognising the expanded scope of the proposed standard to include non-financial subject-matters, we suggest that an additional acceptance condition may be appropriate that addresses the practitioner’s competence to perform the procedures. Specifically, such a condition could address any need for a practitioner's expert.

We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact myself on 02 8295 6882.

Yours sincerely



Kathy Parsons  
Oceania Professional Practice Director – Assurance  
Ernst & Young

The Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne VIC 8007

18 February 2019

Dear Professor Simnett

**Consultation Paper: Agreed-Upon Procedures Engagements**

We appreciate the opportunity to comment on the above mentioned Consultation Paper.

We have included our responses to the specific questions from the IAASB's Exposure Draft Proposed ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements* in the Appendix to this letter.

We are pleased to note that the IAASB has included many of the aspects that were taken into account when the AUASB previously revised ASRS 4400.

We would be pleased to discuss our comments with you. Please contact me on (03) 8603 3285 should you require any further information.

Yours sincerely

Valerie Clifford  
Assurance Risk & Quality Leader



## **Appendix 1 - Responses to specific questions from the IAASB's Draft Proposed ISRS 4400 *Agreed Upon Procedures***

### **1. Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?**

Subject to our comments in response to the questions hereafter, we believe the proposed revisions represent an appropriate response to the public interest issues identified in relation to the conduct of an agreed-upon procedures (AUP) engagement. We are pleased to note that the IAASB has included many of the aspects that were taken into account when the AUASB previously revised ASRS 4400 to address stakeholder and public interest issues.

One of the most challenging public interest issues associated with AUP engagements is consistency in users' understanding of the nature and purpose of such engagements - making clear the distinction between AUP and assurance engagements. The changes relating to terminology used to describe AUPs are useful in that regard, which we comment on in response to question 6.

### **2. Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?**

We agree that a level of professional judgement is required in undertaking an AUP engagement and broadly support the proposed revisions to address this topic within the standard, including the specific examples used to illustrate where judgement is applied.

In performing the procedures, once agreed, the practitioner applies due care and competence in performing them, but the need to apply professional judgment is likely to be limited. As the practitioner reports findings only, we agree with the proposal in the Exposure Draft that it is important that the agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. Otherwise, there is a risk that users might draw unwarranted assurance. This will restrict the nature of procedures to those where there is less professional judgment involved in performing it or reporting the findings. We believe the intent of paragraph A16 is to recognise that there may be limited



judgement necessary in some circumstances. However, we believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in performing it or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example to illustrate may also be useful.

Perhaps the most common application of professional judgement by practitioners is in assisting in the design of the procedures performed. Users may not know what procedures can be performed and the type of findings that would be reported. Therefore, the practitioner often works with the user to help design an appropriate AUP engagement that meets their needs, and that achieves the precondition that the procedures are described objectively and not using potentially misleading terminology. In doing so, it remains critical that the engaging party (and any additional intended users) ultimately takes responsibility for the appropriateness of the procedures. We therefore support the precondition in paragraph 20(a) that directly addresses obtaining acknowledgment from the engaging party of this responsibility.

**3. Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

Yes. We consider the proposals to be a pragmatic and transparent solution, recognising the inherent challenges in addressing ethical considerations that are ultimately a matter for IESBA to consider in the Code of Ethics.

Recognising the spectrum of AUP engagements that exist, we believe IESBA could usefully articulate its views on whether there are engagement circumstances, taking into account the nature of the AUP engagement and the intended users of the AUP report, when the practitioner should be required to be independent. For example, independence may be seen as more relevant, and in the public interest, in relation to engagements to report to a regulator in relation to the use of public funds. In other cases, such as a private report to management, management or those charged with governance can more readily assess the importance of the practitioner's independence based on their understanding of the engagement circumstances.

Absent any direct legal or ethical requirement, the practitioner and the engaging parties can agree, within the terms of the engagements, whether independence is a necessary precondition.



- 4. What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

With respect to the required statement in the AUP report, we agree in principle. However, without being able to link back to specific IESBA independence requirements, the proposed independence statement in the report may become confusing to users, as inconsistencies in how the requirements are applied in practice and included within the AUP report may arise. We believe that it would be useful to provide an explanation and illustration of how the basis for the practitioner's statement may be articulated.

We also agree that, in the circumstances when the practitioner is not required to be independent, there would be no reasonable grounds on which to require the practitioner to make a formal assessment of their independence.

AUP engagement contacts can often be entered into with multiple parties. For example, a funding bank and entity in receipt of such funding, or a government granting authority and the entity in receipt of such grant. We recommend that the proposed standard provide clarity with respect to independence considerations and the proposed statement within the AUP report as to which entity(ies) this specifically applies when there are multiple "engaging parties". For example, we do not believe the intent is to address the practitioner's independence of any third-party engaging party such as a bank.

See also our response to question 3 regarding the requirement for an independence assessment.



**5. Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

Yes. We understand the reason for the inclusion of paragraph A11. To provide some context we suggest it may be helpful to add “pursuant to local law, regulation or practice”.

**6. Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?**

Yes. As noted in our response to question 2, it is important that the engaging party accepts responsibility for acknowledging the appropriateness of the planned procedures. We believe that any intended users other than the engaging party should also acknowledge the appropriateness of the planned procedures (in a similar manner to paragraph 22 of ASRS 4400)

We also welcome the additional guidance on terminology intended to drive clear and specific procedures and findings that are not open to varying interpretation.

**7. Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?**

Yes. The proposals, based on the underlying principles when using an expert in an audit, are pragmatic and reasonable. It is important that the principle that the procedures to be performed, and related findings, should not require significant judgement and that they are capable of being described objectively be reinforced when using an expert. The use of a practitioner’s expert does not change this condition and we believe it may be useful to incorporate this message in the application material. The expert applies their competence and capabilities but is not being engaged due to the subject-matter requiring subjective interpretation. We therefore also support the proposed changes to the AUP report with respect to the practitioner’s overall responsibility for the procedures to be performed.

We believe that illustration 2 in Appendix 2 to the proposed standard could include a more useful example. It is unclear why the procedure as described in the illustration would require an external expert. Using the example of a chemist analysing toxin levels, from paragraph A35, may be a better example.





- 8. Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

We believe that there should be a distinction drawn between use of the report and distribution of the report. We support the current requirement in ASRS 4400 that restricts the use of the report to the engaging party and any other intended users who have agreed to the procedures being performed and for the purpose for which it was prepared.

Restricting the distribution of the report to any other party is ultimately a risk management decision for the practitioner.

- 9. Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?**

We support the proposed requirements in relation to the practitioner's report. We have no substantive comments on the proposed structure and content of the AUP report, noting that this is often prescribed in law or regulation resulting in more bespoke reports.

- 10. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**
- a. Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**
  - b. Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.**

An effective date of 18-24 months after approval of the final ISRS seems reasonable.





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Ref: KLB/TN

11 February 2019

The Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne  
Victoria 8007  
Australia

Dear Chair,

**SUBMISSION – AGREED-UPON PROCEDURES ENGAGEMENTS**

We appreciate the opportunity to provide comment to the Auditing and Assurance Standards Board on *Consultation Paper: Agreed-Upon Procedures Engagements*.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We support the Auditing and Assurance Standards Board’s efforts to facilitate greater consultation in the standard setting process. In its current form while we believe that the consultation paper has certain areas which do not necessarily result in clarity or an enhancement to the quality of agreed-upon procedures and would prefer these points to be resolved the revisions are on balance appropriate.

Our detailed responses to the questions contained in *Consultation paper: Agreed-Upon Procedures Engagements* are attached to this letter and would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

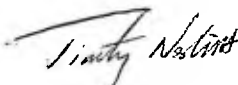


Please contact either myself or Tim Nesbitt, Director - Audit & Accounting Technical (03 8612 9596 or [tim.nesbitt@pitcher.com.au](mailto:tim.nesbitt@pitcher.com.au)), in relation to any of the matters outlined in this submission.

Yours sincerely,



K L Byrne  
Partner



T Nesbitt  
Director, Audit & Accounting Technical

## Consultation Paper: *Agreed-Upon Procedures Engagements*

### Overall Question

#### Public Interest Issues Addressed in ED-4400

- 1) Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?

#### *Response*

Refer below, for our comments on the consultation paper.

#### Specific questions:

#### Professional Judgement

- 2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?

#### *Response*

We suggest that there is a cross reference inserted in para 13 j to para 18 and or from para 18 to para 13 j.

#### *Professional Judgment*

*18. The practitioner shall apply professional judgment in accepting and conducting an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A14–A16)*

While the explanatory paragraphs make it clear that there should not be judgment in the procedures themselves, the wording of para 18 “and conducting an AUP” would imply judgement can be used in the procedures, which the guidance clarifies. We would suggest revising as follows “The practitioner shall apply professional judgment in accepting and the conduct of an agreed-upon procedures engagement but there should be no professional judgement in the actual procedures undertaken, taking into account the circumstances of the engagement”

This would be more consistent with the clarifying guidance in A16

*A16. Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence that provides a basis for an opinion or conclusion. Rather, an agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.*

### Practitioners' Objectivity and Independence

- 3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?

#### Response

With the clarification that the procedures themselves should not have judgment required in their execution the need for independence over and above the objectivity required under the IESBA code is conceptually sound, however, given that independence is defined as in fact and appearance, the achieving objectivity as a practitioner without independence seems to be a very fine line to draw and one which the public/users may or may not fully comprehend.

- 4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the [Explanatory Memorandum](#), and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.

#### Response

		Is the practitioner required to be independent by relevant ethical requirements, terms of the engagement or other reasons	
		Yes	No
Is practitioner independent ?	Not known – The practitioner has not determined independence	The practitioner is not able to perform the engagement because the practitioner has not made a determination on independence.	Include a statement that the practitioner is not required to be independent in the AUP report. (Paragraph 30(f)(ii)(a) of ED-4400)
	Yes	Include a statement that the practitioner is independent and the basis therefor in the AUP report. (Paragraph 30(f)(i) of ED-4400)	Include a statement that the practitioner is independent and the basis therefor in the AUP report. (Paragraphs 30(f)(ii)(b) and A40 of ED-4400)
	No	The practitioner is not able to perform the engagement because	Include a statement in the AUP report that the practitioner is not required to be

		the practitioner is not independent.	independent and that the practitioner is not independent. (Paragraphs 30(f)(ii)(a), 30(g))
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The varying outcomes I believe do not help users as they are not familiar with, nor is it likely they will read the standard and therefore how the inclusion of a statement regarding not being independent impact their consideration of the report. There is we believe perception/public expectation that practitioners are and should be “independent” as part of their role, and therefore the idea that the practitioner can have a “not independent” status is not a preferred option. Further the variability of the outcome may create confusion and reduce the value of the service being provided particularly for intended users who are not engaged parties.

### Findings

- 5) Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?

#### Response

*(f) Findings – Findings are the factual results of procedures performed. Findings are capable of being objectively verified and objectively described. Accordingly, references to findings in this ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A10–A11)*

The removal of the word factual from the title of the findings suggests to me that the level of objectivity has been reduced. Given that findings are then defined as the factual results, the change seems to be making it less clear that findings are factual and a redundant change at the same time. This change does not service the public interest or enhance quality in our opinion.

### Engagement Acceptance and Continuance

- 6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?

#### Response

In principle the paragraphs referred to are an enhancement to the extant standard and will assist in the appropriate acceptance and documentation of the engagement. We do note:

A22 describes “inquire” as an acceptable term and A23 describes “discuss” as an unacceptable term without specifying which whom and the specific questions asked, it would seem that it would be better to define in A22 as acceptable, “inquiry, enquiry and or discussion where the procedures specify with whom, and what questions are to be asked” as the critical point appears to be that for any verbal discourse as a procedure the questions and parties involved should be established in advance to avoid subjectivity.

Further this does not provide guidance or commentary on the nature of the questions to be asked i.e. that they should be directed/closed questions not open-ended questions to which the answers are likely to require judgement or interpretation.

A22 use of confirm, this is potentially a grey term, if a party wants for example confirmation of their accounting treatment this would potentially require considerable professional judgment and be a miss use of the AUP standard, as opposed to obtaining a confirmation from another party, or a factual confirmation such as the title deed has the clients name on it.

#### **Practitioner's Expert**

- 7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?

#### *Response*

Yes.

#### **AUP Report**

- 8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?

#### *Response*

The acceptance that an AUP may be used by parties other than those directly engaged is a positive commercial move, the continued inclusion of the ability to restrict distribution or use provides the auditor with the tools to appropriately serve their clients.

- 9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

#### *Response*

*30 e A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. **If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1;***

It does not seem appropriate that non-accountants are using Auditing and Assurance Standards to report. We would suggest that the highlighted wording above be removed from the standard, Auditing and Assurance Standards should be used by appropriately qualified accountants. Further this would appear to be somewhat contrary to the definition in para 13c

*Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the agreed-upon procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.*



30f Refer previous comments, I believe that the assurance practitioner should be independent to perform the work and the table described in 4 above and the cross referencing to other standards creates complexity and a lack of clarity on the part of the users, i.e. the concept that you can be objective but not independent.

30 h should refer to factual findings rather than findings refer comments in 5 above.

#### **Request for General Comments**

- 10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:
- a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.

#### *Response*

Not applicable.

- b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.

#### *Response*

The proposed timeframe is appropriate. Given early adoption is permitted there is no reason to make the period shorter.

## Appendix

In responding to the questions raised in the AUASB consultation paper specifically we also include comments on other specific paragraphs within the paper which are of interest to us.

<i>Paragraph</i>	<i>Comment</i>
13 g	Suggest a cross reference to paras 30 m and A43, illustrating how the report may be restricted.
13k	Suggest that the second sentence be revised to say, "These requirements ordinarily comprise the IESBA Code together with any applicable national requirements that are more restrictive."
17	Cross reference to para 13k and vice versa
A2	It is common practice to perform loan covenant work under AUPs perhaps this should be added as an acceptable procedure.
A9	Suggest adding at the end "... intended user, or a combination of these."
A11	This would appear to indicate the redundancy in dropping factual findings from the standard, refer comments in 5 of the specific responses.



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **7.1.0**

**Meeting Date:**            6 March 2019

**Subject:**                    ISA 315 Identifying and Assessing the Risks of Material Misstatement

**Date Prepared:**            28 February 2019

**Prepared by:**              Anne Waters – AUASB Senior Project Manager

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

1. To update and inform the AUASB on the IAASB's ISA 315 Task Force's detailed analysis of the responses to ED 315 *Identifying and Assessing the Risks of Material Misstatement* (ED 315), and how they propose to address, which is being presented at the March 2019 IAASB meeting;
2. To communicate to the AUASB how the matters raised in our submission on ISA 315 are being addressed as part of the IAASB's ISA 315 Task Force's analysis; and
3. For the AUASB to provide views on the proposed responses to ED 315 to Roger Simnett in his capacity as an IAASB member.

## Background

4. The AUASB submitted a comment letter to the IAASB on ED 315 on 2 November 2018.
5. For the March 2019 IAASB Meeting the ISA 315 Task Force have prepared a detailed analysis of the 72 responses the IAASB received on ED 315 and have summarised these into Agenda item 4 ISA 315 (Revised) – Issues and Recommendations (IAASB Issues paper).
6. The analysis of the IAASB's Issues paper and how the ED 315 Task Force is proposing to address is summarised in this AUASB board paper – if AUASB members wish to review the full suite of materials relating to this IAASB Agenda Item please refer to this [Link](#) to the IAASB's website (Refer IAASB 'Agenda Item 4 - ISA 315 (Revised)').

## Matters to Consider

7. The main theme throughout the responses to ED 315 related to the complexity of the proposals, as well as the scalability and proportionality of the proposed standard. There were also many comments

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related to individual aspects of the proposals, some supporting the specific changes that had been proposed, while other comments highlighted concerns or disagreement.

8. Not all aspects of the feedback has been addressed yet by the ISA 315 Task Force, including all matters related to Information Technology which will be discussed by the IAASB at its June 2019 meeting. The ISA 315 Task Force have focused on the broad concerns related to complexity and scalability, and feedback on individual key requirements. The ISA 315 Task Force are asking the IAASB to deliberate on the main issues raised by respondents at the March meeting to allow them to complete drafting of the revised ISA 315.
9. The application material is still being re-drafted and will not be considered by the IAASB at the March meeting.
10. This paper includes these main issues for the AUASB to consider and provide input to Roger Simnett in his capacity as an IAASB member.

#### Overarching issues relating to complexity and scalability / proportionality

11. Strong feedback that the proposed changes including the length of the proposed standard introduce a level of complexity which makes it difficult to understand and apply. Scalability a major issue.
12. The ED 315 Task Force are considering how to address including exploring different drafting techniques. Focus is on using simpler language, rewriting requirements to increase understandability, requirements to focus on What and Why, with the How to be in the application material and appendices, reconsidering the application material and appendices.
13. To “test” this they have re-drafted requirements for the “understanding the entity’s system of internal control” section of ED 315 using two drafting styles. Option 1 is the recommended content and is all in the requirements. Option 2 includes more detail in the definitions and reduces the length of the requirement. The intention is the presentation of the requirements looks different but the outcome is the same.
14. The ED 315 Task Force are asking the IAASB for their views at the March 2019 meeting on which is the preferred drafting style before applying to the whole standard.

#### **Action for the AUASB**

Refer to the IAASB ED 315 Agenda Paper 4A – Table of Drafting at **Agenda Item 7.1.1**, specifically Column 3 / Option 1 and Column 4 / Option 4. This provides an example of the two drafting styles the IAASB ISA 315 Task Force are evaluating.

