



Subject: Minutes of the 103rd meeting of the Auditing and Assurance Standards Board (AUASB)
Venue: ASIC Offices, 100 Market Street Sydney
Date: 12 September 2018, 8:30am to 5pm

Attendance

AUASB Members: Professor Roger Simnett (Chair)
Ms Robin Low (Deputy Chair)
Mr Gareth Bird
Mr Robert Buchanan
Ms Jo Cain
Ms Julie Crisp
Mr Chris George (from agenda item 5)
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: None

Observers: Fiona Campbell (IAASB Member for agenda items 4 and 5)

Minutes

(Agenda Item 1 – Minute 1221) – Agenda and introduction

The Chair welcomed members to the 103rd AUASB meeting.

(Agenda Item 1.3 – Minute 1222) – Minutes of Previous AUASB meetings

Draft minutes for previous AUASB meetings on 13 June 2018 and 31 July 2018 were discussed and approved by the AUASB Chair.

(Agenda Item 1.7 – Minute 1223) – Minutes of Previous AUASB meetings

AUASB Members were asked to provide feedback on a proposed AUASB meeting schedule prepared by the ATG. Involving Board members in key AUASB meetings was suggested, to further enhance the AUASB's relationship with key stakeholders, also building Board member capacity.

(Agenda Item 1.8 – Minute 1224) – NZAuASB Update

The NZAuASB Chair informed the AUASB that at their September 2018 meeting the NZAuASB had revised the timeline for the previously approved a project to update ISRE (NZ) 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* to align review reports with the changes to the auditor's report introduced as part of the enhanced auditor reporting project along with NOCLAR considerations.



The AUASB agreed that in accordance with the strategy of convergence with the NZAuASB, it is appropriate for ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* to be updated at the same time. The NZAuASB and AUASB will work together to ensure consistency in this standard across both jurisdictions.

The NZAuASB Chair also reported that Chartered Accountants Australia and New Zealand (CAANZ) had issued a new Agreed-Upon Procedures (AUP) Standard for New Zealand based on the Australian Standard (ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*). CAANZ decided not to address the use of professional judgment in the engagement and independence considerations, at this stage, as they are currently being discussed at an international level in the IAASB's AUP project.

(Agenda Item 2 – Minute 1225) – Audit Committee Survey (in-camera session)

The AUASB was presented with a final draft version of the Audit Committee Chair Survey Report, which has been prepared jointly with the Financial Reporting Council (FRC). The survey, conducted in May/June 2018, asked ASX 300 Audit Committee Chairs their perceptions of audit quality. The results of the survey were compared to the results of a similar survey undertaken by the United Kingdom Financial Report Council of FTSE 350 Audit Committee Chairs.

AUASB Members were asked for their feedback on the document with a focus on any 'fatal flaw' comments. AUASB Members were pleased to see the positive results about perceptions of audit quality in the survey. They provided suggestions to clarify some of the wording in the report and how some of the key messages have been presented in the executive summary. Due to the late stage of production and the fact that the report had already been approved by the FRC, not all suggestions from the AUASB could be considered. For future reports of this nature an earlier draft will be provided to the AUASB Members for comment.

(Agenda Item 3 – Minute 1226) – Audit Quality Update (in camera session)

The AUASB received an update from the AUASB Technical Group (ATG) in relation to a strategic project identifying areas where requirements in the auditing standards or their application may be deficient or subject to different interpretations. This involved analysing ASIC's most recent audit inspection findings in relation to application of auditing standards in conjunction with observations provided on this topic by representatives of some of the largest Australian audit firms. The AUASB discussed opportunities to address the matters identified under the AUASB's current mandate and supported the next steps proposed in the paper. Further work on this project will be presented at the next AUASB meeting in December 2018.

