



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5(b)**
Meeting Date: 7 March 2018
Subject: AUASB International Strategy
Date Prepared: 1 March 2018
Prepared by: Matthew Zappulla

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For AUASB members to review and provide additional feedback on the AUASB International Strategy described below.

I. Background

2. This 'AUASB International Strategy' captures the outputs from Board members on this topic and highlights other activities the AUASB and its Technical Group staff intend to undertake to ensure the AUASB's influence and engagement on International auditing and assurance matters supports its mandate and domestic agenda.
3. From 2010 to 2016 the AUASB had direct access to the IAASB via the former AUASB Chair also being a member of the IAASB. Since we no longer have an AUASB member sitting on the International Board, we need to agree on how we best manage the AUASB's and the AUASB Technical Group's time and resources to influence the global auditing and assurance agenda.
4. At the September 2017 AUASB meeting Board members considered how the AUASB best manages its time and resources to influence the global auditing and assurance agenda.
5. Meetings between the AUASB Chair and AUASB members as part of the annual AUASB member feedback process highlighted that a number of AUASB members would like more of the AUASB's agenda dedicated to international matters. In particular there was some concern expressed that the way the Board is currently requested to review and provide feedback on IAASB board papers and agenda needs to be revisited.
6. At the December 2017 AUASB Teleconference AUASB members were presented with a draft version of this international strategy and feedback was requested. Feedback was provided by AUASB members at the meeting and subsequent to the meeting via email, with all feedback incorporated into this version of the document presented for consideration in March 2018.

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II. The AUASB's International Mandate and Current Strategy

7. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
 - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
 - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
8. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
 - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
 - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
 - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
9. Other elements of the AUASB vision, mission and strategy also contain activities relevant to the AUASB's International mandate, such as engaging with other international stakeholders to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting (Strategic Objective 5).
10. In addition, the protocol for cooperation agreed between the NZ External Reporting Board (XRB) and the FRC, AASB and AUASB Chairs requires the AUASB, inter alia, to use its best endeavours to achieve the following outcomes:
 - (a) Minimise the differences between auditing and assurance standards issued in Australia and New Zealand;
 - (b) To the maximum extent possible, the AUASB and NZAuASB present similar positions at international forums; and
 - (c) Maximise the contribution to, and thus the influence of the AUASB and the NZAuASB upon the IAASB.

III. Feedback on current AUASB International Engagement Initiatives

11. At its September 2017 meeting the AUASB discussed the best ways the AUASB and the Technical Group should engage and influence international matters. The key points raised were:
 - (a) The AUASB needs to acknowledge the limited amount of capacity we have to directly influence all matters on the IAASB agenda. Therefore we need to focus on influencing the topics where we can have the greatest impact or those that are the most important to the AUASB Agenda.
 - (b) Agreement that instead of all AUASB members and staff reviewing all IAASB agendas and papers a lead AUASB member and AUASB Technical Group staff member is allocated to each IAASB project or other international initiative. Ideally the AUASB board and staff member allocated to each International project should be a Subject Matter Expert on the

topic and have sufficient capacity to review necessary materials (e.g. IAASB board papers) in advance of AUASB meetings.

- (c) Emphasis should be placed on AUASB Members and Technical Group staff building relationships with international and other National Standard Setters all levels, including with whom we should strategically align with on specific topics.
 - (d) Greater engagement with other National Standard Setters, at the combined global level and directly via bilateral relationships on specific projects, was encouraged.
 - (e) The AUASB Technical Group staff were asked to consider how National Standard Setters in other jurisdictions engage on International issues and whether some of these methods should be adopted.
12. At the December 2017 Teleconference AUASB members gave the following additional feedback:
- (a) The main objective of our international strategy should be to ‘influence’ international developments.
 - (b) The key ways we provide influence are through:
 - (i) Communications with the IAASB prior to and when attending IAASB meetings; and
 - (ii) Providing direct feedback to IAASB members (particularly the Australasian IAASB members) on International projects.
 - (c) We need to be very focused on what our key issues/priorities are and ‘pick winners’ – i.e. the projects for which we are really concerned about and the key issues in each projects we have concerns about.
 - (d) There was broad agreement that it is not possible or required that all board members review the IAASB papers. Instead board members should be able to rely on updates from staff and the allocated subject matter expert board member for each IAASB project to provide feedback to the board at each meeting. (NB: This does not preclude AUASB members from reviewing all the IAASB papers they wish to, and all IAASB board papers will continue to be provided to AUASB members for this purpose)
13. The NZAuASB Chair also highlighted in his feedback a number of opportunities where he believes the AUASB and NZAuASB can better collaborate to create synergies and increase influence from a regional perspective.