What is your preferred drafting style?

15. The application material will also be extensively redrafted to address these concerns. The ED 315 Task Force are proposing to include “Scalability paragraphs”.

#### Issues raised by the AUASB in its submission on ED 315 and how they are being addressed

16. The following table lays out a mapping of all matters raised by the AUASB in our ED 315 submission to the IAASB, and addresses:
  - (a) Whether these matters were also raised by other respondents, and
  - (b) How the ED 315 Task Force has recommended to the IAASB the feedback on each of these matters should be addressed.

- (c) Questions for the AUASB to consider in order to provide feedback to Roger in his capacity as an IAASB member.

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Complexity and length of standard</u></p> <ul style="list-style-type: none"> <li>• The increased length of ED 315 is a potential barrier to its understandability and consistent application.</li> <li>• Consider drafting standards for less complex entities, then adding application or guidance for more complex entities.</li> <li>• The introduction of many new definitions and concepts, or the distinction between concepts, add complexity to the standard.</li> <li>• Reassess whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.</li> </ul>	<ul style="list-style-type: none"> <li>• Consistent significant concern from stakeholders.</li> <li>• The ED 315 Task Force is focusing on addressing these concerns throughout the proposed standard.</li> </ul>

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Definition “significant classes of transactions, account balances and disclosures” and “relevant assertions”.</u></p> <p>We consider that the term “more than remote” is fundamentally different to “a reasonable possibility”, and this revised definition may result in more significant classes of transactions, account balances, or disclosures being identified than was intended.</p>	<p>Overall support for introduction of the concepts. However consistent feedback that the definition of relevant assertion is not right as the term “reasonable possibility” is not the same as “more than remote”.</p> <p>ED 315 Task Force are proposing to change the relevant assertion to:</p> <p>“an assertion about a Class of Transactions, Account Balances and Disclosures and Relevant Assertions (COTABD) is relevant when it has an identified risk of material misstatement. The determination ..... is made before consideration of controls”.</p> <p>The Task Force are examining options on how to clarify and explain how the “reasonable possibility” threshold is used to identify ROMM. Should this be in ISA 200 or 315? The IAASB have been asked to consider 3 options:</p> <ol style="list-style-type: none"> <li>1. amend definitions of ROMM and detection risk in ISA 200 to include “reasonable possibility”</li> <li>2. Add application material to ISA 200 to explain; <b>or</b></li> <li>3. make no changes to ISA 200 but clarify in the application material of ED 315</li> </ol> <p>Definition of Significant COTABD to remain as per the ED:</p> <p>“Significant COTABD for which there is one or more relevant assertions”</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Question for the AUASB:</b></p> <p>Do you have a preference (1 – 3 above) for how concept of reasonable possibility is incorporated into how to identify ROMM?</p> </div>
<p><u>Inherent risk factors (IRF)</u></p> <ul style="list-style-type: none"> <li>• Supportive of the concepts and definition. But consider it is overly complicated by having a requirement to explicitly take into account IRF.</li> <li>• Insufficient clarity in how to apply the concepts and definitions of the IRF and the current proposed definition of significant risk.</li> <li>• Inclusion of quantitative is potentially problematic.</li> </ul>	<p>Yet to be addressed. At this stage IRFs are still in the definition of significant risk.</p>

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Definition of significant risk and the spectrum of inherent risk</u></p> <ul style="list-style-type: none"> <li>• More detail required on the spectrum of inherent risk i.e. how to assess where on the spectrum a risk resides</li> <li>• Definition of significant risk should be “likelihood <u>and</u> magnitude” as opposed to the current “likelihood <u>or</u> magnitude”.</li> <li>• The definition of significant risk should be amended to those “at the upper end of the spectrum of inherent risk” and not “close to the upper end of the spectrum of inherent risk”.</li> </ul>	<p>Consistent with other feedback. The ED 315 Task Force recommendation is:</p> <ul style="list-style-type: none"> <li>• Keep the concept of spectrum of inherent risk and include guidance on how to assess where on the spectrum a risk would reside with illustrations.</li> <li>• Change the definition of significant risk to “likelihood of misstatement occurring <u>and</u> the magnitude of potential misstatement”.</li> <li>• Definition of significant risk retained as “close to the upper end of the spectrum of inherent risk”</li> <li>• Cautious about adding too much application material on how to assess on the spectrum as this requires professional judgement. Will add application material to clarify that: <ul style="list-style-type: none"> <li>• in rare circumstances there may be an entity that does not have a significant risk</li> <li>• routine, non-complex transactions are not likely to give risk to significant risk when they do not involve subjectivity (eg trade receivables unlikely to be a SR but the valuation could be).</li> </ul> </li> </ul> <p>In summary the AUASB's concerns have been considered and addressed except for the third point as the “close to” is proposed to be retained.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Question for the AUASB:</b></p> <p>Do you agree with the ED 315 Task Force proposals?</p> </div>
<p><u>Flowcharts</u></p> <ul style="list-style-type: none"> <li>• Supportive of being in appendices</li> <li>• Suggest they could be further enhanced to better present and emphasise the iterative and non-linear processes contained within the proposed standard</li> </ul>	<p>Not yet addressed</p>

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Introductory paragraphs</u></p> <ul style="list-style-type: none"> <li>• Supportive</li> <li>• Paragraphs 4 and 5 – repetitive</li> <li>• The “spectrum of inherent risk” needs to be described in greater detail by including how a practitioner may assess at which point a risk resides on the spectrum, or alternatively referring to where this concept is specifically explained in the application material.</li> </ul>	Not yet addressed
<p><u>Scalability</u></p> <ul style="list-style-type: none"> <li>• Overall concern ED 315 is not scalable to smaller and medium entities.</li> <li>• Terminology used in ED 315 should refer to “less complex entities”.</li> <li>• Recommend guidance and examples be included in the application material of the proposed standard on how to effectively scale the work effort in ED 315 to less complex entities, such as examples of: how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted; and how to perform risk identification and assessment procedures when the entity’s system of internal control may be less detailed and formalised.</li> </ul>	A main focus of the Task Force. Still being determined how to address. Terminology has been changed but also considering using “Scalability paragraphs”



<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Automated tools and techniques</u></p> <ul style="list-style-type: none"> <li>• Agree with the approach taken of using examples to illustrate how automated tools and techniques may be used in risk assessment.</li> <li>• ED 315 could be further enhanced by addressing: <ul style="list-style-type: none"> <li>○ How automated tools and techniques may be used for risk assessment, and how they meet or impact the requirements of ED 315. This is to avoid automated tools and techniques being applied in addition to the current requirements.</li> <li>○ What are the requirements in relation to understanding and/or obtaining evidence over the reliability of underlying data (information produced by the entity) used within automated tools and techniques that are used for risk assessment (including the nature, timing and extent of testing).</li> <li>○ Risk factors relating to the use of big data and automated analytics technology.</li> </ul> </li> <li>• Other specific suggestions raised</li> </ul>	<p>Yet to be addressed</p>

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Professional scepticism</u></p> <ul style="list-style-type: none"> <li>• Supportive of the principle of obtaining an appropriate base of evidence for risk assessment, however we do not support using the term “sufficient appropriate audit evidence”</li> <li>• Suggested further enhancements</li> </ul>	<p>Yet to be addressed.</p>
<p><u>Internal controls</u></p> <ul style="list-style-type: none"> <li>• It is not sufficiently clear how controls including the understanding obtained over the system of internal control, impact the identification of risks of material misstatement.</li> <li>• Clarify the design and implementation testing required verses gaining an understanding.</li> <li>• More guidance on which controls reside in the Information System and Communication component as distinct from the Control Activities component, and the difference, if any, on the requirements in relation to the audit procedures to be performed on these controls.</li> <li>• Controls relevant to the audit – clarify the intention of 39(e).</li> <li>• Some of our stakeholders have expressed concern that for some less complex entities the controls over journals may not be documented and are difficult to test.</li> </ul>	<p>Consistent with feedback from other respondents. Overarching comments that needed to be reconsidered as confusing. And is the auditor always required to identify “controls relevant to the audit” if doing a fully substantive audit? Also significant confusion about the difference between the Information System and Communication component and the Control activities.</p> <p>As a result the ED 315 Task Force have re-drafted requirements in the Understanding the entity’s system of Internal Control section and is being presented to the IAASB at this meeting. Application material is yet to be presented.</p> <p>The ED 315 Task Force have focused on the following in the proposed redrafted requirements:</p> <p>Include more on why this understanding is required e.g. Paragraph 25.</p> <p>Clarifies the auditor evaluates whether the Information System and Communication component appropriately supports the preparation of the entity’s financial statements how SCOTABD flow through the system.</p> <p>Clarity over the description of control activities component and that they may reside in all the components of the system of internal controls.</p> <p>Reducing complexity in the requirements to perform D &amp; I.</p> <p>The terminology “controls relevant to the audit” has been changed to “identify controls” that meet certain criteria (ie. then do D &amp; I). The criteria for the controls to identify are still the same as ED 315 except Paragraph 39 (e) has been removed. Also clarified that these controls may reside in the other components.</p> <p>D &amp; I over controls for journals is still required.</p> <p>In summary AUASB’s concerns have been considered.</p>

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Information Technology</u></p> <ul style="list-style-type: none"> <li>• Support the introduction of the new IT-related concepts and definitions.</li> <li>• Could be enhanced by including the risk factors relating to current and evolving technology which connect to organizational networks, such as infrastructure / software as a service solutions, wireless networks, blockchain, and other technology devices that connect to organisational networks.</li> </ul>	Not yet addressed
<p><u>Separate inherent and control risk assessment</u></p> <ul style="list-style-type: none"> <li>• Support the separate assessments of inherent and control risk at the assertion level.</li> <li>• Support assessing control risk at maximum if not testing operating effectiveness.</li> <li>• The current use of the singular term (“risks of material misstatement”) both before and after the separate assessment of inherent risk and control risk is confusing.</li> <li>• Provide additional detail on how to assess control risk at various levels of the spectrum of risk.</li> <li>• Describing in greater granularity in ED 315 the process the auditor undertakes to combine their separate inherent and control risk assessments.</li> </ul>	<p>All points were raised by other stakeholders and the ED 315 Task Force are proposing:</p> <ul style="list-style-type: none"> <li>• separate assessments of inherent and control risk assessments will remain</li> <li>• Assessing control risk at maximum if not testing controls was supported and will be retained.</li> <li>• Whilst many respondents agreed with our third point and suggested changing the initial identification of “risks of material misstatement” to identify “inherent risks” the ED 315 Task Force is concerned this may result in the identification of risk of material misstatements being performed without understanding the system of internal control.</li> </ul> <p>The ED 315 Task Force are proposing to change paragraph 45 to identify the ROMM at the assertion level..... based on inherent risk (was previously “taking into account the inherent risk factors”).</p>
<p><u>Financial Statement Risks</u></p> <ul style="list-style-type: none"> <li>• Supportive however need clarity / examples of how they may affect the assessment of risks at the assertion level.</li> <li>• Include in introductory paragraphs</li> </ul>	Not addressed at this stage

<b>Matters raised in the ED 315 submission by the AUASB</b>	<b>How the ISA 315 Task Force has (or has not) address the AUASB's feedback</b>
<p><u>Stand back and ISA 330 para 18</u></p> <ul style="list-style-type: none"> <li>• Supportive of a standback in 315 but don't need both</li> <li>• Reconsider if the terms "quantitatively and qualitatively" are necessary in ISA 315</li> </ul>	<p>Mixed views from respondents. On balance the ED 315 Task Force has proposed that "stand back" provisions will be in both ED 315 and ISA 330 and changes proposed:</p> <p>The references to qualitative and quantitative in the context of materiality will be removed in both ED 315 and ISA 330.</p> <p>ED 315 Paragraph 52 proposed to read:</p> <p>For material classes of transactions, account balances or disclosures that have not been identified as significant classes of transactions, account balances or disclosures the auditor shall:</p> <p>Evaluate whether the auditor's conclusion that there are not related risks of material misstatement remains appropriate.</p> <p>330 para 18 to remain as it is and application material to make it clear that the auditor would consider the most appropriate assertion when designing substantive audit procedures.</p> <p>Do the AUASB have any concerns with this proposal?</p>

17. Other matters raised by the AUASB and not included in the IAASB summary

The AUASB's submission included that the public sector considerations had not been appropriately considered. If this is not addressed in the final standard, the AUASB can consider if additional Australian guidance is required.

**AUASB Technical Group Recommendations**

18. N/A. For the AUASB's information only.

**Material Presented**

Agenda Item 7.1.0	ED 315 AUASB Board Meeting Summary Paper
Agenda Item 7.1.1	IAASB ED 315 Agenda Paper 4A – Table of Drafting

**Exposure Draft ISA 315 (Revised)<sup>1</sup> (ED-315) – Understanding the Entity’s System of Internal Control**

*(Greyed paragraphs relate to IT and these will be addressed at the June 2019 Board meeting)*

Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p><b>Risk Assessment procedures and Related Activities</b></p> <p>5. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.</p>	<p><b>Risk Assessment procedures and Related Activities<sup>3</sup></b></p> <p>17. The auditor shall design and perform risk assessment procedures to obtain an understanding of:</p> <ul style="list-style-type: none"> <li>(a) The entity and its environment in accordance with paragraph 23(a);</li> <li>(b) The applicable financial reporting framework in accordance with paragraph 23(b); and</li> <li>(c) The entity’s system of internal control in accordance with paragraphs 25–44</li> </ul> <p>to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures</p>	<p><b>Risk Assessment procedures and Related Activities</b></p> <p><i>Note: Column 3 and Column 4 are the same</i></p> <p>17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for:</p> <ul style="list-style-type: none"> <li>(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and</li> <li>(b) The design of further audit procedures in accordance with ISA 330.</li> </ul> <p>Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion.</p>	<p><b>Risk Assessment procedures and Related Activities</b></p> <p>17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for:</p> <ul style="list-style-type: none"> <li>(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and</li> <li>(b) The design of further audit procedures in accordance with ISA 330.</li> </ul> <p>Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion.</p>

<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

<sup>2</sup> Extant requirements are presented to correspond with the ED-315 requirements to allow comparison of extant to ED, and are therefore not necessarily in numerical order.

<sup>3</sup> Although not part of the system of internal control section, paragraph 17 is presented as it is relevant to discussions in the issues paper in relation to the system of internal control.

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A12–A16)		
<p><i>The Entity's Internal Control</i></p> <p>12. The auditor shall obtain an understanding of internal control relevant to the audit.</p> <p><b>[Remainder of extant para. 12 maps to para. 39(e) of ED-315]</b></p>	<p>Obtaining an Understanding of the Entity's System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures to obtain an understanding of the entity's system of internal control relevant to financial reporting, including the entity's use of IT, by understanding each of the components of internal control. For this purpose, the auditor shall address the requirements set out in paragraphs 27 to 38 of this ISA.</p>	<p>Understanding of the Entity's System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures, in accordance with paragraphs 27 to 38, to understand how the entity's system of internal control, including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity. Such an understanding also provides, in the public interest, a basis for the communication of control deficiencies to management and those charged with governance in accordance with ISA 265.</p>	<p>Understanding of the Entity's System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures, in accordance with paragraphs 27 to 38, to understand how the entity's system of internal control, including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity.</p>
13. [Extant para. 13 maps to ED-315 para 42]			

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Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b><i>[New – para’s 26 and 42 of ED-315 are similar]</i></b></p> <p>26. The auditor shall identify controls relevant to the audit, and shall evaluate the design of such controls and determine whether the controls have been implemented in accordance with the requirements set out in paragraphs 39 to 42.</p>	<p>26. Now deleted</p>	<p>26. Now deleted</p>

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>Components of Internal Control</p> <p>Control environment</p> <p>14. The auditor shall obtain an understanding of the control environment.</p> <p>As part of obtaining this understanding, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment.</p>	<p>Components of the Entity's System of Internal Control</p> <p>Control Environment</p> <p>27. The auditor shall obtain an understanding of the control environment relevant to financial reporting, including understanding how the entity:</p> <p>(a) Demonstrates a commitment to integrity and ethical values;</p> <p>(b) When those charged with governance are separate from management, demonstrates that those charged with governance are independent of management and exercise oversight of the entity's system of internal control;</p> <p>(c) Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, in pursuit of its objectives;</p> <p>(d) Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives; and</p>	<p>Components of the Entity's System of Internal Control</p> <p>Control Environment</p> <p>27. <i>(Previously paragraph 28 in ED-315)</i> The auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) Those areas of the entity's control environment addressed in paragraphs 28(a) to (e) collectively provide an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component.</p>	<p>Components of the Entity's System of Internal Control</p> <p>Control Environment</p> <p>27. The auditor shall obtain an understanding of the entity's control environment and evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The control environment provides an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component.</p>



## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p>(e) Holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p> <p>28. Based on the auditor's understanding of the control environment in accordance with paragraph 27, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The strengths in those areas of the entity's control environment addressed in paragraphs 27(a) to (e) collectively provide an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component.</p>	<p>28. <i>(Previously paragraph 27 in ED-315)</i> The auditor shall perform risk assessment procedures to understand the following matters:</p> <p>(a) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;</p> <p>(b) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance;</p> <p>(c) The entity's assignment of authority and responsibility;</p> <p>(d) How the entity attracts, develops, and retains competent individuals; and</p> <p>(e) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p>	<p><b>Example new definition:</b> Control environment component—is the set of controls, processes and structures that address:</p> <p>(a) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;</p> <p>(b) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance;</p> <p>(c) The entity's assignment of authority and responsibility;</p> <p>(d) How the entity attracts, develops, and retains competent individuals; and</p> <p>(e) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p>