(Agenda Item 4) – Minute 1227) – ED ASA 315 – Feedback to IAASB ED

The AUASB discussed exposure draft (ED) 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, which is currently out for exposure. The AUASB discussed matters included in a Summary Paper prepared by the ATG. Key areas discussed included concerns around complexity of the standards and user-friendliness of the terminology used. The AUASB agreed that it may be appropriate to include an Australian 'compelling reason' amendment in the explanatory material in relation to prohibiting using internal audit for direct assistance as required by ASA 610. AUASB Members highlighted that these matters should be addressed in the AUASB's submission on the ED, and raised some other matters for the ATG to consider. It was agreed that these matters would be explored further at the upcoming public roundtables the AUASB is hosting in Perth, Hobart, Canberra, Brisbane, Sydney and Melbourne to gather stakeholders views.

The ATG will draft the submission to the IAASB based on feedback received at the roundtables and other submissions received from constituents. Feedback is required by 15 October 2018. The AUASB will discuss the final submission at its meeting on 29 October 2018.



(Agenda Item 5) – Minute 1228) – Review of September 2018 IAASB Papers

Agreed-Upon-Procedures

The ATG provided a summary of the Exposure Draft for a revised ISRS 4400 *Agreed-Upon Procedures Engagements* (AUP) which is expected to be issued for exposure at the IAASB September 2018 meeting.

The ATG paper raised concern around the clarity of the exercising of professional judgement in the performance of an AUP engagement under the proposed international standard. The AUASB agreed with the ATG that a significant attribute of an AUP engagement is the lack of subjectivity in both the procedures performed and the resultant factual findings.

The AUASB also agreed with ATG concerns around the restriction on use/distribution of an AUP Report not being clear in the proposed international standard.

Emerging Forms of External Reporting

The AUASB considered the progress of the IAASB EER Assurance project and the work of the IAASB EER Project Advisory Panel. The AUASB noted that good progress had been made on the guidance to date, including connectivity to ISAE3000 requirements, a user-friendly structure, diagrams and provision of examples. It was noted that the involvement of an AUASB Board member in the IAASB EER Project Advisory Panel is adding value in the form of regular and direct contribution to the development of this guidance. The AUASB noted that further work needs to be done on areas such as materiality, criteria and building assertions and relevancy of some of the examples provided throughout the guidance.

ISQC 1

The AUASB were updated by the ATG on the considerable changes made to the proposed standard for ISQC 1 *Quality Management at the Firm Level* since the last IAASB meeting. Whilst the standard has gone through a considerable re-write, with much of the wording updated, the AUASB were briefed on how the structure and strategy of the proposed standard remained consistent with prior versions. The ATG reiterated its concern that this standard will be challenging for small/medium practices to implement effectively. The AUASB suggested a more principles based approach to the standard may be beneficial and also that the IAASB should consider further possibilities to 'carve out' certain requirements where they may not be applicable to audit and assurance firms.

ISA 220

The AUASB received an update on the progress the IAASB had made with revising ISA 220 *Quality Control for an Audit of Financial Statements*. The ATG informed the AUASB of the key changes to ISA 220 since the June 2018 version, including the establishment of a separate project to explore the situation where the person signing the auditor's report differs from the engagement partner, which had been discussed by the AUASB and raised by a number of IAASB members at the June 2018 IAASB meeting.

The ATG considered that the standard was in a reasonable position. An AUASB Member raised that whilst the requirements may not appear onerous, changes to the definition of *engagement team* could have significant impact, resulting in expectations of an engagement partner being raised to an unreasonable level.

The scalability of the standard was also raised as a concern by AUASB members as was the language used with regards to an *Engagement Quality Review* which appeared to indicate an adversarial relationship between the engagement partner and the engagement quality reviewer.



ISQC 2

The AUASB were provided an overview of ISQC 2 *Engagement Quality Reviews*. The standard had not previously been discussed by the AUASB as this was the first time the 'standalone' version of this standard was included on the IAASB agenda. AUASB members commented that the scope of engagements subject to an engagement quality review (EQR) has been expanded to include significant public interest entities, noting that it was already a policy at many firms to have an engagement quality review for these entities (although the definition of significant public interest entities in ISQC 2 may not necessarily align with that used by the firms).

The AUASB discussed the engagement quality reviewer's overall conclusion and stand back requirement and whether this may be more appropriately performed at the firm level under ISQC 1.