IV. Updated AUASB International Strategy

- 14. In response to this feedback the AUASB Technical Group has developed an updated AUASB International Strategy for consideration at the March 2018 AUASB meeting. A copy of the strategy is contained in **Appendix 1** and consists of standard tasks the AUASB performs in relation to the IAASB’s regular activities, as well as other internationally focused tasks that the AUASB may undertake on a less regular or project specific basis.
- 15. To facilitate the above strategy the schedule for AUASB meetings in 2018 has been aligned with 2018 IAASB meeting dates, being a week beforehand so additional AUASB meetings/teleconferences devoted to IAASB matters should no longer be required.
- 16. The AUASB Technical Director will discuss opportunities to collaborate with the NZAuASB members and staff at a future visit to New Zealand in April 2018.

AUASB Technical Group’s recommendation and action required by the AUASB

17. AUASB members are requested to review and provide feedback on the updated AUASB International Strategy.

Part B – NZAuASB

1. Refer paragraph 10 above which describes the AUASB’s requirement to collaborate with the NZAuASB on our International Strategy and also Appendix 2 below includes our existing efforts to collaborate with the NZAuASB on International matters.

Part C – “Compelling Reasons” Assessment

1. N/A

Material Presented

| | |
|------------|--|
| Appendix 1 | AUASB International Strategy (February 2018) |
| Appendix 2 | Example IAASB Project Summary |



AUASB International Strategy (February 2018)

Team member responsible: Matthew Zappulla

Background

1. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
 - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
 - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
2. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
 - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
 - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
 - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
3. The objective of the AUASB International Strategy is to operationalise the internationally focused aspects of AUASB's functions and strategic objectives and outline the methods the AUASB apply to influence the International standard setting agenda in accordance with our mandate.
4. The strategy consists of both regular international functions undertaken by AUASB members and Technical Group staff to ensure adequate analysis and input into regular IAASB activities and other operational or strategic tasks that support our engagement on international standard-setting issues.

AUASB International Functions

5. As part of its technical work program the AUASB will perform the following tasks in relation to the IAASB's regular activities:
 - (a) The AUASB Chair and AUASB Technical Director to coordinate a process to ensure the AUASB provide regular feedback on the IAASB's strategy and work plan as requested.
 - (b) The AUASB Chair and AUASB Technical Director will monitor the development and release of IAASB board meeting agendas and other relevant communications and ensure these are adequately addressed in AUASB meetings.
 - (c) For each major IAASB project an AUASB Board member and AUASB Technical Group member with the appropriate knowledge, expertise and capacity will be identified. The designated AUASB Technical Group member for each project will initially review, make

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APPENDIX 1 – AUASB International Strategy

available and provide comments on the relevant IAASB papers as soon as practically possible to the relevant AUASB member.

- (d) For each major IAASB project an ‘**IAASB Project Summary Template**’ (Refer Appendix 2) will be updated prior to and presented in the board papers at each AUASB meeting that precedes an IAASB meeting. AUASB members are asked to provide feedback on the format and design of this template (which has been updated with information for ISA 540 for demonstration purposes). The template not only provides a summary of the key issues in the IAASB papers but also a recommendation of the activities to best influence the direction of the IAASB project as a result of the AUASB’s analysis, as well as a summary of the next steps or other actions required.
- (e) A summary of the AUASB’s feedback on these major IAASB projects will be prepared by the AUASB Technical Director after each AUASB meeting and supplied to the AUASB Chair and other AUASB representatives attending each IAASB meeting as observers, as well as the Australasian IAASB members (currently Fiona Campbell and Lyn Provost).
- (f) Following each IAASB meeting, feedback will be provided to AUASB members by the AUASB Chair and other AUASB representatives who attended as observers, as well as the notes/highlights from the IAASB meeting being included in the AUASB board papers.
- (g) The Australasian IAASB members have a standing invitation to attend AUASB meeting as official guests/observers and provide feedback comments on IAASB matters to the AUASB. Specifically the AUASB Chair will ensure that the Australasian IAASB members attend at least one AUASB meeting to provide an update on IAASB developments each year. Similar presentations from IFAC representatives will also be sought and encouraged where relevant.
- (h) Any significant IAASB matters which arise outside of the normal IAASB meeting process will be communicated to AUASB members on an as required basis by the AUASB Chair or AUASB Technical Director.