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>The Entity's Risk Assessment Process</p> <p>15. The auditor shall obtain an understanding of whether the entity has a process for:</p> <ul style="list-style-type: none"> <li>(a) Identifying business risks relevant to financial reporting objectives;</li> <li>(b) Estimating the significance of the risks;</li> <li>(c) Assessing the likelihood of their occurrence; and</li> <li>(d) Deciding about actions to address those risks.</li> </ul> <p>16. If the entity has established such a process (referred to hereafter as the "entity's risk assessment process"), the auditor shall obtain an understanding of it, and the results thereof. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there</p>	<p>The Entity's Risk Assessment Process</p> <p>29. The auditor shall obtain an understanding of the entity's risk assessment process, including the extent to which it is formalized, by understanding:</p> <ul style="list-style-type: none"> <li>(a) Whether, and if so, how, the entity's process: <ul style="list-style-type: none"> <li>(i) Identifies business risks relevant to financial reporting objectives;</li> <li>(ii) Assesses the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addresses those risks.</li> </ul> </li> <li>(b) The results of the entity's process.</li> </ul>	<p>The Entity's Risk Assessment Process</p> <p>29. <i>(Previously paragraph 31 in ED-315)</i> The auditor shall evaluate whether the nature of the entity's risk assessment process, based on the understanding obtained in paragraph 29A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p> <p>29A. <i>(Previously paragraph 29 in ED-315)</i> The auditor shall perform risk assessment procedures to understand the following matters, including the extent to which the entity's risk assessment process is formalized:</p> <ul style="list-style-type: none"> <li>(a) Whether, and if so, how, the entity's risk assessment process: <ul style="list-style-type: none"> <li>(i) Identifies business risks relevant to financial reporting objectives;</li> <li>(ii) Assesses the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addresses those risks.</li> </ul> </li> </ul>	<p>The Entity's Risk Assessment Process</p> <p>29. The auditor shall understand the entity's risk assessment process, including the extent to which it is formalized and the results of that process, and evaluate whether it is appropriate to the entity's circumstances considering the nature and size of the entity. If the risk assessment process is not appropriate, the auditor shall determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p> <p><b>Example new definition:</b></p> <p>Risk assessment process component—the entity's process for:</p> <ul style="list-style-type: none"> <li>(i) Identifying business risks relevant to financial reporting objectives;</li> <li>(ii) Assessing the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addressing those risks.</li> </ul>

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>is a significant deficiency in internal control with regard to the entity's risk assessment process.</p> <p>17. If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control.</p>	<p>30. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process. If so, the auditor shall obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement, and consider the implications for the auditor's evaluation required by paragraph 31.</p> <p>31. Based on the auditor's understanding of the entity's risk assessment process in accordance with paragraph 29, and if applicable, paragraph 30, the auditor shall:</p> <p>(a) Evaluate whether the nature of the entity's risk assessment process, including its formality, is appropriate to the entity's circumstances considering the nature and size of the entity; and</p> <p>(b) If not, determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p>	<p>(b) The results of the entity's risk assessment process.</p> <p>30. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement, and consider the implications for the auditor's evaluation required by paragraph 29.</p>	<p>30. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement, and consider the implications for the auditor's evaluation required by paragraph 29.</p>

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>Monitoring of controls</p> <p>22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.</p> <p>24. The auditor shall obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose.</p> <p>23. If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.</p>	<p>The Entity's Process to Monitor the System of Internal Control</p> <p>32. The auditor shall obtain an understanding of the entity's process to monitor the system of internal control, including the extent to which it is formalized, by understanding how the entity's process:</p> <p>(a) Monitors the effectiveness of controls; and</p> <p>(b) Addresses the identification and remediation of control deficiencies, including those related to the entity's risk assessment process.</p>	<p>The Entity's Process to Monitor the System of Internal Control</p> <p>32. The auditor shall evaluate, whether the entity's process to monitor the system of internal control, based on the understanding obtained in paragraph 32A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.</p> <p>32A. (Previously paragraph 32 in ED-315) The auditor shall perform risk assessment procedures to understand the following matters, including the extent to which the entity's monitoring process is formalized,:</p> <p>(a) How the entity monitors the effectiveness of controls; and</p> <p>(b) How the identification and remediation of control deficiencies, including those related to the entity's risk assessment process, are addressed.</p> <p>(c) (Previously paragraph 34 of ED-315) If the entity has an internal audit function, the nature of the internal audit function's</p>	<p>The Entity's Process to Monitor the System of Internal Control</p> <p>32. The auditor shall understand the entity's process to monitor the system of internal control, including, when applicable, the nature, responsibilities and activities of the entity's internal audit function, and evaluate whether the entity's process is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.</p> <p><b>Example new definition:</b></p> <p>The entity's process to monitor internal control component—the entity's ongoing and separate evaluations, including those performed by the entity's internal audit function, if any, for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified.</p>

## ISA 315 (Revised)—ED-315 Understanding the Entity's System of Internal Control

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p>33. The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.</p> <p>34. If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.</p>	<p>responsibilities, its organizational status, and the activities performed, or to be performed.</p> <p>33. The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.</p> <p>34. <i>Deleted – moved to paragraph 32A(c) above</i></p>	<p>33. The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.</p> <p>34. <i>Deleted – incorporated in paragraph 32 above</i></p>

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>The information system, including the related business processes, relevant to financial reporting, and communication</p> <p>18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:</p> <p>(a) The classes of transactions in the entity's operations that are significant to the financial statements;</p> <p>(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;</p> <p>(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records</p>	<p>The Information System and Communication</p> <p>35. The auditor shall obtain an understanding of the information system relevant to financial reporting, including the related business processes, through understanding:</p> <p>(a) How information relating to significant classes of transactions, account balances and disclosures flows through the entity's information system, whether manually or using IT, and whether obtained from within or outside of the general ledger and subsidiary ledgers. This understanding shall include how:</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and</p> <p>(ii) Information about events and conditions, other than</p>	<p>The Information System and Communication</p> <p>35. <i>(Previously paragraph 36 in ED-315)</i> The auditor shall evaluate whether the information system, based on the understanding obtained in paragraph 35A, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework.</p> <p>35A. The auditor shall perform risk assessment procedures to understand the following matters:</p> <p>(a) How information relating to significant classes of transactions, account balances and disclosures flows through the entity's information system, whether manually or using IT, and whether obtained from within or outside of the general ledger and subsidiary ledgers. This understanding shall include how:</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and</p>	<p>The Information System and Communication</p> <p>35. The auditor shall obtain an understanding of the entity's information system for the significant classes of transactions, account balances and disclosures.</p> <p>35A. The auditor shall evaluate whether the information system, based on the understanding obtained in paragraph 35, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework.</p> <p><b>Example new definition:</b></p> <p>The information system and communication component—the entity's activities, involving people, processes, data and IT that address:</p> <p>(a) How information flows through the entity's information system, including how:</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and</p>

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Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>may be in either manual or electronic form;</p> <p>(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;</p> <p>(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and</p> <p>(f) Journal entries <i>[mapped to para. 39 of ED-315]</i></p> <p>This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.</p>	<p>transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 35(a);</p> <p>(c) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 35(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures;</p> <p>(d) The entity's IT environment relevant to (a) through (c) above.</p> <p><b>[New]</b></p> <p>36. The auditor shall evaluate the design of the information system controls relevant to financial reporting, by understanding how the matters in paragraph 35(a)–(d) are addressed by the entity, and implemented.</p>	<p>incorporated in the general ledger and reported in the financial statements; and</p> <p>(ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 35A(a);</p> <p>(c) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 35A(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and</p> <p>(d) <b>[TBD in June]</b> The entity's IT environment relevant to (a) through (c) above.</p>	<p>incorporated in the general ledger and reported in the financial statements; and</p> <p>(ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system;</p> <p>(c) The financial reporting process used to prepare the entity's financial statements, including disclosures;</p> <p>(d) How transactions and information are communicated; and</p> <p>(e) <b>[TBD in June]</b> The entity's IT environment relevant to the information system.</p>

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Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:</p> <p>(a) Communications between management and those charged with governance; and</p> <p>(b) External communications, such as those with regulatory authorities.</p>	<p>37. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relevant to financial reporting, including:</p> <p>(a) Communications between management and those charged with governance; and</p> <p>(b) External communications, such as those with regulatory authorities.</p>	<p><i>Note: Column 3 and Column 4 are the same</i></p> <p>37. The auditor shall understand how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity, including:</p> <p>(a) Communications between management and those charged with governance; and</p> <p>(b) External communications, such as those with regulatory authorities.</p>	<p>37. The auditor shall understand how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity, including:</p> <p>(a) Communications between management and those charged with governance; and</p> <p>(b) External communications, such as those with regulatory authorities.</p>



Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>Control activities relevant to the audit</p> <p>20. The auditor shall obtain an understanding of control activities relevant to the audit <b>[remainder of extant para. 20 maps to para. 39(e) of ED-315]</b></p> <p><b>[Extant para. 29]:</b></p> <p>If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.</p> <p><b>[Part of extant para. 18]:</b></p> <p>The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:</p> <p>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.</p> <p><b>[Extant para. 20]:</b></p> <p>The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement</p>	<p>Control Activities</p> <p>38. The auditor shall obtain an understanding of the control activities component by identifying the controls relevant to the audit in the control activities component in accordance with the requirements of paragraphs 39 through 41, and by evaluating their design and determining whether they have been implemented in accordance with paragraph 42.</p> <p>Controls relevant to the audit</p> <p>39. The auditor shall identify controls relevant to the audit, being those:</p> <p>(a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;</p> <p>(b) That address risks that are identified as a significant risk;</p> <p>(c) Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;</p> <p>(d) Controls for which the auditor plans to test the operating effectiveness in determining the</p>	<p>Control Activities</p> <p>38. Deleted</p> <p>39. The auditor shall identify controls that address, or support controls that address, risks of material misstatement at the assertion level, as follows:</p> <p>(a) Controls that address risks that are identified as a significant risk;</p> <p>(b) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;</p> <p>(c) Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b).</p> <p>(d) Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;</p>	<p>Control Activities</p> <p>38. Deleted</p> <p>39. Based on the understanding of the information system in paragraph 35, and other components of internal control in paragraphs 27, 29 and 32, as relevant, the auditor shall identify controls that address, or support controls that address, risks of material misstatement at the assertion level, as follows:</p> <p>(a) Controls that address risks that are identified as a significant risk;</p> <p>(b) Controls over journal entries, including non-standards journal entries to record non-recurring, unusual transactions or adjustments;</p> <p>(c) That, in the auditor's professional judgment, it is necessary for the auditor to identify to achieve the objectives in paragraph 17 (a) and (b)</p> <p>(d) Controls for which the auditor plans to test the operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that</p>

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Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them.</p> <p><b>[Part of extant para. 12]:</b></p> <p>Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.</p>	<p>nature, timing and extent of substantive testing; or</p> <p>(e) That, in the auditor's professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:</p> <ol style="list-style-type: none"> <li>i. Identify and assess the risks of material misstatement at the assertion level; or</li> <li>ii. Design further audit procedures responsive to assessed risks.</li> </ol> <p>Not all controls that are relevant to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment as to whether a control, individually or in combination with other controls, is identified as being relevant to the audit.</p>	<p>It is not necessary for the auditor to identify all controls that address, or support other controls that address, identified risks of material misstatement for each relevant assertion for each significant class of transaction, account balance or disclosure. It is a matter of the auditor's professional judgment as to whether it is necessary to identify such a control to achieve the objectives in paragraph 17(a) and (b).</p>	<p>address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.</p> <p><b>Example new definition:</b></p> <p>Control Activities Component—are the actions established by policies or procedures to help ensure that management directives to mitigate risks are carried out. They can be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations, verifications, reconciliations and business performance reviews.</p>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></p> <p>40. Based on the understanding obtained in accordance with paragraph 35(d), and the identification of the controls relevant to the audit in accordance with paragraph 39, the auditor shall identify the IT applications and the other aspects of the entity’s IT environment that are relevant to the audit. In doing so, the auditor shall take into account whether the IT applications include or address:</p> <ul style="list-style-type: none"> <li>(a) Automated controls that management is relying on and that the auditor has determined to be relevant to the audit;</li> <li>(b) Maintenance of the integrity of information stored and processed in the information system that relates to significant classes of transactions, account balances or disclosures;</li> <li>(c) System-generated reports on which the auditor intends to rely on without directly testing the inputs and outputs of such reports; or</li> <li>(d) Controls that address risks for which substantive procedures</li> </ul>	<p><i>For discussion in June 2019</i></p>	<p><i>For discussion in June 2019</i></p>

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Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	alone do not provide sufficient appropriate audit evidence.		
21. In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.	<p><b>[Partly new]</b></p> <p>41. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify:</p> <ul style="list-style-type: none"> <li>(a) The risks arising from the use of IT; and</li> <li>(b) The general IT controls relevant to the audit.</li> </ul>	For discussion in June 2019	For discussion in June 2019
13. When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.	<p>42. For each control identified as relevant to the audit in accordance with paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>	<p>Column 3 and column 4 are the same</p> <p>42. For each control identified in paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>	<p>42. For each control identified in paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>

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Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></p> <p><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>4</sup> determine on the basis of the work performed in accordance with this ISA:</p> <p>(a) Whether one or more control deficiencies within the system of internal control have been identified; and</p> <p>(b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.</p>	<p><i>Column 3 and column 4 are the same</i></p> <p><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>5</sup> determine on the basis of the work performed in accordance with this ISA:</p> <p>(a) Whether one or more control deficiencies within the system of internal control have been identified; and</p> <p>(b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.</p>	<p><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>6</sup> determine on the basis of the work performed in accordance with this ISA:</p> <p>(a) Whether one or more control deficiencies within the system of internal control have been identified; and</p> <p>(b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.</p>

<sup>4</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>5</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>6</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

## ISA 315 (Revised)—ED-315 Understanding the Entity's System of Internal Control

## IAASB Main Agenda (March 2019)

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></p> <p>44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:</p> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement as required by ISA 330.</li> </ul>	<p><i>Column 3 and column 4 are the same</i></p> <p>44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:</p> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.</li> </ul>	<p>44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:</p> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.</li> </ul>

### Markup of Column 3 Revisions to ED-315

#### Risk Assessment Procedures and Related Activities

17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for an understanding of:
- ~~(a) The entity and its environment in accordance with paragraph 23(a);~~
  - ~~(b) The applicable financial reporting framework in accordance with paragraph 23(b); and~~
  - ~~(c) The entity's system of internal control in accordance with paragraphs 25–44~~
- (a) to obtain sufficient appropriate audit evidence as the basis for tThe identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; ~~and-~~
- (b) The design of further audit procedures in accordance with ISA 330.
- Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves, ~~however,~~ do not provide sufficient appropriate audit evidence on which to base the audit opinion.

#### ~~Obtaining an~~ Understanding of the Entity's System of Internal Control

25. The auditor shall perform risk assessment procedures in accordance with paragraphs 27 to 38, to ~~obtain an~~ understanding how of the entity's system of internal control ~~relevant to financial reporting,~~ including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity by understanding each of the components of internal control. ~~For this purpose, the auditor shall address the requirements set out in paragraphs 27 to 38 of this ISA. Such an understanding also provides, in the public interest, a basis for the communication of control deficiencies to management and those charged with governance in accordance with ISA 265.~~
- ~~26. The auditor shall identify controls relevant to the audit, and shall evaluate the design of such controls and determine whether the controls have been implemented in accordance with the requirements set out in paragraphs 39 to 42.~~

#### Components of the Entity's System of Internal Control

##### Control Environment

27. ~~(Previously paragraph 28 in ED – 315) Based on the auditor's understanding of the control environment in accordance with paragraph 27, t~~The auditor shall evaluate whether:

- (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and
- (b) ~~The strengths in t~~those areas of the entity's control environment addressed in paragraphs 278(a) to (e) collectively provide an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component.
28. (Previously paragraph 27 in ED-315) The auditor shall ~~perform risk assessment procedures obtain an understanding of the control environment relevant to financial reporting, including~~ understanding how the ~~following matters~~entity:
- (a) ~~How management's oversight responsibilities are carried out, such as the entity's culture and management's~~ Demonstrates a commitment to integrity and ethical values;
- (b) When those charged with governance are separate from management, ~~the demonstrates that those charged with governance are independent of, management and exercise oversight over~~of the entity's system of internal control ~~by, those charged with governance~~;
- (c) ~~The entity's assignment of~~ Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, ~~in pursuit of its objectives~~;
- (d) ~~How the entity~~ Demonstrates a commitment to attract, develop, and retain competent individuals ~~in alignment with its objectives~~; and
- (e) ~~How the entity~~ Holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.

