

Strategic Project Outline

Project Title: Auditor Reporting Implementation Review Project
Project ID: 2017
Team member responsible: Anne Waters

I. Background

1. The new auditor reporting standards are now in effect, and the changes to the auditor's report are significant, especially for auditors of listed entities who now communicate key audit matters (KAMs).
2. The objectives and intended benefits of the new auditor reporting standards are:
 - a) Increased user confidence in audit reports and financial statements;
 - b) Enhanced communication and transparency between auditors and investors, as well as those charged with governance, about the audit that was conducted;
 - c) Increased attention by management and financial statement preparers to disclosures referencing the auditor's report;
 - d) Renewed focus of the auditor on matters to be reported, which could indirectly result in an increase in professional scepticism; and
 - e) Increased auditor's focus on going concern matters, including disclosures in the financial statements and to add more transparency in the auditor's report about the auditor's work.
3. It is now appropriate to commence assessing the Australian implementation experience in order to support consistency of application, and with a longer term objective to assess whether the intended benefits of the new auditor reporting standards have been achieved.

II. Scope

4. The Australian experience in implementing the new auditor reporting standards (including ASA 570, 700, 701, 705, 706, and 720).

III. Project objectives, public interest benefits, and link to corporate strategy

Project Objectives

5. The objective of this project is to:

Shorter term (2017-18)

 6. Support implementation and understand the experience of key stakeholders in order to issue guidance and communications as appropriate.

Longer term (2018-2020)

 7. Understand the experience in years 2 – 4 in order to:
 - a) continue to support implementation and issue guidance and other communications as appropriate to support consistency of application.

- b) consider if it is beneficial and appropriate to issue other communications based on the Australian experience.
8. Based on the information and evidence gathered:
- a) evaluate areas of the standards commonly misunderstood or misapplied. This will enable us to identify areas of the standards that may require redrafting.
 - b) understand the cost vs fees implications to practitioners, and the perceived value to users. This will enable us to evaluate the impact of the changes to the capital markets and whether efficient economic value is achieved. We can use this to inform our decision on further expansion of application (for example, communication of key audit matters for public interest entities), and/or re-balancing any non-value adding activities to market participants.
 - c) assess whether the intended benefits of the new auditor's report have been achieved.
 - d) understand our stakeholders' views on any proposed future amendments to auditor reporting standards identified and proposed from our evidence gathering activities and outreach.
 - e) actively influence the IAASB in the future direction of international auditor reporting standards.

Public interest benefits

- 9. The changes to the auditor's report were made in the public interest. This project is to assess whether the intended benefits of these changes have been achieved, and to provide evidence to form a view on the public interest benefit of any future proposed amendments to the auditor reporting standards.

Link to Corporate Strategy

10. This project contributes to the following strategic objectives:
- a) develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users. Use IAASB Standards – where they exist, modified as necessary – or develop Australian specific standards and guidance.
 - b) actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.
 - c) attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.

IV. Outreach activities

- 11. Extensive consultation with key stakeholders is required and is critically important for this project. We have already conducted outreach to support implementation and raise awareness through the Auditor Reporting Panel discussions held in Melbourne, Sydney, Perth and Brisbane in 2016 / 7. The outreach plan will continue to evolve and it is important that it encompasses all key stakeholders ie. practitioners, preparers, the director and investor community, and ASIC. Refer to appendix 1 for further details.
- 12. To date we have supported practitioners via issuing FAQs and bulletins. Based on observations and feedback we receive we will continue to assess the need for further educative initiatives to continue to support consistency and the quality of implementation. We will liaise with the professional bodies to identify the most effective way to engage with their members, their experience of common questions/concerns, and their role in conjunction with the objective of consistent application.

V. Research

- 13. High quality relevant research underpins the achievement of this project's objectives as follows:

Shorter term

14. To support implementation, identify key observations and insights on auditors' reports, in order to issue guidance and communications as appropriate. Possible areas where data / analysis / research would assist are:
- KAM reporting – quality, types, what is being communicated
 - Quality and clarity of Other information reporting
 - Going concern
 - Statistics on voluntary auditor reporting ie. KAMs for non-listed, materiality, audit scope
 - Issues / inconsistencies observed
 - Any other observations
 - Users views / awareness about the changes to the auditor's report
15. We will leverage off analysis being conducted by academics on the Australian audit reports of listed entities to identify areas where guidance may be required or where other actions are required to address.