Other Current AUASB International Strategic Projects

Global regulatory matters

- Monitor the outcome of responses to the Monitoring Group Consultation Paper on Global auditing and assurance standard setting
- Regularly engage with ASIC on global regulatory matters (e.g. IFIAR, IOSCO) impacting on the auditing and assurance profession

IFAC/IAASB engagement

- In collaboration with the FRC, develop a strategy to have more Australian representation on the IAASB by having another Australian identified and appointed as a new IAASB member
- Identify opportunities to have more Australian representatives who are advocates for the AUASB appointed to IFAC Committees and Working Groups
- Develop and foster direct relationships with IAASB members who are Taskforce leaders on specific topics Australia has a key interest in (e.g. EER, AUP)
- Identify opportunities for AUASB members or staff to contribute to IAASB Taskforces
- Assist IAASB staff in organising global and regional IAASB National Standard Setters Forums
- Share relevant Thought Leadership associated with AUASB Strategic Projects with the IAASB
- Identify opportunities to contribute to global and regional audit and assurance events and conferences (e.g. World Congress of Accountants in Sydney in November 2018)
- Consider opportunities for staff secondments or joint project work with the IAASB

APPENDIX 1 – AUASB International Strategy

Engagement with other National Standard Setters

- In conjunction with the NZAuASB development a network of regional (i.e. AsiaPac) National Audit and Assurance Standard Setters
- Identify opportunities to conduct bilateral and multilateral projects with other NSS's (e.g. Auditor Reporting with NZ and Canada; EER with South Africa)
- Share relevant Thought Leadership associated with AUASB Strategic Projects with other National Standard Setters
- Consider opportunities for staff secondments or joint project work with other National Standard Setters

Other

- Build relationships and influence with other significant International stakeholder groups relevant to the Auditing and Assurance profession (e.g. IIRC, WBCSD, Climate Change TF)
- Support Quality Academic Research by Australian Universities which enhances Australia's reputation as a leader in Auditing and Assurance
- Have AUASB members and staff attend and present on Strategic Projects at relevant International conferences

APPENDIX 2 – IAASB Project Summary Template

IAASB Project - Accounting Estimates - ISA 540

NB: AUASB Technical Group Feedback (views may not be representative of the AUASB)