#### The Entity's Risk Assessment Process

29. (Previously paragraph 31 in ED-315) ~~Based on the auditor's understanding of the entity's risk assessment process in accordance with paragraph 29, and if applicable, paragraph 30, t~~The auditor shall: evaluate
- (a) ~~Evaluate~~ whether the nature of the entity's risk assessment process based on the understanding obtained in paragraph 29A, including its formality, is appropriate to the entity's circumstances considering the nature and size of the entity; ~~and,~~
- (b) ~~If not, the auditor shall~~ determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.
- 29A. (Previously paragraph 29 in ED-315) The auditor shall ~~perform obtain an understanding of the entity's~~ risk assessment proceduress to understand the following matters, including the extent to which the entity's risk assessment process is formalized, ~~by understanding~~:
- (a) Whether, and if so, how, the entity's risk assessment process:
- (i) Identifies business risks relevant to financial reporting objectives;



- (ii) Assesses the significance of those risks, including the likelihood of their occurrence; and
- (iii) Addresses those risks.

(b) The results of the entity's risk assessment process.

30. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall ~~evaluate whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process. If so, the auditor shall~~ obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement, and consider the implications for the auditor's evaluation required by paragraph 2934.

#### The Entity's Process to Monitor the System of Internal Control

- 32 (New paragraph) The auditor shall evaluate, whether the entity's process to monitor the system of internal control, based on the understanding obtained in paragraph 32A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.
- 32A. (Previously paragraph 32 in ED-315) The auditor shall perform risk assessment procedures to understand the following matters, obtain an understanding of the entity's process to monitor the system of internal control, including the extent to which the entity's monitoring process~~#~~ is formalized, ~~by understanding how the entity's process:~~
- (a) How the entity Monitors the effectiveness of controls; and
  - (b) HowAddresses the identification and remediation of control deficiencies, including those related to the entity's risk assessment process, are addressed.
  - (c) (Previously paragraph 34 in ED-315) If the entity has an internal audit function,<sup>7</sup> ~~the auditor shall obtain an understanding of~~ the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.
33. The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.
34. (Moved to 32A(c))

<sup>7</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the ISA.

## The Information System and Communication

35. ~~(Previously paragraph 36 in ED-315) The auditor shall evaluate whether the information system, based on the design of the information system controls relevant to financial reporting, by understanding obtained how the matters in paragraph 35A, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework(a)-(d) are addressed by the entity, and implemented.~~
- 35A. ~~(Previously paragraph 35 in ED-315) The auditor shall perform risk assessment procedures to obtain an understanding of the following matters of the information system relevant to financial reporting, including the related business processes, through understanding:~~
- (a) How information relating to significant classes of transactions, account balances and disclosures flows through the entity's information system, whether manually or using IT, and whether obtained from within or outside of the general ledger and subsidiary ledgers. This understanding shall include how:
    - (i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and
    - (ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.
  - (b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 35A(a);
  - (c) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 35A(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and
  - (d) The entity's IT environment relevant to (a) through (c) above.
37. The auditor shall ~~obtain an understanding of~~ how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity relevant to financial reporting, including:
- (a) Communications between management and those charged with governance; and
  - (b) External communications, such as those with regulatory authorities.

## Control Activities

38. ~~The auditor shall obtain an understanding of the control activities component by identifying the controls relevant to the audit in the control activities component in accordance with the requirements of paragraphs 39 through 41, and by evaluating their design and determining whether they have been implemented in accordance with paragraph 42.~~

## Controls relevant to the audit

39. The auditor shall identify controls ~~that address, or support controls that address, risks of material misstatement at the assertion level, as follows, relevant to the audit, being those:~~
- ~~(a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;~~
  - ~~(b) (a) Controls that address risks that are identified as a significant risk;~~
  - ~~(c) (b) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;~~
  - ~~(c) Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b);~~
  - (d) Controls for which the auditor plans to test ~~the~~ operating effectiveness in determining the nature, timing and extent of substantive testing, ~~which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.;~~ ~~or~~
  - ~~(e) That, in the auditor's professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:~~
    - ~~(i) Identify and assess the risks of material misstatement at the assertion level; or~~
    - ~~(ii) Design further audit procedures responsive to assessed risks.~~

~~It is not necessary for the auditor to identify Not all controls that address, or support other controls that address, identified risks of material misstatement for each relevant assertion for each significant class of transaction, account balance or disclosure. are relevant to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment as to whether it is necessary to identify such a control to achieve the objectives in paragraph 17(a) and (b). a control, individually or in combination with other controls, is identified as being relevant to the audit.~~

40. Based on the understanding obtained in accordance with paragraph 35(d), and the identification of the controls relevant to the audit in accordance with paragraph 39, the auditor shall identify the IT applications and the other aspects of the entity's IT environment that are relevant to the audit. In doing so, the auditor shall take into account whether the IT applications include or address:
- (a) Automated controls that management is relying on and that the auditor has determined to be relevant to the audit;
  - (b) Maintenance of the integrity of information stored and processed in the information system that relates to significant classes of transactions, account balances or disclosures;
  - (c) System-generated reports on which the auditor intends to rely on without directly testing the inputs and outputs of such reports; or
  - (d) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.

41. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify:
- (a) The risks arising from the use of IT; and
  - (b) The general IT controls relevant to the audit.
42. For each control identified ~~as relevant to the audit~~ in ~~accordance with~~ paragraphs 39 and 41, the auditor shall:
- (a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and
  - (b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

*Control Deficiencies Within the System of Internal Control*

43. The auditor shall, in accordance with ISA 265,<sup>8</sup> determine on the basis of the work performed in accordance with this ISA:
- (a) Whether one or more control deficiencies within the system of internal control have been identified; and
  - (b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.
44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:
- (a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and
  - (b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.<sup>9</sup>

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<sup>8</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>9</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 5



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **7.2.0**

**Meeting Date:**            6 March 2019

**Subject:**                    Audits of Less Complex Entities

**Date Prepared:**            1 March 2019

**Action Required**

**For Information Purposes Only**

IAASB Project Objective	AUASB SMEs
The objective of this initiative is to explore possible actions to address perceived issues when undertaking audits of less complex entities for further IAASB consideration.	Matthew/Roger
<b>AUASB Key Points</b>	
<b>Agenda Item Objectives</b>	
<ol style="list-style-type: none"> <li>1. Inform AUASB members about the IAASB's Audits of Less Complex Entities Discussion Paper due to be discussed at the March 2019 IAASB meeting.</li> <li>2. Obtain feedback from AUASB members about the IAASB Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges, set out in <b>Agenda Item 7.2.1</b> to provide to the IAASB before it is issued for public consultation.</li> </ol>	
<b>Background</b>	
<ol style="list-style-type: none"> <li>1. The AUASB last discussed the IAASB's approach to SMP/SME Audit Issues at its April 2018 meeting.</li> <li>2. At its September 2018 meeting the IAASB supported that the IAASB's Less Complex Entities (LCE) Working Group develop a Discussion Paper (DP) on Audits of Less Complex Entities.</li> <li>3. The AUASB Chair, Prof. Roger Simnett, has now been appointed the Chair of the IAASB's LCE Working Group.</li> <li>4. The LCE Working Group DP is being tabled for discussion and approval at the March 2019 IAASB meeting</li> </ol>	

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

IAASB Project Objective	AUASB SMEs
<b>Background to the IAASB LCE DP and Matters to be addressed by the IAASB at the March 2019 IAASB meeting:</b>	
<ol style="list-style-type: none"> <li>5. There is general agreement that a global solution for LCE's would be in the public interest to ensure consistency of application of the standards in an audit, as well as a common understanding of the procedures undertaken for an audit, thus maintaining the value of an audit of LCEs.</li> <li>6. Furthermore, it has been recognized that there may be ways of addressing some of the issues identified by stakeholders through approaches other than standard-setting, and therefore doing so may not be within the remit of the IAASB. However, in exploring the various possible actions of the IAASB, it would be beneficial to explore the range of possible actions, including those actions where it would be more appropriate for others to undertake the work.</li> <li>7. Consequently the IAASB LCE Working Group has developed the DP with the intended audience in mind, in particular practitioners who undertake audits of LCEs. The LCE Working Group has also been mindful of including sufficient and balanced information for context in order to elicit informed feedback about the potential courses of action for the IAASB, while keeping the paper short and succinct. The draft DP is also not intended to presuppose any specific courses of action and makes clear that the IAASB has not settled on any specific course of action.</li> <li>8. The objective of the LCE DP is to gather further evidence as the basis for IAASB discussion about the most appropriate way forward in relation to audits of LCEs.</li> <li>9. The expected outputs from the LCE DP are to obtain stakeholder views on the issues in using the ISAs in an audit of a LCE, and possible actions to address them, then from this develop a feedback statement setting out a summary of the responses to the DP.</li> <li>10. The proposed timeline is to issue the LCE DP April 2019, have comments submitted by June 2019 and then have the IAASB deliberate on the responses to the DP at the September and December 2019 IAASB meetings. The issues highlighted in the LCE DP will also be covered at a global SMP/SME workshop being arranged in May 2019.</li> <li>11. The final aim of this process will be to develop recommendations for IAASB consideration about the most appropriate possible actions to address the issues that have been identified. Only after this information gathering process is complete and the IAASB has deliberated about the most appropriate possible actions, if the IAASB agrees to a specific way forward, a project proposal setting out the IAASB's activities at that stage will be presented to the IAASB for approval in accordance with the IAASB's due process.</li> </ol>	
<b>What the ATG is seeking from the AUASB at this meeting:</b>	
<ol style="list-style-type: none"> <li>12. AUASB Members are requested to provide: <ol style="list-style-type: none"> <li>(a) Overall views about the DP presented in <b>Agenda Item 7.2.1</b>, including the outlined structure, whether it is appropriate for the intended audience, and whether there is anything significant missing.</li> <li>(b) Whether there are any other matters that should be considered by the LCE Working Group as it finalises the DP for consultation and plans its outreach on this topic.</li> </ol> </li> </ol>	

IAASB Project Objective	AUASB SMEs
<b>IAASB timeline and impact on AUASB activities/Next steps</b>	
13.	The IAASB LCE DP will be released in April 2019.
14.	The AUASB's Outreach plans and other actions associated with the DP will be determined once the IAASB LCE DP is finalised. This will be shared with the AAUSB for input at the April 2019 AUASB Meeting.

### **Material Presented**

Agenda Item 7.2.0	AUASB Board Meeting Summary Paper
Agenda Item 7.2.1	IAASB Discussion Paper - Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges

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### **Action Required**

No.	Action Item	Responsibility	Due Date	Status
1.	Provide feedback on LCE DP	AUASB	6 March 2019	

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*International Auditing and Assurance Standards Board®*

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## Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges





The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB follows a rigorous process in developing its standards, involving multi-stakeholder input, including from the IAASB's Consultative Advisory Group, the International Federation of Accountants' relevant committees and professional accountancy organizations, regulatory and oversight bodies, firms, governmental agencies, investors, preparers and the general public.

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## Chairman's Foreword

The ongoing challenges faced by those auditing smaller entities is an area that is of particular importance to me as my term as Chairman of the IAASB comes to an end—smaller entities make a critical contribution to the world economy and quantitatively the majority of audits globally are audits of smaller entities. The strides that we have made in moving forward our exploration of what more can be done in relation to audits of smaller entities has culminated in this Discussion Paper, and I wish to emphasize the importance of hearing from those most affected by these challenges to be able to move forward on this topic.

We need to think more, and with an open mind, about actions that will result in solutions that will help not only those auditing smaller entities, but also those auditing entities where the nature and circumstances of the entity is less complex, which may be broader than just small- and medium-sized entities (SMEs) (hereafter we will refer to this as audits of less complex entities). We acknowledge the efforts of others in their activities to support auditors of less complex entities and have heeded the call for global action.

However, before committing to further actions, we need to consider whether we have a full understanding of the identified issues and challenges relating to audits of less complex entities to be able to appropriately address the issues and challenges identified. We also need to understand all of our stakeholders' views about different possible actions (including whether there are other actions that we have not yet considered), to be able to work out what is most appropriate and what will be most effective. We have to be mindful that any changes that we make may also have unintended consequences on audits other than those that are audits of less complex entities, and so must maintain the fine balance between competing needs. There is no easy 'fix,' and it will take time to progress global actions, but we are very mindful that more must be done to keep the ISAs relevant to those auditing less complex entities, even as our current work continues.

We remain committed to our work in actively further exploring and progressing our thinking in relation to audits of less complex entities, and look forward to hearing from all of our stakeholders about the matters set out in this Discussion Paper. A feedback statement from the input received will share with the world what we hear, and the IAASB will then deliberate about how to move forward.

Prof. Arnold Schilder

*IAASB Chairman*



## **The Purpose of this Discussion Paper**

As the global business environment continues to evolve, and stakeholders expectations change, the International Standards on Auditing (ISAs) have increased in length, and become more complex and more detailed. The IAASB has recognized that there are challenges in implementing the ISAs, in particular in engagements where the entity being audited is less complex.

This Discussion Paper (DP) focuses on audits of less complex entities (LCE's) using the ISAs, and sets out:

- Challenges and issues that have been identified in implementing the ISAs in an audit of a LCE.
- A number of possible actions that could be undertaken to address the identified challenges and issues.

Input on these matters will help the IAASB determine how it can best move forward.

## What is a Less Complex Entity?

***What do we mean by “less complex entity” and why does the IAASB focus on this rather than on an audit of a small-and medium-sized entity (SME)?***

The ISAs have been developed to apply to a wide range of entities, regardless of the nature and circumstances of an entity. However, the evolving environment is driving changes that are contributing to increasing complexity in the ISAs. This increasing complexity in the ISAs is however creating potential challenges and issues in applying the ISAs when the structures and transactions are straight-forward (i.e., nature and circumstances of the entity are less complex).

While the discussion has historically been around the difficulty in applying the ISAs to SMEs, as outlined by the Chairman in his Foreword, it is the complexity of the audited entity that is the major characteristic related to difficulty of application. Therefore the IAASB is of the view that it is appropriate to consider the qualitative characteristics of being less complex rather than only the size of an entity when considering possible actions to enable the IAASB’s standards to remain fit-for-purpose.

In considering how to describe a LCE, the IAASB has looked to its current definition of a smaller entity, which sets out many of the qualitative characteristics that could be attributable to a LCE:

*“An entity which typically possesses qualitative characteristics such as:*

- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and*
- (b) One or more of the following:*
  - (i) Straightforward or uncomplicated transactions;*
  - (ii) Simple record-keeping;*
  - (iii) Few lines of business and few products within business lines;*
  - (iv) Few internal controls;*
  - (v) Few levels of management with responsibility for a broad range of controls; or*
  - (vi) Few personnel, many having a wide range of duties.*

*These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.”<sup>1</sup>*

As the IAASB moves forward in its work in this area, further consideration will be given to whether these qualitative characteristics appropriately describe the types of entities being considered in this initiative, or whether further changes are needed.

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<sup>1</sup> IAASB's Glossary of Terms

## I. Background



At present, 129 jurisdictions use, or are committed to using, the ISAs (up from some 90 countries in the mid-2000's) demonstrating the increasing importance the global community attaches to the ISAs. This widespread and continually growing international use of the ISAs underscores the importance of the IAASB continuing to focus its efforts on maintaining the quality and scalability of these standards, and to meeting the expectations that stakeholders have regarding their application.

The IAASB has always been mindful of the need for the ISAs to be able to be applied to a broad range of entities, from entities that have straightforward structures and transactions (i.e., LCEs) to those entities where the structures and transactions are complex. Although the IAASB has continued making efforts to keep the revised or developed standards operational and scalable, there has been growing concern about the increasing complexity and usability of the ISAs, in particular for LCEs. There have also been questions raised as to whether the ISAs remain fit-for-purpose for audits of smaller and less complex entities.

Implementation needs and challenges in using the ISAs differ, depending on a variety of factors. For example additional support may be needed when the ISAs are first adopted within a particular jurisdiction, or may vary based on the size of the audit practice,<sup>2</sup> the level of resources, the number of audit engagements undertaken by an auditor, and the nature and complexity of the firm's audit clients. As the IAASB revises its standards in the current environment this can also bring forward new, and sometimes additional, challenges.

The support available for implementation and ongoing guidance also varies between:

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<sup>2</sup> For example, a report from the UK's Financial Reporting Council, [Key Facts and Trends in the Accountancy Profession](#), notes that 5,351 out of 5,660 registered audit firms have 6 or less principals per firm, indicating that a large majority of firms in the UK are smaller.

- Jurisdictions—for example some jurisdictions have very active professional accountancy organizations providing substantial support, guidance and other related resources; and
- Firms—for example, some small and medium practices (SMPs) have less access to ongoing technical resources and other appropriate support, whereas those belonging to large international networks are generally better resourced and provide a greater level of implementation support.

## The Evolving World and the Impact on the ISAs

There are a number of influences driving changes to the environment in which auditors operate, including:

<p><b>The Evolving Business Environment</b></p>	<ul style="list-style-type: none"> <li>• The evolving business environment is driving increasingly complex structures and transactions.</li> <li>• Technology is advancing at a rapid pace, impacting how transactions are undertaken and how records are kept.</li> <li>• Law and regulation is changing, with enhanced and evolving reporting requirements, including in relation to non-financial reporting, which are driving different business and reporting decisions.</li> <li>• Audit regulators and oversight bodies have become more coordinated and are committed to driving audit quality, primarily through their audit inspection processes, including focusing on remedial action plans to address the root causes of deficiencies identified. This results, for example, in calls for more specificity in the requirements in the auditing standards against which the audits can be inspected.</li> <li>• Changing public interest —audits are under increasing scrutiny, with continued discussion of the expectation gap, the gap between what the auditor is required to do and what some stakeholders expect that the auditor should do.</li> </ul>
<p><b>Changing Financial and Non-Financial Reporting</b></p>	<ul style="list-style-type: none"> <li>• Financial reporting standards are continually being revised to address changes in the business environment, public expectations, and other influences, and also becoming more complex and lengthy.</li> <li>• Assurance needs related to non-financial reporting continue to evolve.</li> <li>• Increasing requirements for estimates using forward-looking information, which requires practitioners to apply heightened professional judgment and professional skepticism.</li> </ul>

The influences above are also seen to be contributing to more complexity in the ISAs that are revised to address these situations, which in turn is potentially impacting the audits of LCEs. This is giving rise to the following concerns being commonly expressed:

- The ISAs are increasing in length as more detail and guidance is added to address the increasingly complex environment. The increase in length can act as a barrier to auditors reading and understanding the ISAs, particularly for those auditors in situations where there is a lack of implementation and ongoing guidance.