Longer term

16. Research can assist with providing evidence about whether the objectives of the enhanced auditor's report been achieved as follows:

Objectives of the enhanced auditor's report	Possible relevant research
<ul style="list-style-type: none"> • Increased user confidence in audit reports and financial statements; • Enhanced communication and transparency between auditors and investors, as well as those charged with governance, about the audit that was conducted; • Increased attention by management and financial statement preparers to disclosures referencing the auditor's report; • Renewed focus of the auditor on matters to be reported, which could indirectly result in an increase in professional scepticism; and • Increased auditor's focus on going concern matters, including disclosures in the financial statements and to add more transparency in the auditor's report about the auditor's work. 	<ul style="list-style-type: none"> • Do users and TCWG have more confidence in the audit that was conducted? • Has there been an improvement in disclosures relevant to the KAMs in the financial report? • Has there been a positive impact on professional scepticism? • Is there an improvement in going concern disclosures in the financial statements? • Does the auditor's report provide more transparent information about going concern?

17. In addition research / evidence in relation to the following will assist in relation to assessing the merit of any proposed future amendments to the auditor's report:

- Does the auditor's report impact or is it relevant to user's decision making?

- b) Are voluntary disclosures in the auditor's report (ie. materiality, scope, KAM findings) valuable to users?
 - c) Would users of financial reports of entities other than listed ie. public interest entities, large private companies, value key audit matter reporting?
18. This was discussed with accounting and audit academics at the UNSW – AUASB Roundtable on 13 October 2017. At this session a number of academics indicated they are performing research projects which may assist in this project.
19. Since the roundtable the AUASB Technical group have reached out to those attendees who indicated they are already, or are interested in conducting, research which will assist us, as well as some academics who could not attend however are known to do work in this area. They expressed a desire to work with the AUASB to agree which research will be beneficial, and make this research available.
20. The areas that there is potential research to assist are:
- a) Data based analysis of auditor's reports on Australian listed entities in order to identify key statistics, observations and insights.
 - b) Analysis of financial reporting disclosures and whether KAM reporting has resulted in additional disclosures.
 - c) Behavioural based research on matters such as:
 - Exploring users' views on the changes to the auditor's report.
 - Examination on how the new auditor's report has affected the 'audit expectation gap'.
 - How the new auditor's report has affected auditors' behaviour and communication with management and those charged with governance?
21. The AUASB Technical group will continue to liaise with academics to further explore these potential projects and how they may be relevant to this project.

VI. Outputs from project

- 22. Issuing of guidance to practitioners as considered necessary to support the quality and consistency of application.
- 23. Information and evidence to support the AUASB when assessing any proposed/potential future changes to the audit reporting requirements.
- 24. Provide feedback to, and influence the results of the IAASB's post implementation review.

VII. Way forward

- 25. The next steps are to:
 - a) Continue to plan outreach and communications with key stakeholders – Refer appendix 1.
 - b) Continue to reach out to the academic community to determine what research/evidence is available to support this project and the achievement of the short and long term objectives.
 - c) Review academic analysis of auditor's reports issued when it is available to identify any issues, or areas where guidance is required.
 - d) Determine strategy to engage with the investor and director community.
 - e) Continue to liaise with other standard setters and monitor developments and practises internationally.

Appendix 1: Outreach plan

- The outreach plan will evolve however the following outreach is planned:

Forum	Objective	Attendees
Auditor Reporting Roundtable / feedback – Perth 21 November 2017	Perth has a large number of listed entities, including smaller listed entities, therefore whilst in Perth for the AUASB consultative roundtable we will run an auditor reporting roundtable to hear feedback from auditors of these entities.	Practitioners – small to big firms Preparers

- In 2018 – 19 we will conduct outreach with stakeholders as follows:
 - Practitioners - we will conduct targeted interviews and other outreach activities such as roundtables in Sydney and Melbourne in the first half of 2018. We will continue to assess the need for further outreach activities going forward.
 - Professional bodies – we will discuss if there are forums that it would be appropriate to present at or other forums that we could use to communicate educative messages, or to gather their members’ views.
 - Director and investor community - targeted outreach with the following organisations to assess the best way to gather their member’s views:
 - Australian Institute of Company Directors
 - Australian Council of Superannuation Investors
 - Australian Shareholders Association
 - Professional bodies.
 - ASIC – discuss the scope of their auditor surveillance program and the extent to which they will be making observations on auditor’s reports.
 - We will consider the use of surveys as a tool to gather feedback for all key stakeholders.