| Project Objective | AUASB SMEs |
|---|----------------------|
| <p>(i) Propose revisions to ISA 540, establishing more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional scepticism when auditing accounting estimates.</p> <p>(ii) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed in the future to address special audit considerations relevant to financial institutions to supplement the revisions to ISA 540 and oversee the development of the guidance material considered necessary.</p> | <p>Ashley / Rene</p> |
| AUASB Key Points | |
| <p>Overall comments</p> <p>The AUASB technical group considers that most of the AUASBs concerns raised on exposure of ISA 540 around scalability, use of the 3 “buckets” of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures; and issues around auditor’s/management’s range have been addressed by the IAASB. The technical group still considers that the standard is long and complicated, but this is as a result of the nature of the subject matter.</p> <p>While scalability has been considered and addressed, the technical group considers that SMEs may still encounter difficulties when implementing the standard. There is considerable content to digest, and possibly work programs will need extensive rework. The technical group consider there is increased audit effort & documentation even for simple estimates – this has been reflected in agenda item 2D, examples that illustrate scalability.</p> <p>The March IAASB meeting papers are silent on due process around issuance of the standard or discussion around re-exposure.</p> <p>Proposed Effective Date: Periods ending on or after 15 December 2019</p> | |
| <p><u>Key Points from the AUASB response to ED ISA 540 and IAASB summary of discussions</u></p> | |
| <ol style="list-style-type: none"> 1. AUASB did not support IR low/not-low and general scalability of ED seen as an issue <ol style="list-style-type: none"> a. IR low/non-low dropped; use of wording to indicate conditionality (eg: para 10: the degree relevant in the circumstances; para 13: the degree to which); procedures responsive to <i>reasons</i> for ROMM; explicitly stating the greater the reliance, the more persuasive the audit evidence (para 16). b. Introduction of spectrum of risk – see para 3/540 and additional application material (AM) inserted: A71-A71B and A11-A10 (lifted from draft ISA 315) c. Application material and examples to demonstrate scalability – AM A94 included to demonstrate how the extent of further procedures may be impacted. Agenda item 2D – walked through example demonstrating scalability – will be included as an appendix to ISA 540 d. Understanding business - scalability subheading and AM to demonstrate scalability now included A8A, A8B, A10 2. AUASB did not support the concepts of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures. <ol style="list-style-type: none"> a. The 3 concepts of complexity, judgement (term post ED changed to subjectivity) and estimation uncertainly have been retained but not as the driver of audit procedures, but rather as key to risk assessment and identification and assessment of risk of material misstatement. 3. In relation to auditors range/point estimate, concerns around: <ol style="list-style-type: none"> a. Designation of responsibilities between auditor and management <ul style="list-style-type: none"> • Designation of responsibilities: developing an auditor’s range now brought under the heading of evaluating management’s point estimate. Application material included to demonstrate when to develop point estimate/range A126C - A129B | |

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APPENDIX 2 – IAASB Project Summary Template

- b. Auditor’s range not always within materiality
 - Application material inserted to deal with scenarios where not always within materiality. (para A134)

Changes to ED ISA 540 since December IAASB meeting (reflected in March meeting papers):

Since the December IAASB meeting, there have not been many changes to the requirements of ISA 540. Most of the changes relate to changes in application material. The changes since the December meeting are mainly:

2. Tidying up of AM, tightening up of AM, additional AM and examples (on issues that had been raised by the AUASB on ED) are:
 - a. Agenda item 2D – example to illustrate scalability
 - b. AM demonstrating how to apply scalability in the risk assessment phase (paras A8A and A10)
 - c. AM where auditor prepares a range when management hasn’t properly understood or addressed estimation uncertainty (paras A126A-A126B)
 - d. AM when it’s appropriate to develop point estimate/range (paras A126C-A129B)
 - e. AM – where range may exceed materiality (para A134)
 - f. Tighten up of application of professional scepticism - Additional application material now included to demonstrate that auditors are not expected to specifically search for contradictory evidence (para A92E)
3. Consequential changes to other standards (ISA 200, ISA 230, ISA 260, ISA 500)
4. Several additional requirements included in ISA 540:
 - a. At the risk assessment stage, there is a new requirement to understand controls relating to management’s process for making estimates (par 10(ia))
 - b. Separate assessment of IR and CR (para 13)
 - c. Clarification of the auditor’s role where management has not appropriately understood and addressed estimation uncertainty (para 17F)
 - d. Clarification of the requirements where an auditor develops their own point estimate/range (para 18C)
 - e. Uplift in documentation requirements (para 27)

Other significant actions noted in March 2018 papers – this was not a major area of concern in the AUASB submission on ED ISA 540:

1. Documentation (para 27):
 - a) Increase in requirements to document:
 - key elements of understanding entity and system of IC
 - reasons for the separate assessment of IR and CR
 - auditor’s rationale for testing approach
 - auditor’s response where management has not understood and addressed estimation uncertainty
 - b) Increase in application material
 - Para A158A – additional matters that may be documented where a complex model is used
 - Tighten up of application of professional scepticism – para A158B – documentation supporting evidence of the exercise of PS

AUASB influencing activities

AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.

Next steps / milestones for this project

No further information noted in the meeting papers.