- As the ISAs become more detailed, this can result in a perceived ‘checklist-approach,’ with a greater focus on compliance rather than applying judgment in the procedures undertaken.
- The more detailed ISAs can lead to increased documentation in audit files (with no perceived commensurate benefit).
- All of these factors can potentially lead to a reduction in the perceived value of an audit.

**Section II** describes the issues and challenges that have been identified relating to audits of LCEs.

## Others Have Reacted to the Evolving Environment and Growing Complexity of the ISAs

Others too have recognized that there are challenges with implementing the ISAs, in particular for audits of LCEs:

- At a global level, the International Federation of Accountants (IFAC) has developed a global ISA Guide for Audits of SME’s,<sup>3</sup> to assist with the implementation of the ISAs, and the Guide is now in its Fourth Edition.
- National Standard Setters (NSS) and others have also sought to develop solutions to help practitioners when undertaking audits in circumstances where the entity is less complex, including national guidance for audits of SME’s, information technology (IT) tools (such as electronic methodologies) and ISA manuals.
- Regional bodies, such as Accountancy Europe, have also engaged stakeholders on matters relating to simplifying auditing standards for small or non-complex entities through publications and events.

**Appendix 1** sets out examples of tools and resources developed by various jurisdictions.

More recently, there have also been various initiatives specifically targeted at audits of less complex (or smaller) entities, including:

- In June 2015, a consultation on a “[Nordic Standard for Audits of Small Entities](#)” was published. The draft standard was developed by the Nordic Federation of Public Accountants (NRF) for consultation in Sweden, Denmark, Finland, Iceland and Norway. Responses were received from all around the world, not only from the intended targeted countries. Respondents echoed the call for something to be done, but had mixed views about what this should be. One of the major messages from the responses that in order for this to be successful, an international rather than a regional response was required. In light of this, the NRF has continued to encourage the IAASB to focus efforts in this area.
- In 2018, Sri Lanka issued “[The Sri Lanka Auditing Standard for the Audits of Non-Specified Business Enterprises](#)” (SLAuS). The SLAuS was developed at the Institute of Chartered Accountants of Sri Lanka with the draft Nordic Standard being used in its development.
- France – in considering the introduction of a minimum threshold for mandatory audits, consideration is being given to a new ‘pronouncement’ for audits that would fall below the threshold but where the entity may voluntarily seek an audit (may possibly be a simplified audit standard).
- Belgium – In 2018, a standard on contractual audits of SMEs was published (the definition of an SME is linked to the threshold for mandatory audits). This standard was developed at the explicit request of the Minister of Economy and does not apply if an entity is required to have a statutory audit (in

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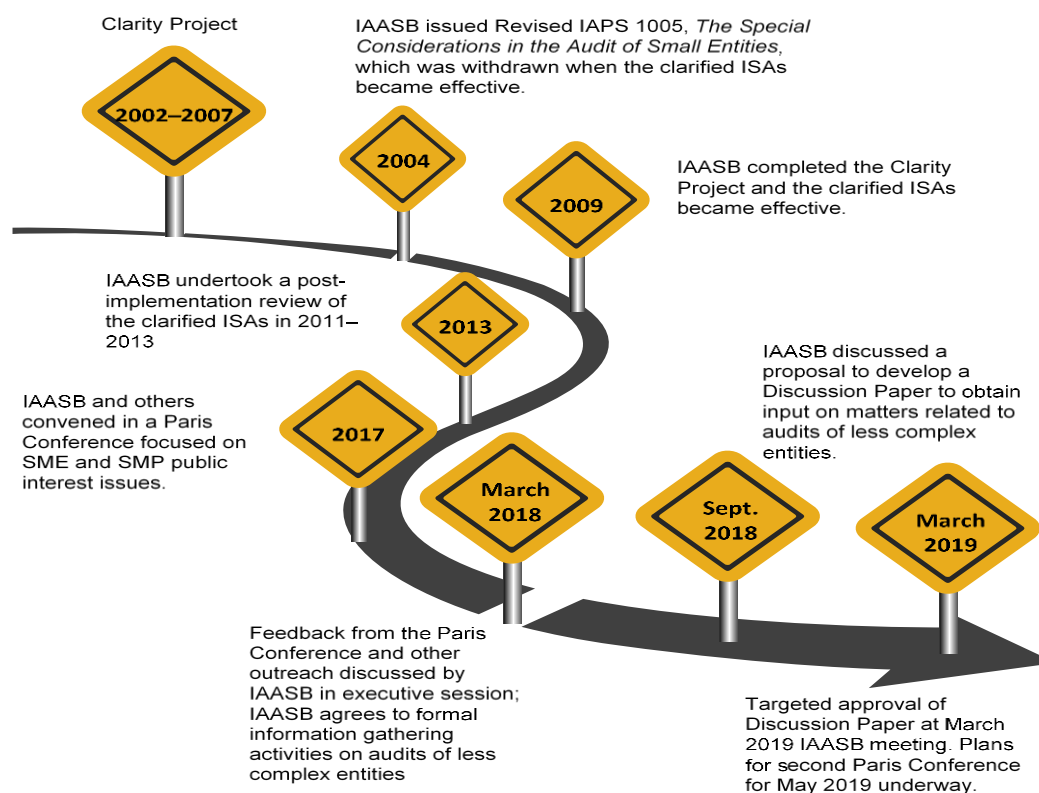
<sup>3</sup> IFAC’s [Guide to Using International Standards on Auditing in the Audits of Small- and Medium- Sized Entities](#)



which case the ISAs apply). When the SME is considered to be complex, the registered auditors will have to apply the ISAs.

The concerns being expressed and the initiatives being undertaken in different jurisdictions around the world signal that additional support is likely needed in the implementation of the ISAs for LCEs, as well as further consideration about the standards themselves. Notwithstanding that guidance and other support is being developed at a jurisdictional or regional level, pressure is increasing for a global solution, with similar challenges being identified in many jurisdictions regardless of the size or complexity of the local business environment. In light of these jurisdictional and regional developments, the IAASB remains mindful of the relevance of its standards in relation to audits of LCEs. <sup>4</sup>

### The IAASB's Journey...



The IAASB has also increased its focus on scalability/proportionality in its recent projects on ISA 540 (Revised) and ISA 315 (Revised). With regard to ISA 540 (Revised), the standard now includes a spectrum of inherent risk, with risks varying on a scale rather than a simple threshold, enhancing its scalability. ISA 315 (Revised) has also utilized the spectrum of risk concept, which has been supported by respondents to the exposure draft, as well as other proposed changes to enhance the scalability of the standard (see also “Continuing with Current Activities” on Page 21)

<sup>4</sup> IFAC has a policy position (no 2) that notes that the ISAs are designed for audits of entities of all sizes, and that their design enables them to be applied in a manner that is proportionate to the size and complexity of an entity, and therefore that it is in the public interest to have audits of SMEs performed using the same standards (i.e., as some would say “an audit is an audit”).



## The Paris SMP/SME Conference

Shaping the way forward...

In early 2017 the IAASB (together with the Compagnie Nationale des Commissaires aux Comptes (CNCC) / the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)) convened a conference in Paris, France, to further discuss the needs of SMPs and SMEs and help shape a way forward. The two-day conference was attended by over 100 stakeholders from all over the world, including many practitioners representing SMPs, with a focus on both audits of SME's and also other services performed by practitioners for SME's. Broadly, the discussions related to audit can be summarized as follows:



- A strong need was expressed for better support for audits of smaller entities and less complex entities.
- After a presentation on the draft Nordic Standard, mixed views were expressed about the need for a new separate standard.
- More needs to be done to understand the root-causes of the issues that have been identified relating to audits of smaller entities, for example, further considering whether there is a deficiency in the standards or whether it is more an issue in the execution when applying the standards.
- Some stakeholders encouraged the IAASB to “think simpler first” in the revisions that were underway at the time.
- It was emphasized that more thought was needed about how to utilize the advances in technology (by the IAASB and others).
- Further consideration was needed:
  - To bridge the ‘expectations gap’ between different stakeholders.
  - About how to better promote the value of an audit.

Attendees recognized that it was not only the IAASB that needed to action some of these matters.

After this conference, the IAASB started to more intently explore what actions may be required to address the concerns and issues that had been discussed at the conference. The timeline above illustrates the IAASB's activities in this area before and since this conference.

## Next Steps

The IAASB is receptive to feedback as to how the issues and challenges identified can be best addressed, and will seek to obtain information in order to make an informed decision as to its further actions in relation to audits of less complex entities, by both the IAASB and others. The possible actions identified to date are set out hereafter.

## II. Issues and Challenges

The IAASB and others have recognized the need for global solutions to address the issues and challenges in relation to audits of LCEs. However, as set out in Section I, there is a broad range of influences on the audit environment, and therefore there is not necessarily a one-size-fits-all solution.

Furthermore, any solution may not only lie with the IAASB, there will be action required by others too. Although recognizing that not all of the influences leading to challenges and issues are under the control of the IAASB or form part of the IAASB's considerations in relation to audits of LCEs, the IAASB is of the view that it is important to set out all of the relevant considerations so that it can be acknowledged that there are a suite of options, including actions that can be undertaken by others, that can address the issues and challenges.



This section first identifies those matters that are not within the scope of the IAASB's possible work on audits of LCEs, and then examines those that are within the scope of the IAASB remit on audits of LCEs, which will form the basis for the possible actions set out in Section III. The IAASB recognizes the important role it plays in relation to setting the standards and the influence it has, and is therefore committed to exploring what further can be done.

### Issues and Challenges Not Within the Scope of the IAASB's Work on Audits of LCEs

The following sets out identified issues and other matters impacting the audit environment for LCEs, but which does not fall within the IAASB's remit as an international standard-setter, or which the IAASB does not intend to consider because they are related to other than reasonable assurance engagements and are therefore not within scope when considering audits of LCEs. However, the IAASB may be in a position to further consider how it can best influence and encourage actions by others.

#### Not Within the Control of the IAASB

##### Legal and other Requirements for an Audit

- Social policy sets out the laws and regulations for the requirement for an audit. Some jurisdictions have audit exemption thresholds above which an audit is mandatory.
- The IAASB does not set the requirements for which entities require an audit as this is prescribed by each jurisdiction's laws or regulations or influence in any way where an entity voluntarily elects to have an audit undertaken. The IAASB is not, and cannot be expected to be, involved in such jurisdictional or entity level determinations.

*To illustrate the variation in practice of different jurisdictions using audit exemption thresholds, countries within the European Union continue to change their thresholds, with some member states (Cyprus, Estonia, Italy and Romania) having lowered their thresholds in the last two years, while two member states (Denmark and Ireland) have*

	<p><i>increased their thresholds in the last two years.<sup>5</sup> Italy has recently introduced mandatory audits for very small companies, which is effective at the end of 2019. Other jurisdictions in Europe, such as France, have recently introduced audit thresholds as a way of reducing the burden on smaller entities, and Australia has current proposals to double the current audit threshold (see Appendix). To further illustrate the point of jurisdictional mandate, an independent body of the Swedish parliament evaluated the impact of Sweden's 2010 reform that raised audit thresholds, and concluded that the costs to society outweighed the benefits, in particular that small companies competitiveness and growth was not enhanced by abolishing audits. Accordingly in 2017 Sweden did not further raise its audit threshold to respond to auditor general recommendations to change the audit exemption threshold. There are different views about introducing audit thresholds, and at what the limits should be, and although impacting the audit environment, the setting of thresholds are outside of the IAASB's remit.</i></p>
<p><b>Commercial Considerations Relating to an Audit</b></p>	<ul style="list-style-type: none"> <li>• Audit fee pressure, often driven by market forces and other environmental influences, may contribute to ethical issues and may lead to questions about the cost-benefit of complying with all of the requirements in the auditing standards and performing the required audit procedures.</li> <li>• The auditing standards do not address fees, rather the Ethics Code sets out considerations relating to fees (including independence and objectivity).<sup>6</sup></li> </ul>
<p><b>Technology / Methodology</b></p>	<ul style="list-style-type: none"> <li>• Access to global technology tools / methodologies that can be applied in an audit of a LCE may be limited, as well as incentives to use such tools. Although a helpful global solution, promoting technology or methodologies is not part of the remit of the IAASB.</li> </ul>
<p><b>Education</b></p>	<ul style="list-style-type: none"> <li>• Effective execution may relate to education of the auditors, ranging from not understanding the content of the ISAs to not understanding the content of new and revised standards.</li> <li>• The IAASB is responsible for developing auditing standards that are capable of being consistently and effectively implemented. There is an aspect of the development of implementation material and other guidance that is within the IAASB's remit, in particular when a new or revised standard is published. However, ongoing training and development of guidance is outside of the remit of the IAASB.</li> <li>• The ISAs set out the principles to be complied with in an audit, but do not prescribe how auditors are trained or how the requirements are implemented in the tools used by practitioners.</li> </ul>

<sup>5</sup> Source: Accountancy Europe's "Audit Exemption Thresholds in Europe – 2019 Update"

<sup>6</sup> The International Ethics Standards Board for Accountants (IESBA) issued a publication [Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#) to highlight auditor's ethical obligations under the Code of Ethics for Professional Accountants.

Scoped Out of Exploration Activities Related to Audits of LCEs	
<b>Engagements Other than Audit</b>	<ul style="list-style-type: none"> <li>Although the IAASB's other standards (i.e., review, assurance and related services standards) may be appropriate alternatives in cases where an audit is not required or needed, the scope of this work on audits of LCEs excludes further consideration of engagements that are not audits.</li> </ul>
<b>Value of an Audit</b>	<ul style="list-style-type: none"> <li>Questions have been raised about the value of having an audit, including:               <ul style="list-style-type: none"> <li>Trust in the audit process;</li> <li>Appropriate communication of information to support investment or funding decisions;</li> <li>Relevance of the information being reported on (e.g., backward-looking versus forward-looking);</li> <li>Using technology to execute better audits.</li> </ul> </li> </ul> <p>Although the changes to the standards may impact the matters influencing the value of an audit, and may disproportionately influence the value of the audit for LCEs, the objective of the work on audits of LCEs is not about exploring the value of an audit.</p>
<b>Expectation Gap</b>	<ul style="list-style-type: none"> <li>The expectation gap, the gap between what an auditor is required to do and what is expected of the auditor by some stakeholders, is changing, in particular as the standards become more complex to understand and use.</li> <li>The scope of this project is not intended to directly address the expectation gap, but by improving the application of ISAs to LCEs may indirectly help users of financial statements better understand the procedures undertaken in an audit.</li> </ul>

## Issues and Challenges Within the Scope of the IAASB's Work on Audits of LCE's

The objectives of the IAASB's Clarity Project<sup>7</sup> were to write the standards in a clear and concise way, with the requirements set out as principles, and application material to help explain how the requirements could be implemented. In the IAASB's view, a principles-based approach to the standards enables the application of the ISAs to entities with a wide variety of nature and circumstances.

The influences set out in Section I, and the IAASB's journey in thinking more about what can be done to improve the application of the ISAs for LCEs, have already driven changes in the current work practices of the IAASB as it revises some of its core ISAs, including a greater emphasis on scalability. However, ongoing concern and challenges with implementing the ISAs (or proposals) is continually being highlighted by the IAASB's stakeholders, in particular in relation to its recent exposure drafts. Many of the identified issues set out below are recurring themes of matters highlighted to the IAASB as being challenging, and have been

<sup>7</sup> In March 2009, the IAASB completed its Clarity Project, which had involved a comprehensive review of all the International Standards on Auditing (ISAs) to improve their clarity and thereby facilitate their consistent application. Approximately half of the clarified ISAs included substantive changes aimed at improving practice in a variety of respects.

reiterated recently in the responses to ED-315 as well as the responses that were received when ISA 540 (Revised) was an exposure draft. The major recurring and recent comments include:

<b>Language and Basic Approach to the Standards</b>	<ul style="list-style-type: none"> <li>• Some of the 'clarity' principles have been diminished, with the language becoming more complex and therefore more difficult to comprehend. This may also impact the translation of the standards.</li> <li>• The standards are being drafted to include the "how," i.e., the process to undertake the procedure which is resulting in more detailed requirements.</li> <li>• In some cases, there has been a move away from principles-based requirements.</li> <li>• The detail in the standards is driving auditors towards more of a 'compliance with the standards' approach rather than one that encourages the use of professional judgment in determining the most appropriate audit procedures for the specific circumstances.</li> <li>• The standards are difficult to navigate as they break up a continuous audit process into discrete elements, and are written in a linear way, but are iterative in nature. In addition, they are not electronic so navigating is done manually.</li> </ul>
<b>Length of the Standards</b>	<ul style="list-style-type: none"> <li>• ISAs are voluminous, which makes them difficult to read and determine what needs to be done, and which has the potential to discourage some auditors from reading all of the relevant and necessary matters.</li> <li>• Significant additional length is being added through recent revision processes of the core ISAs, in particular to add application material as the ISAs become more complex. Paradoxically, some of this additional length is to aid scalability of the ISAs.</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Documentation requirements throughout the ISAs are extensive, and becoming more onerous.</li> <li>• In many cases it's not clear for LCEs as to what needs to be documented. This lack of clarity has sometimes resulted in: <ul style="list-style-type: none"> <li>○ Different interpretations about how certain matters need to be documented.</li> <li>○ Overdocumentation (for example, auditors of LCEs may include extensive documentation to justify what's not been done, which is seen as additional work that does not provide additional assurance).</li> </ul> </li> </ul>
<b>Lack of Clarity as to What Needs to be Done or Why</b>	<ul style="list-style-type: none"> <li>• In some cases, unnecessary procedures are being performed because when an auditor is faced with a specific set of circumstances, the standards are not clear about the nature and extent of the work required. In other circumstances, necessary procedures are not being performed because the application of the requirements to the circumstances are not clear.</li> </ul>

### Not Enough Guidance Within / Outside of the ISAs

- Paragraphs detailing *considerations for audits of smaller entities*, where they are presented within the ISAs, are not helpful in all cases to understand scalability and proportionality of the requirements.
- There is insufficient guidance to aid the effective implementation of new and revised ISAs.