As ISQC 2, when approved for issuance by the AUASB in Australia, will be a new formal pronouncement, the implications of giving the standard force-of-law under the *Corporations Act 2001* will need to be considered by the AUASB.

The AUASB noted that the IAASB intends to release the current suite of quality control standards (ISQC 1, ISQC 2 and ISA 220) for exposure as a package at the December 2018 IAASB meeting.

Other International Papers

The ATG updated AUASB members on other matters on the current IAASB Agenda which included:

- A project proposal that develops a Discussion Paper to explore possible actions to address perceived challenges and issues when undertaking audits of less complex entities
- A summary of responses received on the IAASB Future Strategy survey issued earlier this year and implications for the IAASB future consultation on its revised strategy beyond 2020.

(Agenda Item 6) – Minute 1229) – AUASB Glossary

The ATG presented to the AUASB proposed revisions to the AUASB Glossary, including four alternative presentation methods, for voting and approval for issuance.

During the development of the revised glossary, the ATG identified a large number of terms in the AUASB standards with multiple definitions. The ATG informed the AUASB that the duplications were either consistent with international equivalents; or, in the case of Australian-specific standards, were the result of an AUASB decision to amend a term to be more subject-matter specific. The ATG through the Chair, will provide the full list of duplications to the IAASB.

The AUASB discussed how the AUASB Glossary is used by stakeholders and determined that the most appropriate presentation method would be to show all definitions for terms used in all AUASB standards, including duplicates, and to have the full name of the source standard and paragraph number next to each definition.

The AUASB approved the Glossary for issuance subject to the change in presentation method and final approval by the Chair.

The AUASB also directed the ATG to consider whether amendments can be made to Australian-specific standards to reduce the number of terms with multiple definitions.



(Agenda Item 7) – Minute 1230) – AUASB Technical Work Program Update

AUASB Technical Work Program Update

AUASB Members were presented with a final update of annual performance against the approved version of the 2017-18 AUASB Technical Work Program, with no issues or changes raised. This final version of the Technical Work Program will be used as the basis for the AUASB 2017-18 Annual Performance Statement to be included in the 2017-18 AASB-AUASB Annual Report.

The ATG then presented a draft of the 2018-19 AUASB Technical Work Program for AUASB members' review and consideration, which, subject to feedback from AUASB members, will be finalised and approved by the AUASB Chair out of session, then posted on the AUASB Website.

Safe harbour

The ATG presented a paper responding to a request from an AUASB member to explore possible assurance implications of the recently effective 'safe harbour' legislation in the *Corporations Act*.

The view of the ATG, based on the research undertaken, was that although there may be some potential assurance implications in relation to the new 'safe harbour' provision, the legislation had been drafted with a focus on restructuring and turnaround experts, rather than assurance providers. The ATG proposed, that in response to this issue rather than just focusing on the 'safe harbour' provisions, a principles-based publication based on a range of possible engagements that can be performed under the AUASB Assurance Framework be developed.

The AUASB agreed that a principles-based publication could assist practitioners with navigating through the appropriate other assurance or related services standard for a range of subject-matter other than historical-financial information. The AUASB requested a draft publication to be brought to the December 2018 AUASB meeting for further consideration.

Climate Change

The AUASB were given an update on the joint AASB-AUASB Climate-Related disclosures project. This includes considering AASB Practice Statement 2 *Making Materiality Judgements* in determining whether climate-related risk information is material for listed entities in certain sectors that are likely to be significantly impacted by climate change, and whether disclosures should be made in the financial statements, as well as any assurance implications. The AUASB saw the benefit of working with the AASB on this project, and expressed a view that while climate related risk information is a good example, any communication should remain principles based.

Next meeting

The next regular meeting of the AUASB will be a two day meeting held in the Melbourne, beginning Tuesday 4th December 2018 at 10:00am and concluding on Wednesday 5th December 2018 at 3:30pm.

Close of Meeting

The Chair closed the meeting at 5.00 p.m.



Approval

Signed as a true and correct record.

Roger Simnett
Chair

Date: 4 December 2018