### ISAs Noted as Particularly Problematic

- The work on understanding the entity's system of internal controls in accordance with ISA 315 (Revised)<sup>8</sup>—in particular where controls will not be relied on, this work is often considered unnecessary.
- Risk identification and assessment—leading to an over-engineered risk assessment for entities in a non-complex environment. In particular, the changes proposed in ED-315<sup>9</sup> have been seen to add unnecessary complexity to the risk identification and assessment process.
- The auditor's considerations in relation to fraud—the focus of the work to comply with the requirements of ISA 240<sup>10</sup> when auditing a LCE may be more onerous than what would be appropriate in the circumstances.
- Auditing accounting estimates—some audit procedures required under ISA 540 (Revised)<sup>11</sup> have been noted as unnecessary, especially where the estimates do not involve complex fair values or significant forward-looking information, some audit procedures required under ISA 540 (Revised) have been noted as being unnecessary.

### Questions for Respondents

1. Do the matters set out in Section II above that are within the scope of the IAASB's remit fairly describe the issues and challenges relating to audits of LCEs? Are there:
  - (a) Any other specific issues or challenges that should be considered?
  - (b) Are there any other ISAs that are particularly problematic, and if so, in what way?
2. With regard to the matters that are not within the IAASB's control, or have been scoped out of the IAASB's exploration activities, what more can be done in relation to these and by whom?

<sup>8</sup> ISA 15 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>9</sup> ED-315, Exposure Draft ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

<sup>10</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>11</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*



### III. Possible Actions to be Explored

Actions at a global level will help promote:

- A common understanding of the procedures required in relation to an audit of a LCE.
- Consistency in application across entities and jurisdictions.

The IAASB has reflected on various possible actions that could be undertaken to address the issues that have been identified. In its deliberations, however, it has been recognized that there is no simple solution—a wide spectrum of audits are undertaken using the ISAs, ranging from large, complex public interest entities to small entities that are considerably less complex. There may also not only be one solution, and any actions may impact all stakeholders (positively or negatively), not only those interested in audits of LCEs.

The possible actions set out hereafter provide the IAASB's initial thoughts about what could be done, however further information gathering and deliberation are needed to better understand whether there is anything else and to properly scope any related future projects of the IAASB, once it has a clearer direction on its future work in this area.

There will likely be mixed views on some of these possible actions, and it is essential that the IAASB be informed as to the views of all of its stakeholders, including the rationale underpinning those views. In addition to this DP, the IAASB will also be undertaking various outreach activities to solicit responses from those affected by, and using, its standards.

The IAASB has identified the following possible actions, with each described further in this document<sup>12</sup>:



#### Standards-Based Actions

- Revising the suite of ISAs.
- Develop a separate auditing standard.

#### Outside of the Standards

- Developing guidance or other specific related actions for auditors of LCEs.
- Enhanced accessibility of the ISAs through technology.

#### Other

- Continuing with current efforts in relation to scalability and proportionality as ISAs are revised.

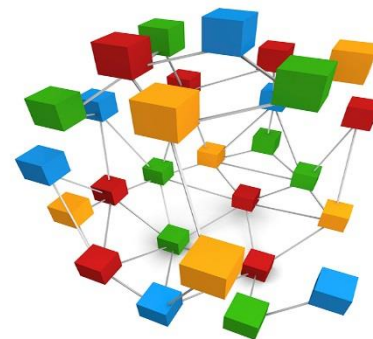
<sup>12</sup> The Accountancy Europe publication, [Simplifying Auditing Standards for Small or Non-Complex Entities](#), sets out Pros and Cons of various possible actions that have been explored in its publication.

## Revising the Suite of ISAs

The suite of ISAs could be comprehensively revised to make work effort clearer where the circumstances of the entity are less complex.

Broadly, this could involve one or more of the following:

- Revising the standards using clearer and understandable language.
- Focusing on principle-based requirement.
- Revising the application material to feature more scalability and proportionality considerations, e.g., providing examples of both simple and complex circumstances in order to contrast the differences.
- Using a building-block approach for the requirements (for example, setting out the basic requirements, then illustrating how this could be scaled down for less complex circumstances, and layering on what more needs to be done as the circumstances become more complex, as necessary).
- Better signposting within the ISAs about the audit procedures appropriate to audits of LCEs, to distinguish those procedures that are relevant for these entities. This could be done, for example, by enhancing the considerations specific to audits of LCEs (previously included in the standards as considerations for smaller entities) in a separate section within each ISA.



There are various ways in which the revision of the suite of ISAs could be undertaken:

- A substantial project to revise all of the ISAs at the same time.
- Revising the standards on a rolling basis, or as they are 'opened up' to be revised.
- Using a phased approach, such as selecting certain standards to be revised first, possibly those where the most issues and challenges for audits of LCEs have been identified.

If this action were to be undertaken, the exact approach as to how best to revise the standards would need to be determined by the IAASB, and further work would be undertaken to explore the most appropriate approach. Features of this option include:

- The requirements may be shorter and easier to understand.
- Requirements will be clearer which will likely promote consistency in application.
- The IAASB would be responsive, and would be seen to be responsive, to improving those standards about which the more significant concerns have been raised for audits of LCEs.

This option would result in a substantial project for the Board:

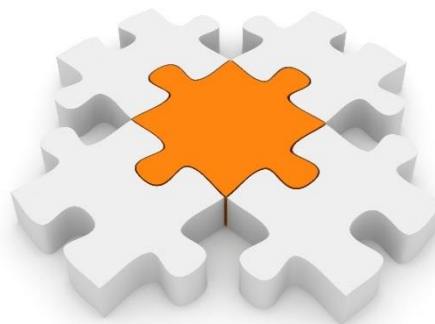
- It would likely consume a significant amount of the Board's capacity and resources.
- Such a revision may take a significant amount of time to complete (for example the last time all of the ISAs were revised was during the Clarity Project which took six years to complete).<sup>13</sup>
- If undertaken on a rolling basis there would be some standards that have been revised using the new format while others have not.

<sup>13</sup> The IAASB has planned for the completion of its substantial ISA projects until early 2021, which is the time that a new substantial project could likely commence.



## Develop a Separate Auditing Standard

The development of a separate standard specifically for audits of smaller entities has been the subject of discussion internationally, with a number of jurisdictions having developed, or being in the process of developing, drafts or pronouncements. Therefore this is an option that should be explored for audits of LCEs.



The IAASB has not specifically discussed the content of such a standard, but recognizes the importance of outlining the key features of such a standard for its stakeholders in order for them to be able to provide informed responses about their views on the possible actions. The following has been developed using the context of existing drafts or work done by others in this area. More would need to be done to determine whether this is a feasible option, including an impact analysis, as well as considering how such a standard could be operationalized.

### *Possible Features of a Separate Auditing Standard based on the Existing ISA Framework*

Such a separate auditing standard could be based on the existing ISA framework, with the aim of achieving the same objectives as the ISAs. From outreach undertaken to date, it is clear that the level of assurance for the audit opinion for such a standard should be the same (i.e., reasonable assurance).

As with the ISAs, local laws and regulations would prescribe when such a standard could be used in a particular jurisdiction, such a standard would only describe when it would be appropriate to use or not (for example, it would not be appropriate for publicly listed entities).

- Other features: A 'filter' would need to be developed to determine the types of entities to which this standard would apply, but could, for example, equate to the qualitative characteristics used to describe a LCE (as set out on page 5).
- Such a standard could mirror the risk-based approach of the ISAs but be written in a more linear way to follow the work flow of an audit.
- The objective of the standard could address the whole audit, for example, to include gathering sufficient appropriate audit evidence to be able to conclude and form an opinion (including a written auditor's report).
- The requirements could focus on objectives (i.e., be outcomes-based rather than process oriented) for those requirements that would likely be relevant to audits of less complex entities.
- The use of professional judgment would be emphasized, rather than prescribing procedures.
- Quality management principles could also possibly be included, setting out requirements at the engagement level, for example a focus on the broad quality management principles such as the engagement partner's responsibilities.
- Similar to the ISAs, compliance with ISQC 1 (or the revised standard as applicable) and relevant ethical requirements would likely be required.
- Such a standard would also set out the basic requirements as to what constitutes audit evidence.
- Principle-based requirements, appropriate for audits of LCEs, could be developed addressing:

- Acceptance and continuance of an engagement.
- Planning.
- Materiality and evaluation of misstatements.
- Risk identification and assessment, including setting out what is necessary to obtain the necessary understanding to be able to respond to the assessed risks of material misstatement.
- The auditor's responses to assessed risks.
- Concluding and reporting, include the auditors' consideration of subsequent events.

Principle-based documentation requirements that align with the broader principles of ISA 230<sup>14</sup> could be developed, with consideration could be given to whether further specific requirements are needed

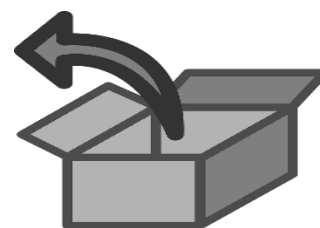
- Such a standard may not have application material, rather the development of supporting guidance could be left to others (such as NSS) to develop, or if based on the same principles and structure as the ISAs may reference the applicable parts of the ISAs (in a similar way that IFRS are referenced in the IFRS for SME standard).

From previous outreach (including the Paris conference), the IAASB has heard concerns from some stakeholders about the development of a separate standard for auditing LCEs (for example, it may create a two-tier profession). However, in light of developments in the environment where others are actively pursuing an alternative to the full suite of ISAs, and the commitment to exploring a global approach, the IAASB has the view that this is an option that should be further explored.

### Possible Features of a Separate Auditing Standard Developed Based on a Different Framework

The possible action described above focuses on the ISAs as a starting point and an overall framework for the development of a separate standard. An alternative is to explore the options of developing a standalone standard based on a different framework and set of principles than the current ISAs. Such a new standalone standard could, for example, be developed using different concepts to the ISAs, and would not necessarily need to be risk based and/or assertion based. Current innovations through digitalization, big-data and artificial intelligence may also help promote a different approach to the risk based-assertion-based audit.

However, such an option would likely take a significant amount of time to complete, because substantial research and information gathering activities would need to be undertaken to determine whether it would be a viable alternative. However, this may still be an option worth exploring in light of changes in the environment and technology.




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<sup>14</sup> ISA 230, *Audit Documentation*

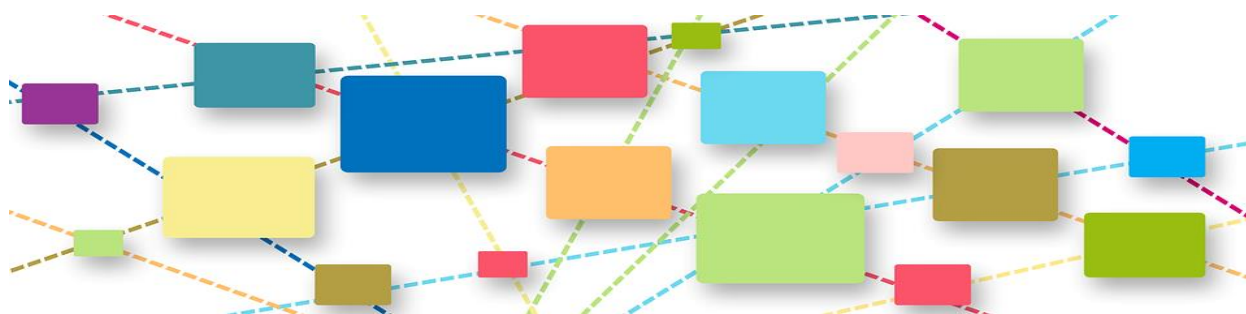
## Develop Guidance and Other Related Actions

There have been ongoing calls for more guidance, in particular a practical “how to” guide when approaching an audit of a LCE, as well as for specific areas within the ISAs. This section addresses guidance that is outside of the ISAs (i.e., not application material within the ISAs), so the nature of such material would be non-authoritative. Options for guidance could include:

- (a) *A comprehensive guide about how to apply the ISAs in circumstances where the nature and circumstance of the entity being audited are less complex.* A guide along these lines has already been developed by IFAC, which is intended to provide practical support when implementing the ISAs in audits of SMEs. The Guide is currently set out in two volumes, with Volume 1 covering the fundamental concepts of a risk-based approach, and Volume 2 setting out practical examples including illustrative case studies. The Guide has been translated into over 20 languages, and the latest version has been downloaded in more than 140 countries. Notwithstanding the broad downloading of the Guide, it is voluminous and there are many stakeholders still calling for more guidance.
- (b) *An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities*—IAPNs do not impose additional requirements on auditors beyond those required by the ISAs, nor do they change the auditor’s responsibility to comply with all of the ISAs relevant to the audit being undertaken. They are intended to provide practical assistance to auditors. Such an IAPN would likely only cover specific areas where additional guidance is needed.
- (c) *Guidance for the implementation of specific areas within the ISAs*—for example, a guide specifically targeted at risk identification and assessment.
- (d) *Focused “implementation packs” for new and revised ISAs specifically for audits of LCEs*—including slide presentations, webinars and focused guidance about how to implement the revised or new ISA, to educate and assist once new or revised standards are published.

## Enhanced Accessibility of the ISAs

The current structure and length of the ISAs make it difficult for practitioners to navigate them, and there have been calls from a wide variety of stakeholders for more navigability or better signposting within the ISAs. This may involve the conversion of the ISAs to an online handbook with navigation and search tools (for example, embedded definitions and links between requirements and relevant application material).<sup>15</sup>



<sup>15</sup> In 2019 the IAASB plans to consider how the functionality of the handbook can be improved by commencing digitization of the ISAs, however more may need to be done to increase the functionality specific to audits of LCEs.

## **Continuing with Current Activities**

It is possible that based on the further outreach and research that the IAASB could decide to not undertake any of the possible actions set out in this DP, but could rather continue with its current approach of enhancing scalability and proportionality, including the introduction of concepts such as the spectrum of risk within its standards in its current ongoing projects, and developing implementation guidance on publication of new and revised standards. The IAASB's Consultation Paper on its [Strategy for 2020–2023 and Work Plan for 2020–2021](#), has highlighted the importance of developing ways to address complexity, while maintaining scalability and proportionality as a strategic focus in its future strategy period, as well as a greater focus on implementation support for recently completed projects to develop and revise new ISAs. If this option was agreed to, some aspects of the discussions about the other possible options, in particular in relation to revising the suite of ISAs, could be implemented on a more ad-hoc basis.

### **Questions for Respondents**

3. Do you agree that the work in this area should focus on entities that are less complex, not only SMEs
  - (a) If not, please explain what you would consider appropriate, and how this would be described.
  - (b) If yes, what are your views about the proposed way that LCEs could be described (see page 5).
4. Does Section III set out all of the options that the IAASB should be considering, or are there other possible actions that could be undertaken?
5. For each of the options set out above, please provide views about whether the option should be pursued, including why, or why not, as well as noting a preferred option.

## Appendix

### Standards, Guidance and Tools (Post 2016)

1. Chartered Professional Accountants Canada. *Anatomy of a 12-hour audit for micro-entities*. [Online]  
Available at: <https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/12-hour-audit-for-micro-entities>
2. Conseil Supérieur de l'Ordre des Experts-Comptables, 2017. *Professional Standard for the Audit Mission of Financial Statements in a Small Entity (NP 2910)*. [Online]  
Available at: <https://www.slideshare.net/Lassekerblad/small-entity-audit-standard-np-2010-france-translated-by-google>
3. CPA Australia, 2017. *Small Entities Audit Manual (SEAM)*. [Online]  
Available at: <https://www.intheblack.com/~media/intheblack/allfiles/document/pdf-documents/small-entities-auditmanual-seam-2017.pdf?la=en>
4. Hong Kong Institute of Certified Public Accountants, 2016. *Audit and Practice Manual*. [Online]  
Available at: [https://www.hkicpa.org.hk/~media/HKICPA-Website/HKICPA/section6\\_standards/standards/APM.pdf?la=en&hash=1DA1497E439AB6D036A21FEB70AF02DC](https://www.hkicpa.org.hk/~media/HKICPA-Website/HKICPA/section6_standards/standards/APM.pdf?la=en&hash=1DA1497E439AB6D036A21FEB70AF02DC)
5. IFAC 2018. *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities (4th Edition)*. [Online]  
Available at: <https://www.ifac.org/publications-resources/guide-using-international-standards-auditing-audits-small-and-medium-sized-18>
6. Institut Österreichischer Wirtschaftsprüfer (Institute of Austrian Certified Public Accountants (IWP)), 2017. *Quality Assurance Handbook – Guidance No 27*. [Online]  
Available at: <http://www.iwp.or.at/index.php?id=handbuch>
7. Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entreprises (IBR-IRE), 2018. *Pack Petites Entités - Small Entities (PE-KE) version 4.0 and Case Study*. [Online]<sup>16</sup>  
Available at: <http://www.icci.be/nl/publicaties/Downloads/Pages/PackPE-KE.aspx>
8. Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entreprises (IBR-IRE), 2017. *Technical note: Summary of the audit approach in non-complex entities*. [Online]  
Available at: [https://www.ibr-ire.be/fr/publications/series\\_actuelles/notes-techniques/Pages/Note-technique-synthese-de-la-demarche-daudit-dans-des-entites-non-complexes.aspx](https://www.ibr-ire.be/fr/publications/series_actuelles/notes-techniques/Pages/Note-technique-synthese-de-la-demarche-daudit-dans-des-entites-non-complexes.aspx)
9. Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entreprises (IBR-IRE), 2016. *ISA Checklists and Templates*. [Online]  
Available at: <http://www.icci.be/fr/publicaties/downloads/Pages/listesdecontrole-matrices.aspx>

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<sup>16</sup> This tool was originally developed by Compagnie Nationale des Commissaires aux Comptes and is also in use in France and in many other countries

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# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**        **7.3**

**Meeting Date:**            6 March 2019

**Subject:**                    IAASB meeting papers – Group Audits

**Date Prepared:**            28 February 2019

**Prepared by:**              Rene Herman

**Action Required**

**For Information Purposes Only**

<b>IAASB Project Objective</b>	<b>AUASB SMEs</b>
1. The objective of this project is for the IAASB to revise and reissue ISA 600 <i>Group Audits</i> .	Rene/TBD
<b>AUASB Key Points</b>	
<p><b>Background</b></p> <p>1. In December 2016 and following on from the IAASB’s invitation to comment (AUASB Responded May 2016), the IAASB approved a project proposal to revise ISA 600. The project scoping included:</p> <ul style="list-style-type: none"> <li>• scoping of group audits</li> <li>• stronger links to other ISAs particularly ISA 315 and ISA 220</li> <li>• communications between the global engagement team (GET) and component auditors</li> <li>• component auditors</li> <li>• work effort on components identified in scope and non-significant components</li> <li>• GETs work effort in relation to the consolidation process</li> <li>• GETs evaluation of sufficiency and appropriateness of audit evidence</li> <li>• component materiality and aggregation risk</li> </ul> <p>2. This project has been delayed/held back in order to progress the foundational standards which underpin ISA 600 (ISQM 1, ISA 220, ISA 315).</p> <p>3. This project is now back on the IAASB agenda to progress.</p>	

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

IAASB Project Objective	AUASB SMEs
<b>Matters to be addressed by the IAASB at the March 2019 IAASB meeting:</b>	
<p>4. The following areas are being considered at the March 2019 IAASB meeting:</p> <p>(a) Scoping of group audits. The IAASB working group is seeking to better articulate a risk-based approach to group audits, to be referred to as a top-down approach. In a top down approach focus is on identifying and assessing risks at a group level and then determining the planned scope of work to respond to these risks. The current approach of ISA 600 is to scope work driven by identification of components and identifying their significance.</p> <p>(b) Definitions. Several definitions are to be reconsidered including that of a component and significant component. For example are service centres a component? The working group will consider whether a component should be structurally driven or driving by whether the GET use other auditors. The interrelationships between a significant risk and a significant component need to be revisited i.e.: where significant risks are identified in a component, does this make the component significant.</p> <p>(c) Linkage to other standards – the importance of such linkage particularly to foundational standards will be a main area of focus</p>	
<b>What the ATG is seeking from the AUASB at this meeting:</b>	
<p>5. The ATG is not seeking feedback from the AUASB at this meeting. The purpose of this summary paper is to update the AUASB as to the status of the ISA 600 project.</p>	
<b>IAASB timeline and impact on AUASB activities/Next steps</b>	
<p>6. The IAASB is aiming to approve an ED of the revised ISA 600 in late 2019 with a final standard aimed to be released March 2021. This is still early stages of revision and the AUASB will be kept up to date on the progress of the revision.</p>	

**Material Presented**

Agenda Paper 7.6.0

BMSP – Revision to ISA 600

**Action Required**

No.	Action Item	Responsibility	Due Date
1.	No action required.	AUASB	6 March 2019



# AUASB Board Meeting Summary Paper

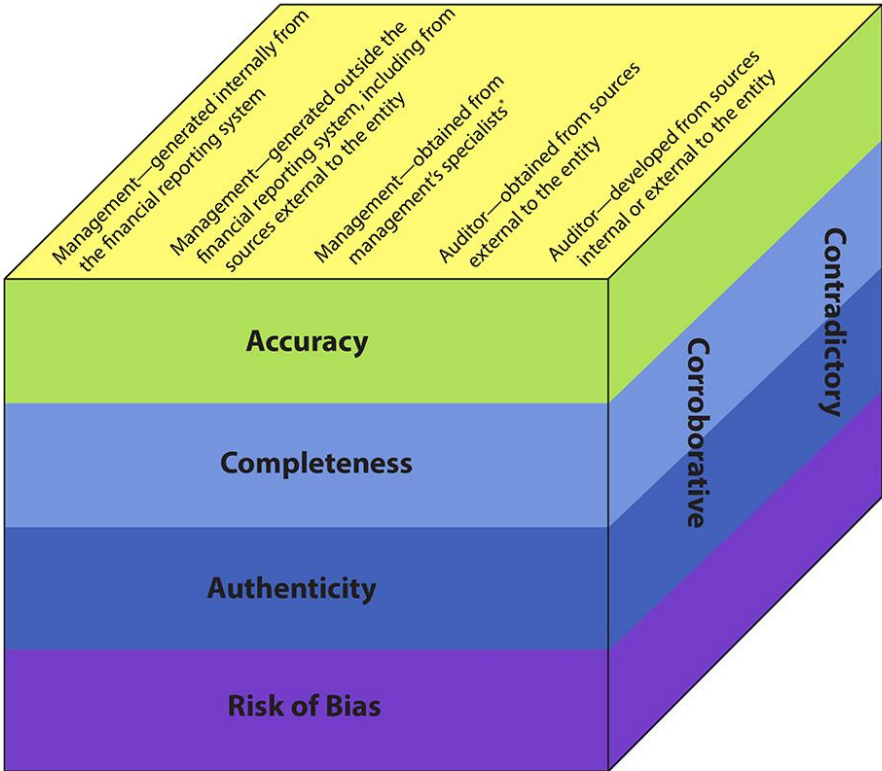
**AGENDA ITEM NO.**        **7.4.0**  
**Meeting Date:**            6 March 2019  
**Subject:**                    Audit Evidence  
**Date Prepared:**            28 February 2019  
**Prepared By:**              Tim Austin

Action Required

For Information Purposes Only

IAASB Project Objective	AUASB SMEs
<p>1. The objective of this project is to inform the newly formed Audit Evidence Working Group (AEWG) through exploring issues related to audit evidence and identifying the key issues to be addressed by the AEWG. This project is in the information gathering stage and <b>may</b> result in standard-setting activities.</p>	<p>Tim/TBD</p>
<b>AUASB Key Points</b>	
<p><b>Background</b></p> <p>2. The AUASB last received an update on the Audit Evidence project at the June 2018 AUASB Meeting. There were no actions from the paper presented in June 2018. The purpose of the June paper was to inform the IAASB/AUASB on the progress the AICPA Auditing Standards Board (ASB) had made in their audit evidence revisions project.</p> <p>3. The IAASB’s Audit Evidence project is in the information gathering stage. Based on the proposed strategy, the project will be assessed in March 2020 to determine whether standard-setting activities may be required or further research is needed.</p> <p>IAASB Considerations</p> <p>4. The increasing need to improve how the ISAs address the growing range of information sources is driving the need to consider revising ISA 500. There have been significant changes in technology since ISA 500 was last revised especially developments in the use of technology to perform audits.</p> <p>5. IAASB Agenda Item 8 covers a number of key areas that the AEWG will consider:</p> <p>(a) How does information obtained through emerging audit techniques fit within the audit evidence model?</p> <p>(b) How does ISA 500 deal with new information sources?</p>	

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IAASB Project Objective	AUASB SMEs
<p>(c) Are the requirements and application material dealing with the selection of items for testing still relevant in the context of the modern audit environment?</p> <p>(d) Is the objective of ISA 500 still appropriate?</p> <p>What is the AICPA ASB working on?</p> <p>6. The ASB are proposing issuing an exposure draft of the revision to their audit evidence standard in May 2019 with anticipated finalisation of the standard in January 2020. A key change in the ASB standard is a revision to the audit evidence model as seen in the figure below.</p> <p>7.</p>	<p style="text-align: center;"><b>Sources</b></p>  <p>8. Figure extracted from <a href="#">AICPA Audit Evidence Presentation</a>.</p>
<b>IAASB timeline and impact on AUASB activities/Next steps</b>	
<p>9. As the project is at the information gathering stage, there are no immediate actions for the AUASB. The direction given to the AEWG at March 2019 IAASB Meeting will inform what the AUASB's activities/next steps will be.</p>	

### Material Presented

Agenda Paper 7.6.0

BMSP – IESBA Code Amendments

### Action Required

No.	Action Item	Responsibility	Due Date
1.	Paper is for information only.	AUASB	N/A

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# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**        **7.6.0**  
**Meeting Date:**            6 March 2019  
**Subject:**                    IESBA Restructured Code Amendments  
**Date Prepared:**          28 February 2019  
**Prepared By:**              Tim Austin

Action Required

For Information Purposes Only

IAASB Project Objective	AUASB SMEs
1. The objective of this project is to develop amendments to the International Standards to remove identified inconsistencies to make the International Standards not be in conflict with the IESBA Code.	Tim/TBD
<b>AUASB Key Points</b>	
<p><b>Background</b></p> 2. The revised IESBA Code <i>International Code of Ethics for Professional Accountants</i> (IESBA Code) was issued in July 2018 with an effective date of 15 June 2019. The Australian equivalent of the IESBA Code, APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> was issued by the Accounting Professional & Ethical Standards Board (APESB) in November 2018 with an effective date of 1 January 2020.           3. Throughout the suite of IAASB standards there are a number of references to the extant IESBA Code, which includes: <ul style="list-style-type: none"> <li>(a) references to the title of the IESBA Code;</li> <li>(b) paragraphs addressing compliance with principles of the code;</li> <li>(c) terminology used in the IESBA Code; and</li> <li>(d) footnote references to specific paragraphs of the IESBA Code.</li> </ul> 4. The IAASB Staff, assisted by IESBA Staff, have begun an analysis of the suite of ISAs to identify areas which will require amendment to reflect the restructured IESBA Code.           5. The standards which have been identified at this stage are: <ul style="list-style-type: none"> <li>(a) ISQC 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Related Services Engagements</i>;</li> </ul>	

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IAASB Project Objective	AUASB SMEs
<ul style="list-style-type: none"> <li>(b) ISA 210 <i>Agreeing the Terms of Audit Engagements</i>;</li> <li>(c) ISA 220 <i>Quality Control for an Audit of Financial Statements</i>;</li> <li>(d) ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>;</li> <li>(e) ISA 250 (Revised) <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>;</li> <li>(f) ISA 260 (Revised) <i>Communication with Those Charged with Governance</i>;</li> <li>(g) ISA 300 <i>Planning an Audit of Financial Statements</i>;</li> <li>(h) ISA 510 <i>Initial Audit Engagements – Opening Balances</i>;</li> <li>(i) ISA 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>;</li> <li>(j) ISA 620 <i>Using the Work of an Auditor's Expert</i>;</li> <li>(k) ISA 700 (Revised) <i>Forming an Opinion and Reporting on Financial Statements</i>;</li> <li>(l) ISA 720 (Revised) <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i>;</li> <li>(m) ISRE 2400 (Revised) <i>Engagements to Review Historical Financial Statements</i>;</li> <li>(n) ISAE 3000 (Revised) <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>;</li> <li>(o) ISAE 3410 <i>Assurance Engagements on Greenhouse Gas Statements</i>;</li> <li>(p) ISAE 3420 <i>Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus</i>; and</li> <li>(q) ISRS 4400 <i>Engagements to Perform Agreed-Upon Procedures Regarding Financial Information</i>.</li> </ul>	
<p>6. The IAASB are planning to issue an ED with a 30-day comment period in June 2019. Final approval of the changes are anticipated in Q3/Q4 2019 with release of the changes to occur in Q4 2019 or Q1 2020.</p>	
<p><b>Issues Identified by ATG</b></p>	
<p>Timing of the proposed finalisation of amendments by the IAASB</p>	
<p>7. As outlined above, the IAASB Staff are aiming for finalisation and issuance of the changes in either Q4 2019 or Q1 2020.</p>	
<p>8. If the AUASB waits for the issuance of final changes by the IAASB in Q1 2020, this will result in a misalignment of when the restructured APES 110 is effective for practitioners and the version of the code referenced by the ASAs.</p>	
<p><b>What the ATG is seeking from the AUASB at this meeting:</b></p>	
<p>9. At this stage there are no actions for the AUASB. This paper has been prepared for information only. However, there are a number of actions for the ATG.</p>	

IAASB Project Objective	AUASB SMEs
<p>10. The actions for the ATG are:</p> <p>(a) Following the process set at the March 2018 AUASB meeting, prepare a revised ASA 102 for AUASB approval before the restructured code is effective; and</p> <p>(b) Prepare amendments to Australian Auditing Standards to be approved by the AUASB before the revised APES 110 is effective for practitioners. The ATG is proposing going ahead of the IAASB to ensure that there is no misalignment.</p>	
<b>IAASB timeline and impact on AUASB activities/Next steps</b>	
<p>11. The IAASB is aiming to approve an ED of the amendments for a 30 day comment period in June 2019, with final amendments to occur late 2019 or early 2020. As outlined above, the restructured APES 110 is effective for Australian practitioners 1 January 2020. A release of amendments in early 2020 will result in a misalignment of APES 110 and the standards.</p>	
<p>12. The ATG has outlined the immediate next steps in paragraph 10.</p>	

**Material Presented**

Agenda Paper 7.6.0

BMSP – IESBA Code Amendments

**Action Required**

No.	Action Item	Responsibility	Due Date
1.	Paper is for information only.	AUASB	N/A

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# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**        **8.1.0**

**Meeting Date:**            6 March 2019

**Subject:**                    AUASB Technical Work Program Update

**Date Prepared:**            27 February 2017

Action Required

For Information Purposes Only

## Agenda Item Objectives

1. To provide the AUASB with a status update of the 2018-19 AUASB Technical Work Program.

## Background

2. The AUASB Technical Group prepared the final 2018-19 AUASB Technical Work Program and presented it to the AUASB for consideration in September 2018. No specific feedback was received on the work program and subsequently it was finalised in October 2018, then posted on the AUASB Website.
3. The AUASB Technical Group has produced a status update of the 2018-19 AUASB Technical Work Program for the AUASB to review. The format of this update aligns to the reporting we are required to present to the FRC to ensure consistency and reduce duplication. This is provided to the board at the first meeting following the end of each quarter.

## Matters to Consider

4. The status update of the 2018-19 AUASB Technical Work Program is provided to board members for review at **Agenda Item 8.1.1**.
5. The Final 2018-19 AUASB Technical Work Program will be used as the basis for information that populates our AUASB Performance Report in the AASB-AUASB 2018-19 Annual Report.

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**AUASB Technical Group Recommendations**



6. Provide feedback to the AUASB Technical Group on the status update of the 2018-19 AUASB Technical Work Program presented at Agenda Item 8.1.1.
7. Provide suggestions to the AUASB Technical Group about additions and changes AUASB members would like included in the 2018-19 AUASB Technical Work Program document.



**Material Presented**

Agenda Item 8.1.0	AUASB Board Meeting Summary Paper
Agenda Item 8.1.1	2018-19 AUASB Technical Work Program – Status Update as at February 2018

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High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report to the AUASB in December 2018 are highlighted in <b>Bold</b> )
<p>Monitor the Assurance Environment, considering the implications for Australian auditing and assurance standards and guidance and responding as appropriate.</p>	<ul style="list-style-type: none"> <li>→ Conduct regular AUASB Agenda Consultation Forums in various locations, either face to face or electronically, and update AUASB Workplan as required based on relevant feedback.</li> <li>→ Hold quarterly meetings with the professional accounting bodies to discuss trends in assurance environment and identify impact for AUASB Agenda and Workplan.</li> <li>→ Ensure AUASB attendance and presentations at a number of research events (e.g. AFAANZ Conference and AFAANZ Auditing and Assurance Special Interest Group, the UNSW Audit Research Roundtable, and the ANU ANZCAR Conference).</li> <li>→ Develop and implement an AUASB Research Strategy.</li> <li>→ Work with the FRC to implement the elements of the FRC Audit Quality Plan that are the responsibility of the AUASB</li> <li>→ Monitor key international regulator developments (including IOSCO, PCAOB and IFAR Monitoring Group) and consider impact for the local auditing and assurance environment.</li> <li>→ Develop updated guidance to encourage the increased application and understanding of review engagements</li> <li>→ Consider audit quality and implementation issues associated with the audit and assurance issues specific to the financial services sector, including any matters arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry</li> </ul>		<ul style="list-style-type: none"> <li>• AUASB Work Program update provided to stakeholders at ISA 315 and ASA 540 Roundtable events held in September and October 2018.</li> <li>• Regular engagement held with CA ANZ and CPA Australia in respect of the current AUASB exposure drafts and quarterly meeting held with CPA Australia.</li> <li>• AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants.</li> <li>• Ongoing collaboration with the FRC on Audit Quality matters, including the ACC and Investor Surveys on perceptions of Audit Quality.</li> <li>• Draft of AUASB Bulletin addressing the different types of assurance engagements that may be performed under the AUASB assurance framework in development.</li> <li>• <b>White paper from Monitoring Group addressing next steps in global standard setting arrangements due shortly.</b></li> <li>• <b>New AUASB Evidence Informed Standards (EIS) Strategy presented at December 2018 AUASB meeting.</b></li> <li>• <b>No explicit audit or assurance implications arising from the Royal Commission into Misconduct in the Financial Services Industry noted.</b></li> <li>• <b>Planning for joint UNSW/AUASB Academic Roundtable in October 2019 under way.</b></li> <li>• <b>Appointment of two 'AUASB Scholars' for 2019 in progress.</b></li> </ul>
<p>Build, maintain and enhance key international relationships around key focus areas with both global (e.g. IAASB, IFAC, IIRC) and national standard setters and professional bodies (e.g. FRC, PCAOB, CPAC, IRBA).</p>	<ul style="list-style-type: none"> <li>→ AUASB to be represented at all IAASB meetings.</li> <li>→ Arrange for AUASB review of relevant IAASB board papers on a timely basis and share feedback on key matters with regional IAASB members before each IAASB meeting.</li> <li>→ Attend and present relevant topics at regional and global IAASB NSS meetings.</li> <li>→ With the IAASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting network</li> <li>→ Attend and contribute to other IAASB or International Standard Setting forums as appropriate</li> <li>→ Review and contribute as appropriate to other global initiatives, such as IIRC, GRI and WBCSD, on assurance issues.</li> <li>→ Engage with the Global EER Project Advisory Panel and support associated regional activities and local panel members.</li> </ul>		<ul style="list-style-type: none"> <li>• EER specialist Board member and staff attending regular IAASB EER Roundtables.</li> <li>• AUASB Chair attended by teleconference latest meetings of IIRC working group, and WBCSD assurance task force</li> <li>• <b>NSS Meeting jointly hosted with the NZAuASB held in Sydney at the same time as the World Congress of Accountants on 5 November all in place. Great feedback from IAASB and other participants</b></li> <li>• <b>AUASB Technical Director attended December IAASB Meeting in New York.</b></li> <li>• <b>AUASB deliberated on all major IAASB projects at its December 2018 Board Meeting</b></li> <li>• <b>AUASB Chair appointed Chair of IAASB Less Complex Entities Working group and leading development of an IAASB discussion paper to chart the way forward.</b></li> </ul>

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report to the AUASB in December 2018 are highlighted in <b>Bold</b> )
<p>Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.</p>	<ul style="list-style-type: none"> <li>→ AUASB Chair and/or Technical Director to attend all NZAuASB meetings.</li> <li>→ Ensure standards and guidance are issued in accordance with AU/NZ harmonisation requirements.</li> <li>→ Contribute to and work in parallel on a number of NZAuASB projects, such as Auditor Reporting FAQs, and the Audit of Service Performance Information standard.</li> <li>→ Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities (e.g. joint research programs and joint contributions on key focus areas, such as Assurance requirements for NFP's and Charities).</li> </ul>		<ul style="list-style-type: none"> <li>• AUASB responses on ISA 315 and ISA.ASA 540 developed with regard to NZ AU/NZ harmonisation requirements.</li> <li>• AUASB staff working with NZAuASB staff on assurance of charities initiative.</li> <li>• AUASB and NZAuASB Chairs and Technical Directors collaborated on the planning and conduct of the NSS Meeting held in Sydney at the same time as the World Congress of Accountants on 5 November.</li> <li>• <b>AUASB and NZAuASB staff reviewed corresponding work programs to look for greater opportunities for collaboration and joint resourcing of projects at Joint AUASB and NZAuASB Technical team meeting in February 2019.</b></li> <li>• <b>AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410.</b></li> <li>• <b>AUASB Chair attended December and February NZAuASB Meeting in Wellington.</b></li> </ul>
<p>Complete a number of strategic projects addressing current areas of auditing and assurance thought leadership and emerging issues, in particular the areas of external reporting beyond financial reporting (e.g. EER) and the impact of changing technologies (e.g. Data Analytics).</p>	<ul style="list-style-type: none"> <li>→ Scope and implement strategic thought leadership projects in the following areas: <ul style="list-style-type: none"> <li>- Auditor Reporting Implementation</li> <li>- Audit Quality / Coordination and cooperation with Regulators</li> <li>- Assurance over Emerging Forms of External Reporting (EER)</li> <li>- Financial Reporting and Assurance Frameworks</li> <li>- Public Sector Auditing and Assurance Issues</li> <li>- Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)</li> <li>- Use of Technology in the Audit including Data Analytics</li> </ul> </li> <li>→ Develop and maintain contact with other key national standard setters and identify opportunities to collaborate on key international auditing and assurance focus areas.</li> <li>→ Work with relevant local and international stakeholders to influence and support emerging forms of assurance (e.g. IIRC).</li> </ul>		<ul style="list-style-type: none"> <li>• Meetings held with ASIC and large audit firms to review common issues associated with inspections findings, resulting in updated AUASB guidance on the use of experts currently in development.</li> <li>• AASB and AUASB Joint publication developed on insights and research findings on climate-related disclosures for Australian listed entities and the application of APS 2 to financial reporting and assurance on climate-related risks.</li> <li>• Consultations held with ACNC &amp; input into AASB paper on Audit requirements under revised NFP reporting framework.</li> <li>• Meetings held with representatives from large firm and ACAG to discuss Phase 2 of Use of Technology in the Audit including Data Analytics project.</li> <li>• Ongoing support to Australian IAASB EER Advisory Group members and attendance at IAASB EER Roundtable in Sydney in November 2018.</li> <li>• Project Advisory Group with representatives from ACAG and other public sector auditors in place to assist AUASB with public sector project.</li> <li>• <b>AUASB published media release in response to the latest ASIC Inspection Findings and have set up a Project Advisory Group (PAG) on the revision of GS 005 Using the Work of a Management's Expert to response to matters on this topic raised in ASIC's findings.</b></li> </ul>





High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report to the AUASB in December 2018 are highlighted in <b>Bold</b> )
<p>Conduct awareness initiatives, such as webinars and presentations for new major Standards issued, and promote the development of education initiatives by others (for example professional bodies, regulators, accounting firms and tertiary institutions) by providing technical input to their initiatives and co-presenting at their education sessions.</p>	<ul style="list-style-type: none"> <li>→ Record and release AUASB podcasts and/or webcasts for all AUASB meetings on all major audit and assurance pronouncements.</li> <li>→ Engage with the CA ANZ and CPA Australia to support the currency and appropriateness of auditing and assurance professional program course materials.</li> <li>→ AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (eg CA ANZ Audit Conference; CPA Congress).</li> <li>→ Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins.</li> <li>→ Identify opportunities to present guest lectures or be represented on advisory panels for auditing and assurance topics at major tertiary institutions.</li> <li>→ Partner with respected auditing and assurance academics on AUASB strategic projects and research activities, for example on Auditor Reporting implementation.</li> </ul>	<p style="text-align: center;">  </p>	<ul style="list-style-type: none"> <li>• Podcast for December 2018 AUASB meeting recorded and released</li> <li>• Planning for AUASB involvement in 2019 CA ANZ Audit Conference currently underway.</li> <li>• AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants.</li> <li>• Assisting academic projects in relation to Assurance Frameworks and Auditor Reporting</li>   <li>• <i>No actions undertaken in relation to auditing and assurance professional program course materials or contributions to external articles or bulletins.</i></li> </ul>
<p>Analyse regulator inspection findings to identify AUASB actions that help improve audit quality and the consistency of audit execution, predominately through the development of new publications (such as AUASB Bulletins and frequently asked questions ('FAQs')) that facilitate the consistent application of auditing and assurance standards.</p>	<ul style="list-style-type: none"> <li>→ Increased and timelier engagement with ASIC and other regulators responsible for audit and assurance inspections.</li> <li>→ Assess and respond to implementation issues and identify opportunities to create additional AUASB guidance to address inspection findings.</li> <li>→ Hold quarterly meetings with ASIC and meet at least annually with other regulators (APRA, CER) to discuss audit inspection developments and identify opportunities for AUASB staff involvement.</li> <li>→ In conjunction with the NZAuASB, issue new and revised Auditor Reporting FAQs based on stakeholder feedback and issues noted by AUASB staff.</li> <li>→ Develop and issue AUASB Bulletins to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.</li> <li>→ Monitor global audit inspection developments and trends and consider impact for Australian auditing and assurance environment.</li> </ul>	<p style="text-align: center;"></p>	<ul style="list-style-type: none"> <li>• Meetings held with ASIC and large audit firms to review common issues associated with inspections findings, resulting in updated AUASB guidance on the use of experts currently in development.</li> <li>• Draft of AUASB Bulletin addressing the different types of assurance engagements that may be performed under the AUASB assurance framework in development.</li> <li>• No additional Auditor Reporting FAQs issued over the last 2 months. Post Implementation review of Auditor Reporting Standards to commence with the IAASB later in 2019.</li> <li>• <b>Ongoing discussions with ASIC on issues arising from January 2019 Report on audit inspection findings.</b></li> <li>• <b>AUASB published media release in response to the latest ASIC Inspection Findings</b></li> <li>• <b>AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410.</b></li> </ul>

	<b>Completed</b>		<b>Tracking slowly but no major issues</b>
	<b>Tracking Well</b>		<b>Delayed and/or there are major issues</b>



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **8.2**

**Meeting Date:**              Wednesday 6 March 2019

**Subject:**                      AUASB Technical Group presentations at CA ANZ Audit Conferences

**Date Prepared:**              26 February 2019

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

1. Inform AUASB members about upcoming presentations by the AUASB Chair, Deputy Chair and Technical Group (ATG) staff at the 2019 Chartered Accountants Australian New Zealand (CA ANZ) Audit Conferences being held in different locations from March – June 2019.

## Background

1. In October and November 2018 the AUASB Chair and ATG held discussions with representatives responsible for the 2019 CA ANZ Audit Conferences. Mutually agreed topics which the AUASB could present were identified and confirmed. Representatives from the AUASB will present at the conferences as described below.
2. Whilst there has been some AUASB involvement in the CA ANZ Audit Conference in past years (e.g. Justin Reid was included on an audit quality panel in Melbourne in April 2018), this is the first time in some years we have been part of the planning process, working with the conference organisers to promote current AUASB topics.
3. The CA ANZ Audit Conferences represent not only an excellent opportunity to engage with Australian audit and assurance practitioners (particularly those from the small / medium practice sector who are the prime audience for these conferences), it also supplements our current outreach activities on a number of major AUASB projects.

## CA ANZ Audit Conference AUASB Presentations

4. The AUASB will be represented at each CA ANZ Audit Conference by the following board members and staff presenting on the following topics:

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<b>Topic</b>	<b>Presenter</b>
Why is Audit Quality constantly subject to question	Matthew Zappulla (BNE) Robin Low (SYD) Roger Simnett (MEL)
Auditing Accounting Estimates under the revised ASA 540, Quantum change or not?	Rene Herman
ASA 315 Proposed changes: How to assess Audit risk in a smaller client environment	Matthew Zappulla (BNE) Anne Waters (SYD / MEL)
Smaller Audit Engagements: What do you want from the IAASB?	Matthew Zappulla (BNE / SYD) Roger Simnett (MEL)

5. The dates and locations are:
- Brisbane 19 March 2019
- Sydney 9 and 10 April 2019
- Melbourne 7 and 8 May 2019
6. Additional CA ANZ Audit Conferences are also being organised in Adelaide and Perth in May and June 2019. The AUASB will be involved in each of these conferences, however the nature and extent of our involvement is yet to be finalised.

### **Material Presented**

Agenda Item 8.2

AUASB Board Meeting Summary Paper



## AUASB Board Meeting Summary Paper

### AGENDA ITEM NO. 8.3.0

**Meeting Date:** 6 March 2019  
**Subject:** AUASB Draft Forward Agenda  
**Date Prepared:** 20 February 2019  
**Prepared By:** Tim Austin / Matthew Zappulla

The below table sets out the expected timing of when the AUASB's projects and other matters will be discussed at AUASB meetings for all planned dates until the end of 2019. As projects progress and circumstances change, further amendments to the below table will be required. Items highlighted are expected to require a larger allocation of agenda time and/or relate to critical decisions for the AUASB.

Meeting month # of days	2019				To be allocated
	Apr 1	Jun 2	Sep 1	Dec 2	
<b>AUASB Pronouncements</b>					
ASA 540 Implementation		✓	✓		
Guidance Statements Revision Plan	✓				
GS 005 <i>Using the Work of a Management's Experts</i>	✓				
GS 010 <i>Questions at AGMs</i>					✓
GS 009 <i>Auditing Self-Managed Super Funds</i>	✓				
GS 012 <i>Prudential Reporting</i>	✓	✓			
ASAE 3450					✓
Guidance on Review Engagements					✓
ASRE 2410 <i>Review Engagements</i>		✓			
Quality Management EDs – Aus activities	✓				
<b>International Projects (Review of International Papers)</b>					
ISA 315		✓#	✓**		
ISQM 1			✓	✓	
ISQM 2			✓	✓	
ISA 220			✓	✓	
ISA 600		✓	✓	✓#	
ISRS 4400 – AUP		✓		✓#	
Emerging forms of External Reporting		✓	✓	✓#	
Auditor Reporting PIR		✓	✓	✓	
ISA 540 Implementation		✓	✓	✓	
Auditing Less Complex Entities		✓	✓	✓	
Audit Evidence		✓	✓	✓	
Professional Scepticism		✓	✓	✓	
IESBA Coordination (new code)			✓		
IAASB Strategy			✓	✓^	
Monitoring Group					✓
NSS Collaboration		✓	✓	✓	
Report on IAASB Meetings			✓	✓	
<b>AUASB Strategic Projects</b>					
Audit Quality (including current issues)	✓	✓	✓	✓	
Use of Technology in the audit		✓	✓	✓	

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Meeting month	2019				To be allocated
	Apr	Jun	Sep	Dec	
# of days	1	2	1	2	
Meeting month	Apr	Jun	Sep	Dec	To be allocated
# of days	1	2	1	2	
<b>AUASB Strategic Projects (continued)</b>					
Auditor Reporting PIR		✓	✓	✓	
Reporting and Assurance Frameworks					✓
Auditing Less Complex Entities	✓	✓	✓		
EER	✓	✓	✓	✓	
Public Sector	✓	✓	✓	✓	
<b>Other AUASB Priorities</b>					
Evidence Informed Standard-Setting Strategy	✓				
Other Assurance Frameworks Bulletin	✓	✓			
AASB Chair Update	✓				
AUASB Technical work plan update			✓	✓	
Guest Presentations	✓			✓	
AUASB Standards due process	✓	✓			
Restructured APES Code Amendment			✓**		
Joint AUASB/AASB session		✓			
Joint AUASB/NZAuASB session					✓
<b>Corporate Reporting</b>					
FRC Reporting	✓		✓	✓	
AASB-AUASB Annual Report			✓	✓	
AASB-AUASB Corporate Plan			✓		

**Notes:**

\* Anticipated finalisation of Australian Exposure Draft

\*\* Anticipated finalisation of Australian Pronouncement

# Consideration of IAASB fatal flaw (standard or exposure draft)

^ Consideration of IAASB Consultation Paper

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## APPENDIX 1 – SUPPORTING INFORMATION

### IAASB Forward Agenda International Standard key dates

Standard	Meeting	Outcome
ISA 315	Jun 2019	Anticipated finalisation of Standard
ISQM 1	Mar 2020	Anticipated finalisation of Standard
ISQM 2	Mar 2020	Anticipated finalisation of Standard
ISA 220	Mar 2020	Anticipated finalisation of Standard
ISA 600	Dec 2019	Anticipated finalisation of Exposure Draft
	Mar 2021	Anticipated finalisation of Standard
AUP	Dec 2019	Anticipated finalisation of Standard
LCE	Mar 2019	Anticipated finalisation of Consultation Document
EER	Dec 2019	Anticipated finalisation of Exposure Draft
	Sep 2020	Anticipated finalisation of Pronouncement

### AUASB/IAASB Meeting timing

AUASB Meeting	IAASB Meeting
6 Mar 19	11 Mar 19
16 Apr 19	
12-13 Jun 19	17 Jun 19
11 Sep 19	16 Sep 19
3-4 Dec 19	9 Dec 19

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